



THE GOVERNMENT OF LESOTHO

**NATIONAL
BUDGET BRIEF
2020 → 2021**

MINISTRY OF FINANCE

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FOREWORD

Under ordinary circumstances, we have always exercised extreme prudence and carefully weighed the costs and benefits of every expenditure, to ensure the most judicious use of our limited resources while constantly keeping the long-term interest of the nation at heart. However, the 2020/21 situation was extraordinary, and unlike any we had experienced thus far. We were confronted with a dangerous global pandemic of an unprecedented scale posing an imminent threat to our people. Therefore, building the resilience, confidence and security of our people must take greater priority over conserving our resources.

Principal Secretary of Ministry of Finance

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INTRODUCTION

This budget brief is one of four that explores the extent to which the national budget addresses the needs of the Kingdom of Lesotho. It provides information on fiscal performance for the fiscal year 2020/21 and offers insight data on the socio-economic status of the country. It analyses the size and composition of budget allocations, the budget as translated into the spending priorities, budget credibility and adequacy of past expenditure at the national level.

The main objectives of the brief are, to synthesize complex budget information so that all stakeholders can easily understand it and ensure the transparency and accountability of public funds.

The brief's key messages.

- The revenue estimates were at M17,102.6 million and the main sources of revenue being Tax Revenues and SACU receipts. At the beginning of the fiscal year, government was forced to revise the revenue estimates downwards because of the COVID-19 pandemic. SACU receipts are expected to decline drastically in the medium term.
- The total recurrent allocation of 76 percent, which is largely caused by a huge wage bill, versus the 24 percent of capital allocation goes against the government's set policy to progressively grow the capital budget while reducing the recurrent budget, thus posing a threat to development of the country.

- Total recurrent expenditure amounted to 83 percent of the recurrent budget allocation and capital expenditure amounted to 73 percent of the capital budget allocation. The COVID-19 pandemic caused overspending in the ministries that were directly involved in the fight against the pandemic, while some ministries spent far less than projected, and this extremely compromised the budget credibility.

The budget data used in this brief was provided by the Ministry of Finance and the Bureau of Statistics.

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SOCIO-ECONOMIC CONTEXT

2.1 MACROECONOMIC CONTEXT

Global growth projections have experienced rapid and steep downgrades with a lot of uncertainty due to COVID-19 outbreak. It was projected in October 2020 World Economic Outlook (WEO) to contract by 4.4 percent in 2020, 0.8 percentage points above the June 2020 WEO. The October 2020 World Economic Outlook (WEO) estimated a contraction of 4.4 percent in 2020, 0.5 percentage point above June 2020 WEO forecast. Stronger recovery was attributed to upward scaling of second quarter GDP outturn for advanced economies as well as relaxation of lockdown restrictions in the second half of 2020. Consistent with additional fiscal support in large economies and surged pace of vaccination roll out, global economy was projected to grow at 6.0 percent in 2021 and moderate to 4.4 percent in 2022 – April 2021 WEO Update.

Lastly, World Output projections register growth of 6.0 percent and 4.9 percent in 2021 and 2022 respectively. The July 2021 WEO global forecast for 2021 remained unchanged from April 2021 WEO due to offsetting revisions for emerging markets and advanced economies while a 0.5 percentage point upgrade for 2022 is associated to envisaged additional fiscal support in the United States. As recovery strengthen, global trade is expected to accelerate to 9.7 percent in 2021 - driven by a rebound in merchandise volumes.

	2019	2020	PROJECTIONS	
			2021	2022
WORLD OUTPUT	2.8	-3.2	6.0	4.4
Advanced Economies	1.6	-4.6	5.6	4.4
Emerging & Developing Economies	3.7	-2.1	6.3	5.2
Sub-Saharan Africa	3.2	-1.8	3.4	4.1
South Africa	0.2	-7.0	4.0	2.2
WORLD TRADE VOLUME	0.9	-8.3	9.7	7.0

Source: IMF World Economic Outlook, July 2021

The South African economic performance continues to pose a threat to the fiscal stance of Lesotho through the SACU transfers' channel. In 2020/21, SACU transfers recorded 28.7 percent of GDP, which was the highest recorded amount in a period of 8 years since 2012/13. This was an opportune time for Lesotho to have accumulated a significant reserve to create a buffer to manage future crises. SACU receipts are however, expected to decline drastically in the medium term due to projected negative adjustment as a result of an unfavorable performance of the South African economy in 2020/21

2.2 DOMESTIC DEVELOPMENTS

Lesotho was not immune to the economic effects of the COVID-19 pandemic¹ and the resultant public health crisis. General restrictions to fight the spread of the virus caused economic disruptions in production and supply chains, and a downward pressure on migrant worker remittances. The Lesotho Vulnerability Assessment Committee (April 2020) indicated that 17 percent of households in Lesotho depend on remittances for household income. Prior to COVID-19, the economy endured negative growth rates since 2017/18 with subsequent years experiencing prolonged dry spells, unfavourable global diamond prices and production of synthetic diamonds. Additionally, wage disputes in 2018 further

¹ The Government of Lesotho declared a national emergency on 18 March 2020 and a national lockdown followed on 29 March 2020. Only essential services were permitted, boarder points closed, and movement prohibited to curb the spread of the pandemic.

rolled over into 2019 leading to a temporary shutdown of textile firms. Reopening of the textile firms saw the substitution of factors of production (increased use of machinery), retrenchment and the decline in orders from United States, which is the largest market for Lesotho's textile products.

Lockdown restrictions had a knock-on effect on Mining, Manufacturing, Construction, Wholesale and Retail, Transportation and Accommodation. The adverse effects portrayed closure of international diamond trading centres, construction activities put on hold and non-essential businesses being out of service. Most mines suspended operations while others operated at half capacity. COVID-19 lockdown restrictions further affected economic performance by putting downward pressure on remittances inflows from South Africa that most families depend on, while retrenchments continued to take the lead. Another prominent factor that drained economic growth was reallocation of funds towards health system- from development budget to recurrent in order to combat the crisis.

During the second half of 2020, there was a recovery in economic activity; a period where lockdown restrictions were lifted gradually. The economy experienced recovery of high valued stones, stronger global diamond prices and expansion project at Mothae mine to boost plant capacity. Construction activities also resumed.

Overall Economic growth is estimated to shrink by 6.0 percent in 2020/21 then accelerate to 3.3 percent in 2021/22 before moderating to an average growth of 3.2 percent in the medium horizon. Stronger growth stem from global prospects gaining momentum, vaccine roll out and a rebound in Mining, Construction and Wholesale & Retail.

	2019/20	2020/21	2021/22	2022/23	2023/24
	Act.	Est.	Proj.	Proj.	Proj.
GDP GROWTH	-2,4	-6,0	3,3	3,0	3,4
Primary Sector					
Mining & Quarrying	2,4	2,6	1,3	0,5	1,6
Secondary Sector					
Construction	-8,9	-19,4	3,1	7,1	15,1
Tertiary Sector					
Wholesale & Retail	-7,9	-14,8	7,4	6,1	8,8

Source: Ministry of Finance Projections

2.3 INFLATION OUTLOOK

Lesotho's inflation continues to mimic South African trends; However, some domestic pressures still play a role. Food prices have been key inflationary drivers of domestic CPI during 2020 where food prices accelerated to 12.9 percent in August from 5.2 percent in March. Additional domestic pressures also stemmed from Clothing and footwear. However, inflationary pressures eased in South Africa which resulted in the Reserve Bank revising down inflation forecasts to around 4.0 percent. The slowdown of prices was evident in the housing, utilities and transport categories that account for more weight in CPI basket. Annual Inflation rate recorded 5.0 percent in 2020 and is expected to register 5.2 percent in 2021 and slightly surge upward to 5.4 per cent in 2022.

2.4 SOCIO-ECONOMIC DEVELOPMENTS

Poverty and inequality are key structural problems in Lesotho. Lesotho is one of the poorest countries in sub-Saharan Africa, with over a million people (half the population) living in poverty. Of the poor, about 22 per cent are extremely poor, living below the national food poverty line of M138 (about US\$10) per adult per month (Table 3). Inequality is also one of the highest in the world with a Gini coefficient of 0.445. Poverty is further exacerbated by very high prevalence of HIV (25 percent among adults), high unemployment rates (28 per

cent, with 32 per cent among youth) and food insecurity caused by the effects of climate change, including droughts and floods.

The fiscal year 2020/21 operated under profound socioeconomic difficulties exacerbated by COVID-19 outbreak. Lesotho poverty rate was assessed at 49.7 percent since 2017/18² and unemployment rate recorded 22.5 percent³ persistently rising. The significant deterioration was attributed to sustained decline in income, leading to depletion of savings and food insecurity. Moreover, lockdown measures imposed by Government led to deterioration in employment status. About 70 percent of households were unemployed while 20 percent suffered loss of wage employment income.⁴ Finally, data from 2020 World Development Indicators pointed that informal employment in Sub-Saharan Africa mounted to 86 percent and the workforce bears the highest vulnerability owing to unfavourable health and safety conditions.

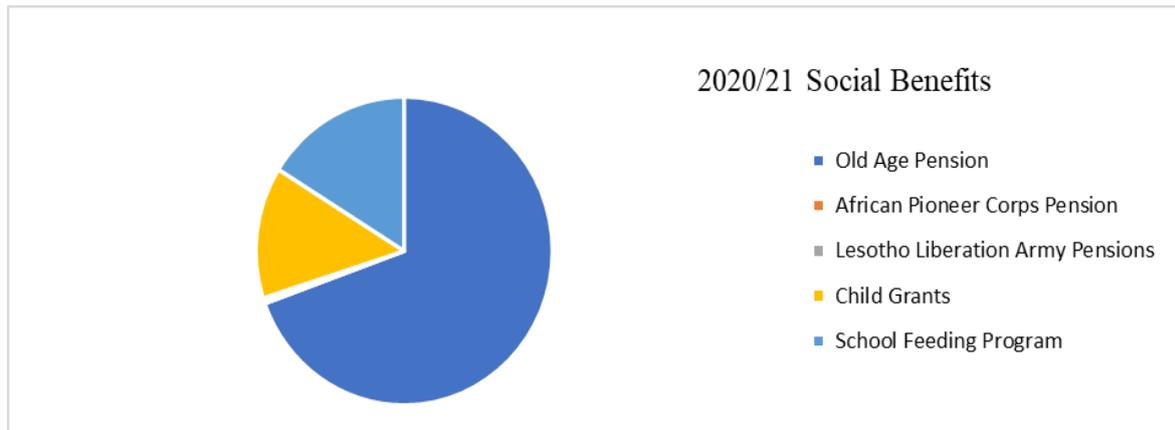
The Government's social benefits programme continues to mitigate the effects of social imbalances. 3.7 percent of the budget has been committed in 2020/21 in this regard. The programme covers Old Age Pensions, African Pioneer Corps Pensions, Lesotho Liberation Army Pensions, Child Grants and School Feeding. Old Age Pensions constitute the largest proportion of 70 percent. The government continues to be committed to control and combat the spread of HIV and AIDS in Lesotho, and with the dawning of COVID-19 the social benefits package will increase significantly.

² Lesotho Poverty Assessment (World Bank, 2019)

³ Lesotho Labour Force Survey 2019

⁴ COVID-19 Socioeconomic Impact on Household Survey – Phase II (BOS, December 2020)

Figure 2.1: 2020/21 Social Benefits



2.5 NATIONAL POLICY

Lesotho's National Vision 2020 outlines the government's development strategy, which is implemented through five-year National Strategic Development Plans. The national vision for Lesotho states that "*Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and neighbours, with a healthy and well-developed human resource base, and a strong economy and technological base*". To realize the vision, the government has prepared the second National Strategic Development Plan for the period 2019–2023, prioritizing four key areas: (i) enhancing inclusive and sustainable economic growth and private-sector-led job creation; (ii) strengthening human capital (health, nutrition, education, social protection, and skills); (iii) building enabling infrastructure; and (iv) strengthening governance and accountability.

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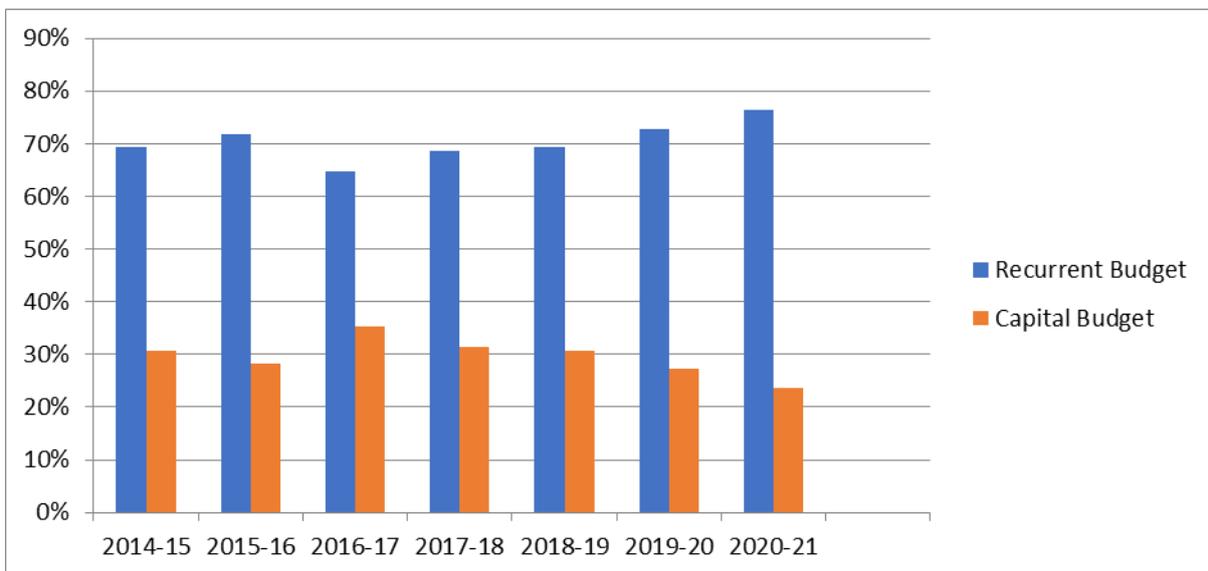
GOVERNMENT SPENDING

3.1 ALLOCATION TRENDS

The graph below demonstrates a trend in capital and recurrent allocations over the past six years whereby recurrent expenditure has been allocated the larger portion of the share since 2014/15 financial year up to 2020/21 financial year. On average the recurrent expenditure is allocated about 35 percent more than the capital expenditure since 2014/15 to 2020/21 financial year as depicted by the Figure 3.1.

This is an undesirable trend of spending on consumption other than spending towards development and this goes against the set budget principles.

Figure 3.1: Recurrent and Capital Budget Trends



Even though the Government’s key priorities were focused mainly on job creation and promotion of inclusive economic growth, the 2020/21 budget was faced with challenges caused by COVID-19 pandemic. The financial year 2020/21 has

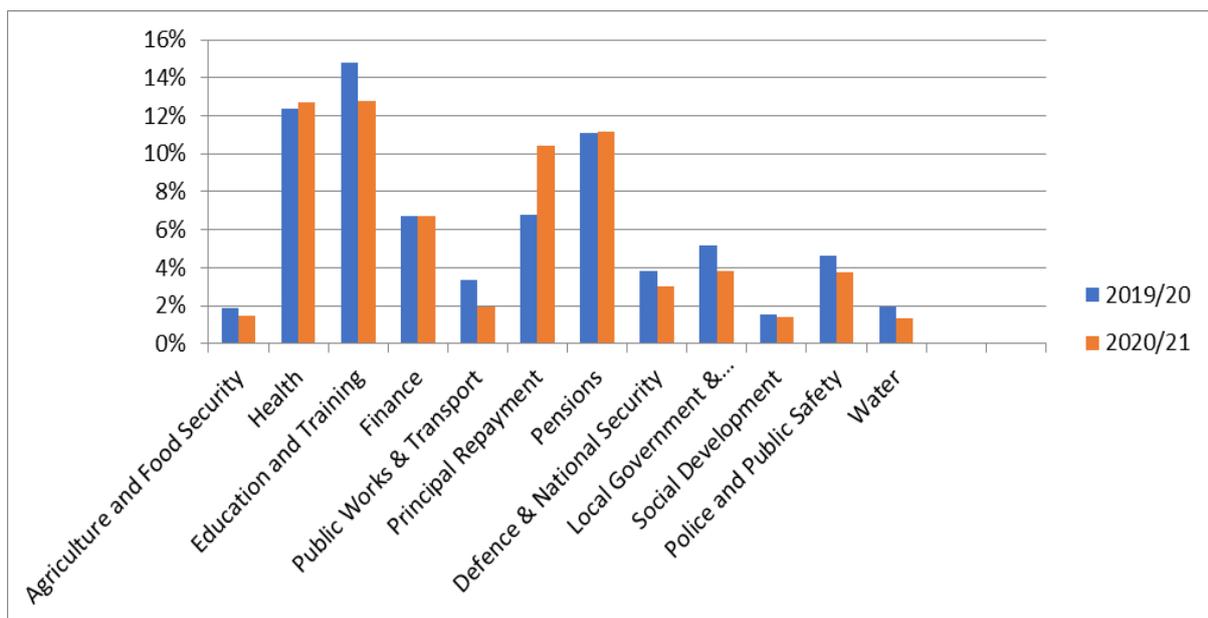
shown a different pattern whereby the recurrent budget has gone too high as compared to other years as a result of COVID-19 pandemic. The pandemic negatively affected the implementation of capital budget as the country suffered two lockdowns and strict restrictions in several sectors. As a measure to control the pandemic, more funds were reallocated from the capital budget to finance the recurrent budget. The situation resulted on some development project’s scope being reduced while some were postponed.

3.2 SPENDING PRIORITIES

The 2020/2021 approved budget was geared to social services instead of sectors/activities linked to economic growth and job creation due to the emerge of the COVID-19 pandemic at the beginning of the financial year to cater for challenges that were faced during the pandemic.

Figure 3.2 below portrays the Ministries of Health and of Education and Training as key priorities with the growth of 13 percent while in real terms the Ministry of Education declined by 2 percent from 2019/20 budget because the country had to focus more COVID-19 mitigation measures.

Figure 3.2: Budget by Ministries



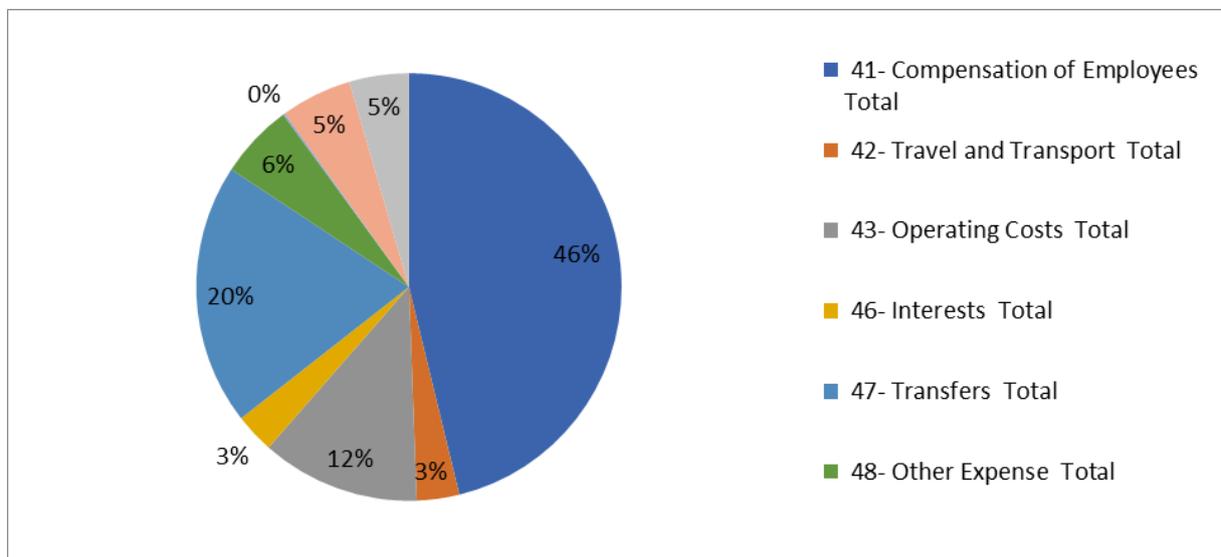
Compared to the previous year, there is no significant improvement of budget but the actual allocation in Social development has increased from M259 million to M290 million due to assistance in kind, which was increased to deliver food parcels to the poorest vulnerable people, to implement the newly created community development positions in all districts to help communities to develop their own projects to fight poverty, relocation of the Secretariat of the African Committee of Experts on the Right and Welfare of the Child (ACERWC) office from Ethiopia to Lesotho and the Disability Grant Mainstream.

Principal Repayments also showed a sharp increase of 3 percent that was caused by the Treasury bills repayments.

3.3 COMPOSITION OF RECURRENT BUDGET

The recurrent budget is categorized into sub-heads as illustrated on the graph below:

Figure 3.3: 2020/21 Recurrent Budget Composition



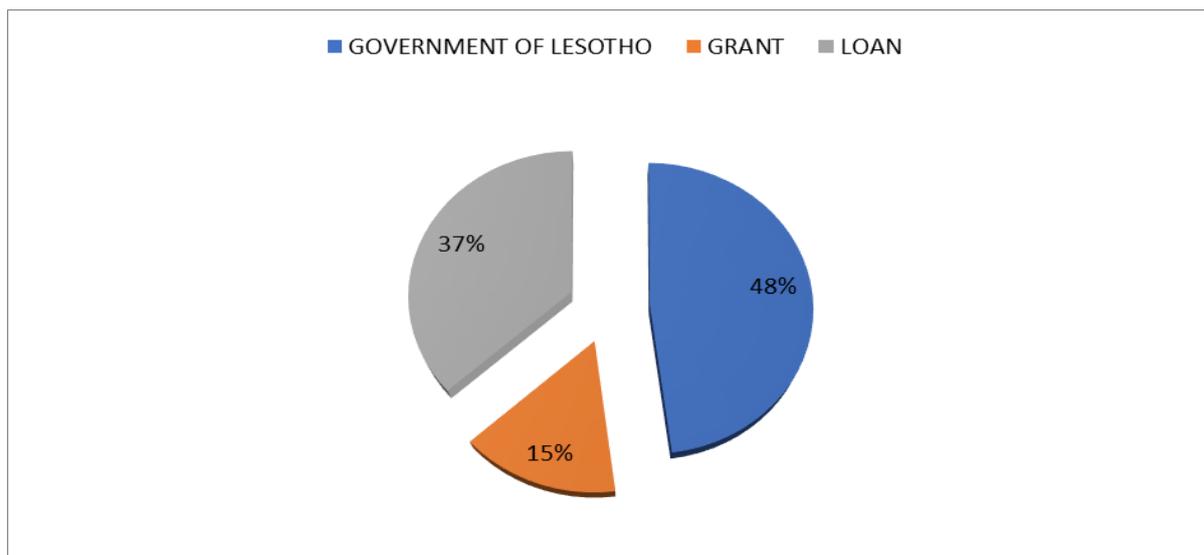
46 percent of the total recurrent budget is compensation of employees which takes the largest portion of the budget. The budget for this sub head has decreased from 52 percent to 46 percent in 2020/21.

Transfers consist of subventions and grants given to government parastatals, and grants as assistance to vulnerable people etc. An increase of 5.7 percent from previous budget was caused by the increase in number of households that receive grants.

Travel and transport and operating costs includes all the items that assist in the daily running costs of the government ministries. Travel and transport declined by 0.5 percent from 2019/20 budget due to COVID-19 pandemic that forced the country to introduce lockdown and prohibit international travel. Operating costs also declined from 16 percent to 12 percent.

3.4 CAPITAL BUDGET BY SOURCE OF FUNDING

Figure 3.4: 2020/21 Recurrent Budget Capital Composition



Capital budget consists of mainly three components which are Government of Lesotho, Grants and Loans. The government of Lesotho contributes about 48 percent of the budget which is a larger portion as compared to Grants and Loans components which contribute about 15 and 37 percent, respectively.

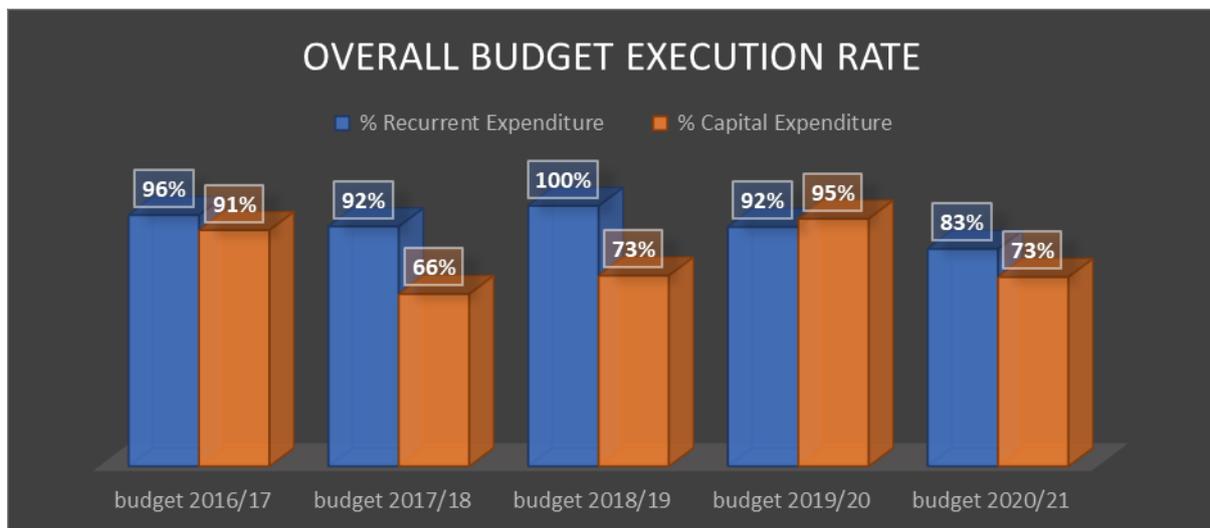
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BUDGET EXECUTION AND CREDIBILITY

4.1 BUDGET EXECUTION

The total recurrent expenditure has continued to rise in nominal terms over the years and it has reached M17,717.1 million in 2020/21. It has increased by M2,578.4 million from 2019/20 budget. Explicitly a 20 percent increase from last year total budget expenditure available to be spent in 2020/21 and to support all provisions set aside to fight the COVID-19 pandemic.

Figure 4.1: Overall budget execution 2016/17 to 2020/21



The execution rate of recurrent budget has been high, ranging from 83 percent to 100 percent, indicating a high execution rate, while the development budget range from 66 percent to 95 percent over the same period. Capital budget expenditure

has also increased in nominal terms since 2016/17, although it declined by 22 percent in 2020/21 as shown in figure 4.1, indicating some bottlenecks in the execution of the capital budget.

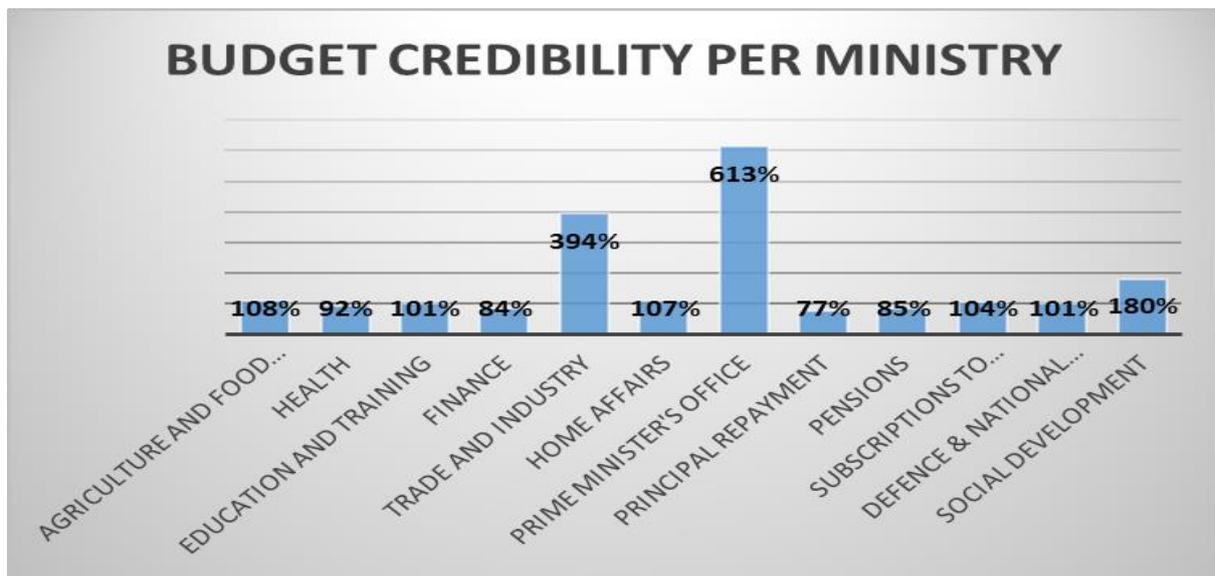
4.2 BUDGET CREDIBILITY

Budget credibility, which is the ability of governments to accurately and consistently meet their expenditure and revenue targets are imperative for upholding government commitments and seeking to understand why governments have deviated from these commitments. When budgets are not implemented as planned, spending priorities can shift, deficits may exceed projections, and critical services may be compromised.

Budget credibility in Lesotho has been improving at the aggregated and disaggregated budget levels, but the COVID-19 pandemic caused some challenges in the 2020/21 budget implementation. The Pre-COVID-19 expenditure estimates showed a normal gradual budget increase which suddenly had to be revised to accommodate COVID-19 expenditure.

The overall gross ministerial voted expenditure allocations for both recurrent and capital expenditure policy changed to COVID-19 Automatic Response Stabilizers. The purpose of this budget was to allow for specific, targeted measures to be introduced, when and where the need arises and to support the economy as the government responds towards COVID-19.

Figure 4.2: Recurrent Budget credibility by ministry



The Ministry of Agriculture and Food Security spent 8 percent more than the approved budget because additional funding which was allocated to support agricultural production and nutrition for 2020/21 summer cropping season for the purposes of addressing the food insecurity in the country and to support household while maintaining the right levels of grain reserves for food security during the COVID-19 pandemics.

The Ministry of Trade and Industry was allocated additional funding of M149.1 million to cater for a three-month payment of salary subsidies to textile manufacturing workers, a partial credit guarantee facility for LNDC and assistance to small businesses as part of government's actions to mitigate the effects of the COVID-19 lockdown.

The Prime Minister's Office (Disaster Management Authority) was allocated an additional amount of M667.6 million to mitigate the effects of COVID-19. This additional funding has increased the spending of the Prime Minister's Office by more than 500 percent of the allocated budget. Additional funding was also allocated to clear the outstanding Subscriptions to International Organisations.

The overspending of 80 percent in the Ministry of Social Development was triggered by an additional allocation of M241.2 million for food packages and cash transfers to the vulnerable people and the elderly aged between 60 and 69 years during the COVID-19 lockdown. An additional M2.1 million was similarly set aside to assist the Mine workers who were at home due to lockdown with COVID-19 testing and food packages.

As illustrated in Figure 4.2 the additional expenditures created by the COVID-19 outbreak extremely compromised credibility of the recurrent budget.

4.3 CAPITAL BUDGET CREDIBILITY

In terms of capital expenditure, as part of the COVID-19 response, Government reallocated M809.8 million to meet the requirements for the delivery of key COVID-19 plans. The overall core capital allocation for 2020/21 declined from M6,135.1 million to M5,665.6 million, which remained available for investment. Therefore, the reallocation forced all government ministries to spend less than the appropriated funds.

5.

BUDGET TRANSPARENCY

As required by best international practices, Lesotho's budget system has been improving since the last Open Budget Survey in 2017 where the country scored zero on all assessed indicators. Lesotho citizens are now being engaged in the budget process by participating in the Pre-Budget Consultations, Budget Speech and Mid-Term Budget Review which are held annually. Their views are incorporated in the budget.

The Ministry of Finance publishes quarterly budget and fiscal bulletins, Mid-term budget reviews and all budget and financial related documents on the Ministry's website for public access. There is greater accountability as Ministries report quarterly before the National Assembly on budget implementation to account for public moneys. By providing more budget information, they create meaningful opportunities for Civil Society to contribute to the budget cycle and government to foster an environment of greater accountability to taxpayers and other stakeholders.

6.

FINANCING NATIONAL BUDGET

Financing and Debt Management Strategy – interest rates on debt, debt profile, external and domestic etc.

As at end March 2021, the outstanding total public debt, including publicly guaranteed debt, was at M18,109.9 million, compared to M18,599.4 million as at end March 2020. Domestic debt increased by M64.2 million to M2,876.8 million and external decreased by M882.8 million. Coverage of guarantees is gradually improving. M464.2 million worth of guarantees was accounted for as at end March 2021, compared to only M163.5 million in the previous year. The improvement in external debt was largely on account of exchange rate rebound after uncharacteristically large currency depreciation which was experienced regionally due to uncertainties that surrounded COVID-19 pandemic in the previous year.

External debt contraction of M882.8 million was driven mainly by exchange rate appreciation than gross borrowing. Parity change accounted for M2,199.3 million gains, coupled with M743.6 million principal repayments led to an overall decline in debt stock across all currencies in the portfolio against disbursements of M2,060.1 million.

Domestic debt at the end of March 2021 comprised of medium to long term domestic bonds only as all Treasury Bills were settled in December 2020. Year on year bonds increased by M494.2 million after unusually successful auctions in 2020/21 that raised almost M490 million from the offered M500 million.

Previously, sovereign bond auctions raised less than 50 percent of offered amounts on average.

The Debt Sustainability Analysis assessed Lesotho's risk of external and overall debt distress at moderate despite the impact of the COVID-19 shock. The overall risk of debt distress was also assessed to be moderate with limited space to absorb shocks.

Table 5: Debt Indicators

Year	2018/19		2019/20		2020/21	
		% of GDP		% of GDP		% of GDP
EXTERNAL DEBT	13017,3	38,8%	15651,6	47,1%	14768,8	46,7%
Bilateral	1002,3	3,0%	1223,4	3,7%	979,9	3,1%
Export Credit (China and India)	987,7	2,9%	1176,7	3,5%	1574,4	5,0%
Multilateral	11027,3	32,9%	13251,5	39,9%	12214,5	38,6%
DOMESTIC DEBT	2332,2	7,0%	2812,6	8,5%	2876,8	9,1%
Central Bank of Lesotho	0,6	0,0%	0,5	0,0%	6,9	0,0%
Commercial Banks	1360,4	4,1%	1410,0	4,2%	1312,2	4,1%
Non Bank Financial Institution	649,3	1,9%	1210,8	3,6%	1246,3	3,9%
Private (Individuals, Organisations)	321,9	1,0%	191,3	0,6%	311,4	1,0%
<i>T-Bills (Monetary Policy)</i>	<i>874,7</i>		<i>876,8</i>		<i>875,7</i>	
TOTAL DISBURSED OUTSTANDING DEBT	16 226,3	48,4%	18 464,2	55,6%	17 645,6	55,8%
GUARANTEES	163,5	0,5%	294,2	0,9%	464,2	1,5%

External and domestic debt accounted for 83.7 percent and 16.3 percent of total public debt, respectively at end of March 2021 compared to 84.8 percent and 15.2 percent at end March 2020. The Medium-Term Debt Strategy remains to develop the domestic market and attain a share of 70 percent external debt to 30 percent domestic debt in the long term. The bulk of external debt stock is concessional but the level of concessional is expected to decline moderately, while remaining significant as Lesotho grows and graduates from some concessional borrowing openings and the domestic debt stock grow.

In April 2020, the G20 countries committed to suspend debt service on bilateral debt under the Debt Service Suspension Initiative (DSSI) from May 1, 2020, to December 31, 2020 to assist low-income countries to create fiscal space to

combat the impact of COVID-19. Lesotho has benefited from this initiative, which has since been extended by another year. The Country managed to re-assign a total of M58.3 million towards combating COVID-19 out of a potential M109 million, as not all bilateral creditors complied with the DSSI initiative.

7.

CONCLUSION

Despite the initiatives that the government is making to address socio-economic challenges, there are still other threats that affect the projected economic recovery. The fiscal year 2020/21 commenced during the time when governments were facing social and economic meltdown due to the COVID-19 pandemic. In the wake of this pandemic, the Government was forced to revise down the Revenue Estimates, while being in dire need of financial resources to implement the prevention, treatment and mitigation measures of the pandemic as well as other Government obligations.

The situation forced government to diverge from planned activities to finance social services instead of sectors/activities linked to economic growth and job creation. The circumstances severely hindered the economic performance and exceedingly compromised budget credibility.

ANNEX 1

BUDGET CALENDAR

Month	Key activities and outputs
April	Public Sector Investment Committee quarterly meetings
May	Budget Book published
June	Discussion and approval of physical and financial reports by Cabinet Budget Committee Baseline Medium-term Fiscal Framework prepared by the Ministry of Finance and the Ministry of Development Planning Strategic and analytical phase
July	Cabinet retreat (presentation of the key fiscal and budget policy, strategy, and priorities)
August	Budget Framework Paper circular and ceilings are issued by the Ministry of Finance Line-ministry Budget Framework Papers prepared
September	Review of Budget Framework Paper Requests Ministry Budget Framework Paper hearings
October	Updated Medium-term Fiscal Framework Prepared Draft ceilings finalized Budget ceilings approved by Cabinet Budget finalization phase
November	Budget call circular and ceilings issued by the Ministry of Finance to line ministries Budget estimates prepared by all ministries
December	Review of estimate requests by the Ministry of Finance and the Ministry of Development Planning
January	Ministry budget hearings
February	Draft estimates compiled Draft budget approved by Cabinet Budget Committee Budget speech prepared Budget Day District consultations on the budget
March	Appropriation Bill approved by Parliament