

# Lesotho Chamber of Commerce & Industry

PHYSICAL ADDRESS  
LCCI COMPLEX CORNER ORPEN  
& PRINCESS MARGRET ROADS  
MASERU, LESOTHO

P.O. BOX 79  
MASERU 100  
LESOTHO

03<sup>rd</sup> March 2021

Adv. Maema

Clerk to the National Assembly

National Assembly

P.O.Box 190

Maseru 100

Dear Adv. Maema

## **LCCI Inputs on the Budget Estimates for the Financial Year 2021/2022**

The speech indicated that construction projects for 2020/21 fiscal year were deferred due to lockdown and budget reallocation towards COVID-19.

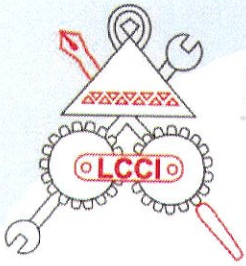
It is very important that these amounts be accounted for as to give assurance to the industries concerned and the nation at large that all went well with such funds. They will need to know which particular construction projects were affected, how much was diverted and what has been spent on.

In the same speech there is an estimated growth of up to 34.3% in the construction sector as a result of resuscitating the projects that were stopped under “suspension of the construction work”. It needs to be clarified if these diverted funds have been returned back for commencement of these projects after diverting them to COVID-19 related expenses in the same way they had been stalled. It is assumed that this should be reflected in the budget allocation for public works.

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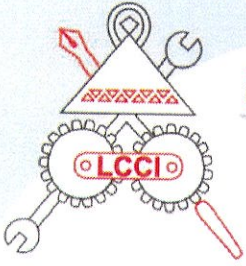
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- The tax revenues have been declining in the past year. The budget speech did not indicate any thing towards increasing taxes to cover the losses. There was no mention of possibilities of a tax credit for the coming financial year. It is worth noting that South Africa has actually reduced tax rates for income tax, also worth noting that South Africa intends to recover the tax losses through the excessive increase on excise duties which have been increased by 8% which is far way more than inflation. As part of SACU Lesotho will have the same increase on excisable products. This means that Lesotho will benefit from the increase in taxes in these products, which will impact VAT and income tax as well as SACU revenues on excisable products that Lesotho produces (alcohol and tobacco products). As a major revenue contributor by these two products, Lesotho needs to develop a policy framework for both alcohol and tobacco to be able to inform and policy decisions going forward. The current proposed alcohol and tobacco levy will not assist the government to increase revenue as it is not supported by any research or studies that could properly guide it. As it has been included in tax policy proposals, the government is advised to conduct consultations with the industries concerned and carry proper research that can clearly guide any policy proposal towards those products. These can also include research on cannabis industry as it is also a serious candidate for excise duty collection.
- The government has prioritized agriculture in the budget for the year. This was the same even in the past year's speech. It is hard to translate this prioritization with actions on the ground to support. There is no aligned tax policy on agriculture that supports the sector in a way that in encourages emerging farmers. The current tax rates are inconsistent. Certain fertilizers will be zero rated while others are taxed. Certain seeds are treated differently while serving the same purpose, e.g, certain beans, certain greens, certain seedlings. There has to be a clear government policy that support farm inputs including farm machinery (rebates or exemptions even subsidies on purchases of farming equipment).
- On the international trade space, the government has ratified two important agreements that both came into effect in January 2021 – these are the SACUM- UK EPA seeks to avoid any disruption in trade as a result of Brexit, and the African Continental Free

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Trade Area (AfCFTA) which opens up free trading among countries on the African Continent. There are very huge opportunities for the country to benefit from these through linkages, value chains, for the MSMEs, and to take advantage of our emerging products like cannabis. It is not clear on the preparations that the government has done to ensure that businesses are ready to start trading under these agreements. The private sector should be regularly updated on preparations and strides that have been reached to enable actual trading under these agreements.

- From an economic outlook perspective, the Lesotho economic growth is expected to decline by 5.8% with a slight growth to 4.7% mid-year. In comparison to the South African economy as per their budget speech) which is expected to rebound by 3.3% from a 7.2% contraction in 2020. The budget speech projected a decline for RSA economy. The growth is anticipated to be influenced by a few sectors including agriculture, mining, construction and manufacturing. These sectors were affected a lot in the past year with a lot of projects affected by lockdown and economic downturn globally. As indicated these sectors require a clear policy framework, infrastructure and monitoring on compliance.

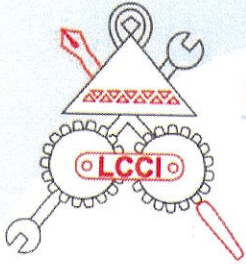
The new tax policies directed to mining sector need to take into consideration the decline on exports as a result of COVID-19 in the past year to allow recovery of the sector. The implementation should be staggered to allow recovery. The policy proposals are properly directed to ensure that the country benefits from the proceeds of the mining activities. The implementation needs to be clearly articulated and discussed with the sector to ensure proper understanding for compliance without creating fear and push back as it will require proper forecasting by investors and also the legislative drafting for such policies require clear research so that there are no legal battles. This issue of refunds for the mining sector was included in the last budget speech in the same way that it appears in this year's. It is important to consult the industries concerned as it has been observed that most of these tax policy proposals do not make it through due to poor consultations by the responsible ministries concerned.

The budget for 2021/22 is built on the past year's budget that didn't go according to plan, mainly as a result of the Covid-19 pandemic. While the government has managed to put the budget deficit in check, its evident that there's still more pressure on both sides of the income statement, to find a way to increase government revenue that will support the government expenditure.

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On the revenue side, government already acknowledges that SACU revenue will decline in the new year given the economic trends in the region. That implies that government has to be creative in the mobilization of the necessary funding. Many options are open still, if only government could be bold enough to pursue them;

- Government is sitting on prime land in the district towns, with the greater part being in Maseru as the capital town. Availing this to private developers will not only generate cash on disposal of that land but will also generate more tax revenue as developers, big and small, develop the land and expand the economic activity.
- The government has shareholding in the private companies, some of which yield any significant returns, while the commercial banks are sitting on significant liquidity that ends up in Johannesburg. Disposal of such will generate quick cash for government but also provide investment options for the cash that's idling in the banks.
- We are one country that is still operating on very old laws generally but if government could modernize its tax laws, more tax revenue could be generated

Expenditure breakdown shows a split that is still somewhat similar to what had been seen in recent years. On this side of the income statement, if government could be bold enough to promote local production and localization in general, more jobs will be created locally and more income, and thereby taxes, will be generated for the country.

We hope you will find this in order.

Yours truly

Fako Hakane (Mr.)

Secretary General - LCCI

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