DRAFT

BUDGET STRATEGY PAPER

GOVERNMENT OF LESOTHO

MINISTRY OF FINANCE

AND

MINISTRY OF DEVELOPMENT PLANNING

SEPTEMBER, 2015

Contents

ACRONYMS

AGOA – African Growth and Opportunities Act

AJR – Annual Joint Review for Ministry of Health

ALAFA – Apparel Lesotho Alliance to Fight Aids

ANC – Ante-Natal Care

ART – Antiretroviral treatment

BSP – Budget Strategy Paper

CGP – Child Grant Programme

CSR – Corporate Social Responsibility

DCEO – Directorate on Corruption and Economic Offences

EU – European Union

GBDS - Global Burden of Disease Study

GDP – Gross Domestic Product

GIZ – German International Cooperation Agency

GoL – Government of Lesotho

Ha – Hectare

HoBA – Heads of Border Agencies

IMF – International Monetary Fund

LDHS – Lesotho Demographic Health Survey

LNDC – Lesotho National Development Corporation

LRMIS - Livestock Registration, Marking and Information System

MCC – Millennium Challenge Corporation

MDG – Millennium Development Goals

MoDP – Ministry of DevelopmentPlanning

MoF – Ministry of Finance

MoSBCM - Ministry of Small Business, Cooperatives and Marketing

MSMEs – Micro, Small and Medium Enterprises

MTEF - Medium-Term Expenditure Framework

NSDP – National Strategic Development Plan

NUL – National University of Lesotho

OBFC – One-stop Business Facilitation Centre

PFM – Public Finance Management

PMTCT – Prevent Mother-to-Child Transfer

PVC Vaccine – Pneumococcal Vaccine

SACU – Southern African Customs Union

SQUAM – Standards, Quality, Accreditation and Meteorology

TVET – Technical and Vocational Education and Training

UN – United Nations

UNICEF – United Nations Children's Fund

WB – World Bank

WB SCD – World Bank Systematic Country Diagnostic

WTO – World Trade Organisation

1. INTRODUCTION

The Medium-Term Expenditure Framework (MTEF) and National Budget provide the framework through which public resources are programmed and allocated to support the realisation of the strategic goals of the National Strategic Development Plan (NSDP) 2012/13 – 2016/17, the Coalition Agreement and the National Vision 2020. Lesotho has made significant progress in budget reforms and since 2008/09, there has been an introduction of a strategic phase to budget preparation. This phase involves the development of Budget Framework Papers (BFPs) by all Ministries, with the aim of ensuring a better link between development policies and strategies and budgetary allocations. The BFP is attuned with program objectives of specific ministries and agencies and emerges from the considerations reflected in the Budget Strategy Paper (BSP).

The purpose of the BSP is to set preliminary fiscal targets and budget constraints/ceilings and define strategic priorities that will direct resource allocation within the set budget ceilings. The BSP is based on a macro-fiscal framework that is updated regularly, to respond to the evolution of world conditions and prospects, Lesotho's macroeconomic conditions and outlook and development and poverty-reduction objectives articulated in the NSDP. While the fiscal strategy derived from the macro-fiscal framework serves a variety of purposes, its fundamental use is guiding the annual budget process with a multi-year horizon. The BSP, therefore, contains:

- Highlights of recent economic performance and provides an updated medium-term economic outlook.
- The initial macro-fiscal framework for 2016/17-2018/19 and the fiscal strategy from which ministerial budgets will be developed.
- Strategic policy priorities and public expenditure strategy that should guide the preparation of Budget Framework Papers (BFPs) for all Ministries.

2. DEVELOPMENT CONTEXT

2.1 Government Revenues and Fiscal Space

SACU receipts constitute a major component of revenue for the Government of Lesotho (GoL) and in recent years the GoL benefitted from high SACU receipt revenues, allowing for flexible short-term expenditure. The SACU receipts are expected to decrease significantly in

2015/16 to about 25% of GDP from just above 30% in 2012-13 and stay low in the medium-term – reaching about 18% of GDP. This is a significant decline. With limited alternative revenue sources, the Government's fiscal space and expenditure is expected to shrink accordingly. This situation will necessitate a strong focus on fiscal discipline, procurement management and low-cost development interventions, as well as improvement in efficiency of delivering public service, when planning and executing upcoming budgets. This challenge also entails dealing with the problem of certain non-compliance with Government spending regulations and directives.

2.2 Human Development

Lesotho ranks 162 out of 187 countries on the 2014 UN Human Development Index (life expectancy, per capita income and literacy) ranking, falling into the category of low human development with a score of 0.486 (up 0.005 from the previous listing, but down from 1990 levels). Approximately 57.1% of the population lives below the national poverty line M246.60 per month, which is far from the NSDP's target of reducing it to 15% by 2016/17. An estimated 39% of households are vulnerable to food insecurity, despite agricultural support programmes, including input subsidy schemes and crop sharing schemes. Around 70% of the population resides in rural areas and most are subsistence farmers. Household food security is low due to low productivity in agriculture and absence of other economic opportunities. The low agricultural productivity is a result of, among others, low adoption of high yielding technologies and poor adaption to climate change.

The recently published Global Burden of Disease Study (GBDS), found Lesotho's life expectancy to be the lowest in the world, and one of only two countries (Swaziland being the other) with a life expectancy below 50. As shown in the following table, there have been gradual improvements since 2005, although the 1990 levels still remain distant.

Table 1: Lesotho Life expectancy

	1990		**2005**		**2013**	
	Male	***Female***	***Male***	***Female***	***Male***	***Female***
Average life expectancy	56.7	65.8	42.3	45.8	45.6	51.2

Source: GBDS; p. 32

Maternal mortality rate is off-track towards achievement of the 2015 MDG target at 1,155. The indicators related to maternal health care have been improving as depicted by Lesotho

Demographic Health Survey (LDHS) 2014. The proportion of women who received Anti-Natal Care (ANC) services from skilled providers increased from 90% in 2004 to 95% in 2014. The LDHS also reported a significant increase of births attended by skilled health providers from 55% (2004) to 62% (2009) then to 78% (2014). The proportion of births that occurred in the health facilities also increased significantly over the years, recording 52% in 2004, 59% in 2009 and 77% in 2014(Annual Joint Review - AJR (Ministry of Health), 2015). There has been a striking decrease in under-five mortality rate from 117 recorded in 2009 to 85 deaths per 1,000 live births in 2014(LDHS:2014).Infant/child mortality has also decreased from 91 to 59. Stunting has been stabilising over time in Lesotho, the 2014 LDHS records that 33% of Basotho children are stunted, and 11% are severely stunted; this suggests that food security at the household level has deteriorated. Despite efforts made to address the problem, stunting remains one of the most significant challenges facing children.

The HIV prevalence of 23% ranks Lesotho as the second most impacted country by HIV/AIDS in the world. Currently, the condom distribution coverage is 70% in the urban areas and 30% in the rural areas of the country. The Government is developing strategies to reach the target of 80% and 50% for urban and rural areas respectively, by 2015. Antiretroviral Treatment (ART) coverage has also spread substantially from 3% in 2005 amongst adults to 35% in 2014, while for children it increased from 1% in 2005 to 30% in 2014. Finally, innovations such as the “mother-baby pack” and new Prevent Mother-to-Child Transfer (PMTCT) guidelines are employed to accelerate the PMTCT service to a greater proportion of pregnant women and newborns who would otherwise not receive antiretroviral to prevent mother-to-child transmission. The target is to increase coverage to 80% for adults and 94% for children by 2015.Access to health services is constrained largely by high out-of-pocket expenses, especially in the rural areas and critical human resources for health are still limited.

The number of orphaned and vulnerable children is still high and one of critical responses has been through Child Grant Programme (CGP), which has reached 23,500 households and provided benefits for more than 56,500 children across the 10 districts.

Trends in access to water and sanitation are moving in the right direction with 71.1% for urban and 63.3% for rural of the population having access to safe drinking water and 55% having access to basic sanitation. Access to electricity is low at around 39%.

2.3 Economic Development and Management

Economic growth averaged 5.3% and 4.8% during 2012-13 according to the World Bank and IMF respectively. While this was well below 7% yearly growth as set out by the vision 2020, it left the targeted average of 5% growth over the NSDP period 2012/13 – 2016/17 within reach. However, growth is estimated to have contracted heavily in 2014, to 2% or 3.4% (estimates of the World Bank and IMF respectively) and employment gains made during 2012-2014 may have evaporated. Alarmingly, the unemployment rate of 24.7% (2013) remains significantly higher than the Vision 2020 interim target of 18% for 2016/17 and unemployment has remained around 25% since 2010 despite the reasonable GDP growth preceding 2014. The entrenched unemployment also disproportionally affects youth, with youth unemployment at 33.2%. In order to take advantage of the demographic dividend, the economy therefore has to be pushed to perform towards its potential. Otherwise, the dividend of youth could become a destabilizing factor. It is worth noting that the decline in employment opportunities in the mining sector in South Africa has reduced remittances and this has an adverse on the informal social "safety-net" that these funds support. There is also an adverse impact on the economy.

In terms of income inequality, the most recent data on the level of the Gini coefficient[1] is 0.53 for 2010/11, down from 0.57 in 1994/95, but up from 0.51 in 2002/03, indicating stagnation. Another point of concern is that the Lesotho economy, from high initial levels, has become even more concentrated in Garment manufacturing and mining in later years. As Lesotho is a small and open economy, this leaves the country vulnerable to external shocks. The need for economic diversification and stimulation of the private sector creating jobs and growth is therefore increasingly critical to the economic agenda.

Lesotho maintains a stable credit rating, at BB-, according to Fitch credit rating agency[2], and is currently ranked 128 out of 189 countries in the ease of doing business index of the World Bank. Lesotho has registered improvements in dealing with construction permits and registering property indicators by 2 points and 4 points respectively. There is low investment in new areas of the economy to diversify the production base as a consequence of low competitiveness of the business environment and limited access to finance. Limited

[1] The Gini coefficient is a measure of statistical dispersion used as a measure of inequality of income distribution or inequality of wealth distribution and has a value between 0 and 1. A value of 0 indicates more equal income or wealth distribution, while a high value indicates higher unequal distribution.
[2] It has been lowered since writing.

diversification of production base and export markets implies that economy has limited resilience to negative external shocks.

According to The World Competitiveness report 2014/15, five most problematic factors of doing business are, starting with the most problematic:

1) Access to finance
2) Corruption
3) Inadequate supply of infrastructure
4) Inadequate educated workforce
5) Poor work ethics in national labour force.

The report ranks Lesotho at 119 and 111 out of 144 countries in terms of secondary school and tertiary education enrolment, respectively. It also ranks the overall quality of higher education system at 116/144. Hence, the level of technology adoption in Lesotho, as measured by Total Factor Productivity, is low. Lesotho occupies 135th position out of 144 countries in terms of availability of the latest technologies. This, coupled with low technical skills base, results in low growth and slow structural transformation of the economy. In relation to labour market efficiency, Lesotho is situated at 84/144 when looking at cost of labour compared to productivity.

Lesotho stands at 98/144 in terms of quality of overall infrastructure, 97/144 for quality of roads and 143/144 and one of the worst for accessibility to air facility. Research suggests that industrialisation involves increasing energy intensity. The need to increase power generation capacity to support envisaged economic developments remains a priority and firm commitments should be made for absorption of surplus clean energy into the regional power pool.

2.4 Political Governance and Management

Lesotho ranked 55 (tied with four other countries) out of 174 (1 is least corrupt and 174 is the most corrupt) in the 2014 Corruption Perception Index rankings, with a score of 49/100 (100 being the least corrupt). The score and rank are unchanged from 2013 (Rank: 55, Score: 49), but up from 2012 (Rank: 64, Score: 45). However, threats to political stability remain, especially conflicts that arise between political parties and intra-party clashes. At the community level, conflicts still arise, especially over communal grazing and stock theft, and

human trafficking is becoming an area for concern. A new forward looking national conflict management strategy is needed to consolidate the democratic and peace architecture. In addition, the independence and respect for the judiciary needs to be strengthened in order to ensure its credibility and the rule of law.

In relation to decentralisation and service delivery, a new decentralisation policy has been adopted and new district economic strategies are in progress, with district consultations completed, to identify areas of comparative advantage for each district to create growth and jobs. The approved governance structures should set the districts in the right standing to champion their own programmes. The greatest challenge is to foster a cadre of entrepreneurs in each district to convert potential commercial opportunities into jobs and propel economic growth. Major improvements have been realised in terms of licensing, getting passports, identification cards, water and electricity connections, reducing back log of cases and others, with the roll-out of the one-stop-shop pilot project expected to improve availability of services in the districts. There is still much more room for improvement in quality, availability and efficiency however, and service delivery reforms require long-term commitment and dynamism to obtain the required results. The critical oversight institutions should continually improve to ensure transparency and accountability. It is also important to improve the capacity to generate statistics, analyse policies and establish the approved national monitoring and evaluation system.

Lesotho continues to perform better than most African countries in terms of gender equality, as a result of efforts made to increase women participation in politics and economic development. Some of the key areas of concern are primary school enrolment for boys, gender-based violence and low occupation of leadership positions by women both in the public and the private sector. The underlying causes have to be addressed to tackle the issues in a more effective way. Although expenditure on education is one of the highest relative to GDP, results have been disappointing. Enrolment in primary schools had been steadily decreasing since 2004 and the primary school net enrolment rate in 2013 was 77.3%, down from 81.8% in 2010. Over the same period, secondary net enrolment increased from 34.2% to 37.3%, while enrolment of learners in Technical and Vocational Education and Training (TVET) remained stagnant, with 3,296 in 2012 and 3,303 in 2013. In terms of quality, pupil learning scores compare poorly with the Sub-Saharan African region, despite the

considerably lower spending on education in comparison countries[3]. In tertiary education, relevance of curriculum, employability of graduates and skills mismatch are widely cited as major factors in the current situation of high graduate unemployment with simultaneous shortages of skilled labour in the private sector.

2.5 Environmental Sustainability

State of the environment is still an intra and inter-general concern. The major concerns are soil erosion and desertification, limited capacity to adapt to climate change, poor natural resource management, especially the fragile mountain ecosystems with wetlands alongside rangelands. Forest cover is also not growing rapidly due to low survival rates. Consolidation of programmes and coordination is necessary to have meaningful and sustainable impact.

3. MACROECONOMIC TRENDS AND OUTLOOK

3.1 Global Economic Review and Outlook

According to the latest World Economic Outlook (WEO) report released on July 9, 2015, global economic growth projection for 2015 has been marginally revised downwards, from 3.4% in July 2014 to 3.3%, mainly due to a setback to economic activity in the first quarter of 2015, mostly in North America. However, in 2016, growth is expected to strengthen to 3.8% driven by a gradual pickup in advanced economies, though emerging markets and the developing economies are expected to continue to register a slower growth. The underlying drivers for a gradual acceleration in economic activity in advanced economies include easy financial conditions, more neutral fiscal policy in the euro area, lower fuel prices, and improving confidence and labour market conditions.

In emerging market economies, the continued growth slowdown reflects several factors, including lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China and economic distress related to geopolitical factors. Growth in emerging markets and developing economies is projected to slow to 4.2% in 2015 from 4.6 in 2014.

[3]Systematic Country Diagnostics; the World Bank; 2015

However, in 2016, growth in emerging markets and developing economies is expected to pick up to 4.7%, largely driven by the projected improvements in economic conditions in some of the distressed economies.

The risks to the near-term outlook for global growth are broadly related to asset price shifts and further increases in financial market volatility[4]. Furthermore, the U.S. Dollar appreciation poses balance sheet risk and funding risk for dollar debtors, especially in some emerging market economies and developing economies like Lesotho.

3.2 Domestic Economic Review and Outlook

To achieve the sustainable and inclusive growth of 5-7 per cent as identified by the NSDP, there is need to transform and diversify our economy with the main focus on value addition and prioritizing production entities that have a relatively higher impact and spillover effects on other sectors.

The domestic economy performed relatively well between 2012/13 and 2014/15. Real GDP growth though still lower than 5-7% stipulated in the NSDP, averaged 4.3%per year over this period, boosted by the positive developments in the primary and tertiary industries. Primary industries mainly through mining and quarrying registered an annual average growth of 5.0% while the tertiary industries contributed an average of 5.5% owing to growth in Wholesale and retail trade, post and telecommunication, financial intermediation and health and social work sectors. In 2015/16, real GDP growth is expected to hover around 2.4%, compared to a marginally higher rate of 3.6% in 2014/15, underpinned by a projected deterioration in the secondary industries due to the expected worsening performance of the manufacturing and construction sectors. The textile and apparel sector is expected to register a negative growth of 5.2% in 2015/16 owing to uncertainties that surrounded renewal of the African Growth and Opportunities Act (AGOA) and eligibility of Lesotho to be included therein.

On the demand side, the continued growth in domestic credit contributed to increased domestic demand. Among the supply side factors that contributed to growth in 2012/13

[4]World Economic Outlook Update, July 9, 2015

through 2014/15 were the existence of production gap in the mining sector, coupled with the stable commodity prices and favorable exchange rate.

In terms of economic outlook, the domestic economy is expected to decelerate to 2.4% in 2015/16 and register a higher growth of 4.3% in 2016/17, but decrease to3.9% and 3.3% in 2017/18 and 2018/19 respectively – reflecting declines over the medium-term. This is attributed to the expected recovery in diamond production as Liqhobong commences its production in 2017, and the corresponding effects on wholesale and retail trade, post and telecommunications and in financial intermediation. The main risk to this growth is the expected poor performance of the construction sector as well as the manufacturing sector due to the volatility in AGOA related exports.

Table 2: Macroeconomic Indicators

Population (1000; 2011 est)	**2.9 million**						
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
GDP per capita constant prices	4.6%	4.0%	3.5%	2.2%	4.1%	3.6%	3.0%
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Act.	Act.	Est.		Projection	
National accounts and Price							
GDP at constant prices	4.9%	4.2%	3.7%	2.4%	4.3%	3.9%	3.3%
GDP at market prices (Million Maloti)	20 033	21 971	24 396	26 583	29 927	32 925	35 553
Consumer Price Inflation (average)	5.5%	5.1%	4.5%	4.5%	5.5%	5.3%	5.3%
Agriculture	-7.8%	11.0%	5.4%	4.8%	3.4%	0.7%	-1.9%
o/w Crops	*-19.4%*	*-3.0%*	*-6.5%*	*0.9%*	*5.9%*	*2.4%*	*-5.8%*
Livestock	*1.0%*	*-1.1%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
Forestry	*-19.3%*	*78.7%*	*28.3%*	*13.6%*	*6.1%*	*0.4%*	*-2.6%*
Mining and quarrying	13.4%	-3.5%	15.5%	6.0%	14.0%	7.3%	2.8%
Manufacturing	-5.7%	-9.6%	1.8%	-2.6%	-3.3%	2.1%	-0.4%
Food products and beverages	*-1.8%*	*-8.0%*	*-3.6%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Textiles, clothing, footwear and leather	*-8.4%*	*-12.2%*	*6.8%*	*-5.2%*	*-6.3%*	*2.0%*	*-2.0%*
Other manufacturing	*2.0%*	*0.0%*	*-10.9%*	*2.8%*	*2.4%*	*2.4%*	*2.5%*
Financial intermediation	9.3%	12.1%	3.1%	2.1%	3.0%	3.9%	4.2%
Health and social work	26.9%	15.7%	-4.1%	2.7%	3.0%	2.7%	2.7%

3.3 Price and Monetary developments

Inflation and price developments in Lesotho are expected to continue to move in line with those in South Africa over the short to medium term. Pegged to the South African Rand, the Loti depreciated by an average of 16% against the US dollar between 2012/13 and 2014/15 and. As the South African economy's performance has been modest, the Rand has seen depreciation against international currencies. Correspondingly, the Loti is expected to depreciate further in 2015/16 due to weak fundamentals in the South African economy including deterioration in economic growth as well as weak capital inflows. The 91-day Treasury bill rate recorded an average of 6.4% between 2012/13 and 2014/15. This growth will be sustained over the medium-term in line with South Africa's price developments.

Lesotho's inflation averaged 5.1% between 2012/13 and 2014/15, mainly due to a drop in the prices of food and non-alcoholic beverages, housing and utilities and transport. It is expected to slow down by 4.5% in 2015/16 and slightly increase in the medium-term as a result of supply shocks in agricultural output coupled with weak domestic currency.

3.4 External Sector

The current account balance registered an annual average deficit of 9.9% of GDP between 2012/13 and 2014/15. Stronger export growth was offset by a higher growth in imports due to increased demand for imports particularly in 2014/15. This deteriorated the trade balance thereby putting more pressure on the current account balance. The current account deficit was further exacerbated by a decline in income account due to lower compensation of Basotho miners in South Africa.

The performance of the external sector is expected to continue to deteriorate further in 2015/16 through the medium-term. The current account balance is expected to register a deficit of 14.5% of GDP in 2015/16 relative to a deficit of 8.1% in 2014/15, largely as a result of the expected decline in current transfers due to an expected decline in SACU transfers coupled with a drop in income account following a continued decrease in compensation of Basotho miners in South Africa.

Table3: External Sector

The External Sector						
In Million Maloti	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
CURRENT ACCOUNT	-1 958.2	-2 381.7	-1 591.6	-2 754.9	-4 926.6	-4 895.0
GOODS and SERVICES, net	-13 344.6	-13 729.2	-14 094.4	-14 823.0	-15 204.2	-16 199.4
GOODS, net	-10 190.6	-10 477.3	-10 685.7	-11 526.5	-11 813.9	-12 747.5
Merchandise, exports	8 394.0	8 155.2	9 213.7	9 463.5	10 237.1	10 785.3
Merchandise, imports	-18 584.5	-18 632.5	-19 899.3	-20 990.0	-22 051.0	-23 532.8
INCOME, net	3 568.2	3 472.6	3 559.2	3 587.0	3 478.5	3 397.9
Compensation of employees, credit	4 474.8	4 262.4	4 297.5	4 329.3	4 415.8	4 501.1
Investment income, net	-1 104.2	-1 028.9	-1 025.2	-1 047.2	-1 260.5	-1 445.1
CURRENT TRANSFERS	7 818.3	7 874.9	8 943.7	8 481.1	6 799.2	7 906.5
SACU, net	5 782.8	5 861.0	6 850.2	6 398.2	4 593.8	5 575.6
Budget Support, credit	196.4	149.1	4.2	4.0	4.0	4.0
Income tax from mine workers	-47.3	-58.2	-76.6	-27.6	-29.0	-30.2
CAPITAL ACCOUNT	1 490.4	1 025.9	393.9	832.9	882.8	934.0
Government: Grants in budget, credit	1 703.4	1 194.0	573.7	951.8	1 009.0	1 067.5
Other sectors: migrants' transfers, debit	-212.9	-168.1	-179.7	-119.0	-126.1	-133.4
FINANCIAL ACCOUNT	2 925.3	450.7	2 653.0	2 827.3	2 014.7	2 446.8
Direct investment in Lesotho, net	518.3	159.1	165.0	174.9	192.0	203.5
Portfolio investment in Lesotho, net	320.8	-26.7	-27.7	88.8	11.4	24.2

4 MEDIUM-TERM FISCAL FRAMEWORK AND FISCAL STRATEGY

Table 4 presents the fiscal performance from 2011/12 to 2014/15 and the preliminary medium-term outlook for 2015/16 to 2018/19.

Table 4: Fiscal Framework

FISCAL FRAMEWORK

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	**9,627.2**	**13,144.9**	**13,274.4**	**14,546.5**	**15,321.4**	**14,773.6**	**16,499.0**	**17,831.2**
1. Tax revenue	4,282.8	4,596.3	5,147.6	5,715.2	6,517.2	7,374.1	8,206.2	9,005.9
3. Grants	1,436.8	1,703.5	1,047.4	495.7	955.8	1,008.2	1,061.4	1,118.5
4. Other revenue	1,154.9	878.8	1,024.8	1,301.6	1,450.1	1,797.6	1,655.8	1,274.6
5. SACU	2,752.6	5,966.3	6,054.6	7,034.1	6,398.2	4,593.8	5,575.6	6,432.3
Expense	**-8,519.1**	**-8,794.5**	**-10,511.8**	**-11,035.9**	**-12,676.5**	**-13,135.5**	**-14,033.9**	**-14,259.7**
1. Compensation of Employees	-3,640.2	-3,748.8	-4,588.7	-5,210.9	-5,978.2	-6,573.2	-7,184.4	-7,329.2
2. Use of goods and services	-2,042.1	-2,385.0	-3,026.3	-2,908.3	-3,526.7	-3,334.6	-3,501.0	-3,676.5
4. Interest Payments	-137.1	-165.9	-231.5	-240.1	-283.6	-266.1	-265.1	-264.1
5. Subsidies	-238.8	-252.9	-232.2	-198.5	-281.3	-250.6	-260.5	-258.9
6. Grants	-894.4	-881.8	-898.8	-1,014.7	-784.2	-833.0	-883.4	-727.2
7. Social Benefits	-586.1	-613.0	-762.5	-669.6	-937.3	-987.8	-1,041.4	-1,095.5
8. Other expense	-980.4	-747.0	-771.7	-793.8	-885.2	-890.2	-898.1	-908.3
Net Worth and its Changes	**-1,608.9**	**-4,443.0**	**-3,228.7**	**-3,378.7**	**-2,644.9**	**-1,638.2**	**-2,465.0**	**-3,571.5**
1 Nonfinancial assets	-2,978.6	-3,395.9	-3,409.8	-3,423.2	-3,668.6	-3,728.5	-3,888.8	-4,058.4
2. Financial assets	839.6	-1,940.8	-339.1	-818.8	498.0	1,777.5	1,171.2	416.7
3. Liabilities	530.0	893.8	520.2	863.3	525.6	312.8	252.6	70.1

Analytical Measures	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Gross operating balance	1,108.1	4,350.4	2,762.6	3,510.6	2,644.9	1,638.2	2,465.0	3,571.5
Net lending/borrowing	-1,870.4	954.5	-647.2	87.5	-1,023.6	-2,090.3	-1,423.7	-486.8
Overall fiscal balance	-1,870.4	954.5	-647.2	87.5	-1,023.6	-2,090.3	-1,423.7	-486.8
Fiscal Deficit/Surplus (GoL)	-1,870.4	912.5	-759.1	84.8	-1,028.1	-2,094.8	-1,428.3	-491.4
As a per cent of GDP:								
Overall fiscal balance	**-10.0%**	**4.8%**	**-3.1%**	**0.4%**	**-4.0%**	**-7.5%**	**-4.7%**	**-1.4%**
Fiscal Deficit/Surplus (GoL)	**-10.0%**	**4.6%**	**-3.6%**	**0.4%**	**-4.0%**	**-7.5%**	**-4.7%**	**-1.4%**

Key points to note are:

- Although overall revenue seems to reflect an increase in the medium-term, SACU revenue is projected to register a significant decline in 2015/16 with a further drastic drop in 2016/17. However SACU is projected to pick up from 2017/18 though not to the levels of 2014/15.

- There is an annual increment policy in the recurring expenses, particularly involving the inflation indexing and notch increment of compensation of employees. However, developments in salaries continue to trend upwards, with

compensation of employees reflecting a double increase from M3,640 million (2011/12) to M7,329 million in 2018/19.

- It's also noteworthy that the development expenses fluctuate between 2012/13 and 2014/15 of around M10 and M20 million, and is projected to average at least M100 million increment to the expected end-year 2018/19.

4.1 REVENUE

Growth in total revenue excluding grants is volatile since its performance is largely influenced by highly unstable SACU receipts. The total revenue increased by an average of 13.2% between 2011/12 and 2014/15 due to increase in grants and tax revenue in 2011/12as well as a substantial hike in SACU receipts recorded in 2012/13.

4.1.1 Tax Revenue

Tax revenue has been increasing steadily in the last four years due to income tax and value added tax (VAT), which improved significantly. It is expected to increase on average by 12.1% per annum in the medium-term in line with general economic developments. This is also attributed to on-going tax reforms undertaken by the Lesotho Revenue Authority (LRA) which are expected to improve efficiency in tax collection.

4.1.2 Grants

Grants received from development partners form part of revenue and they have been increasing rapidly in 2011/12 and 2012/13 due to major inflow of Millennium Challenge Corporation (MCC) grants and budget support. However, despite other grants from various donors, they diminished between 2013/14 and 2014/15. The MCC was phased out. The Government received M4.2 million in 2014/15 and M150 million in 2013/14 as budget support. In the medium-term, grants are projected to recover by 27.2 % on average as reflected by the budget estimates.

4.1.3 Non-Tax Revenue

Under non-tax revenue, the most important components are water royalties received from South Africa, Dividends from the mines and the Central bank. During the period under the review, non-tax revenue grew at an average rate of 0.5%. In 2011/12 through 2013/14, non-

tax revenue declined due to the fact that Central bank and Letšeng Diamond Mining declared lower amounts of dividends.

In 2015/16 through the medium-term, non-tax revenues projected to grow by an average growth of 1.1%. In both 2015/16 and 2016/17, dividends will be higher given the improved Letšeng's production levels. Thereafter, dividends are projected to decline as Letšeng forecasts to declare lower dividends.

4.2 EXPENDITURE

4.2.1 Recurrent Expenditure

Recurrent expenditure grew at more than double inflation rate in the last fouryears despite government's commitment to curb recurrent expenditure growth to remain constant in real terms. From 2011/12 to 2014/15, expenditure registered an average growth rate of 10.9% per year. Under recurrent expenditure, compensation of employees took an annual average growth of 42% of the total recurrent expenses from 2011/12 to 2014/15. This was influenced by civil service salary review which was implemented in 2013/14. In the medium-term, the share of compensation of employees within the recurrent budget is projected be 50% mainly as a result of Police and Local Government salary review that was effected in 2015/16 coupled with the establishment of new ministries, and the recent 6% increase in public servant's wage.

On the other hand, Use of Goods and Services increased by an annual average rate of 27% from 2011/12 to 2014/15. This stemmed from the growth in domestic travel and transport resulting from additional fleet requirements for the new established ministries in 2013/14. In the medium-term, Use of Goods and Services is projected to grow at an annual average rate of 26% from 2015/16 through 2018/19.

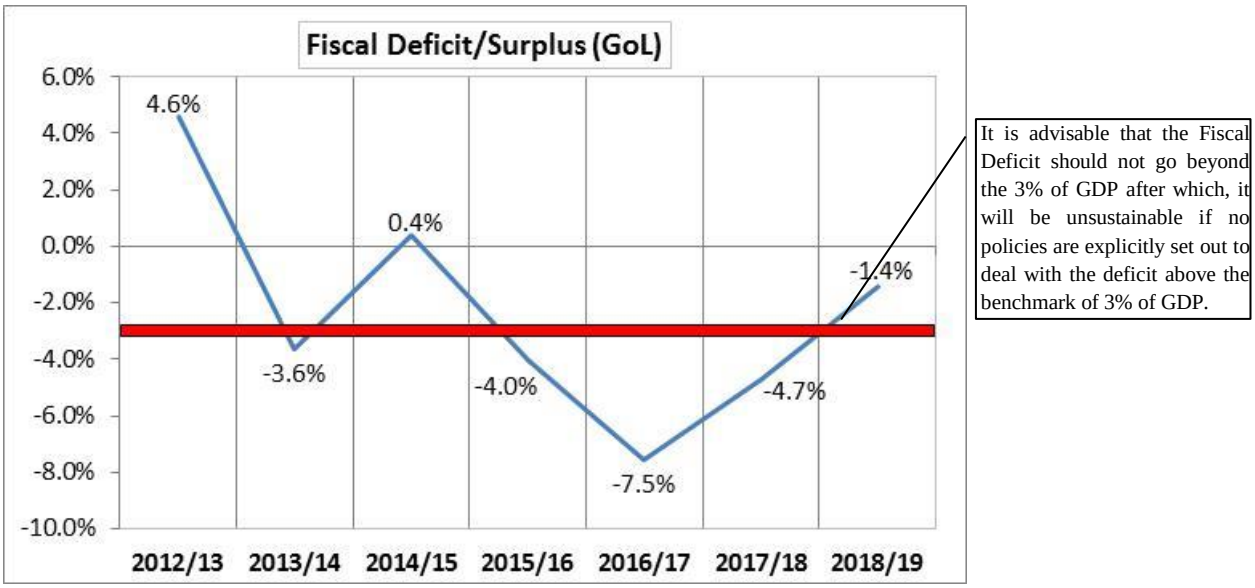
4.2.2 Capital Expenditure

GoL funded capital expenditure continued to increase during the period under review. However, in 2014/15, total development expenditure which includes government funding, donor grants and loans, began declining with the completion of MCC funded projects. In the medium-term, total development expenditure is projected to grow slightly at an average

annual rate of 5.8% due to a reduction in donor loans as Metolong Dam phases out in 2015/16.

4.3 OVERALL FISCAL BALANCE

Figure 1: Evolution of the Fiscal balance from 2012/13 to 2017/18



The overall fiscal balance is mainly influenced by SACU transfers. Given the volatile movement of the aforementioned transfers, a major policy intervention is required. In 2012/13, the government registered a surplus of 4.6[5]% of GDP resultant from SACU receipts that almost doubled from M2,752 to M5,966 million. In 2013/14, a minor increase was received from SACU basing from M5,966 to M6,054 million, but a 3.6% of GDP deficit was recorded which is above the Government's policy limit. This is owed to the once-off major review of salaries which cost about M600 million. A 0.4 % surplus was projected afterwards as SACU disbursed the highest share of M7,034 in 2014/15. The fiscal year 2015/16 through the medium term unsustainable figures of deficits are anticipated at 4.0%, a further downward slope to 7.5% and a slight recovery to 4.7 % respectively. This path responds to the SACU trend in the medium term and is a threat to macro fiscal stability, and the peg maintenance as the reserves are at stake.

The unsustainable fiscal balances compromise the government's ability to implement the NSDP. This means that ministries would have to identify the scope for freeing up fiscal space

[5]The nominal figure of the surplus is M912 million on a nominal GDP figure of M19, 832.

from their recurrent budgets through cutting back possibly important priority activities (e.g. health and education) and generating savings that would enable them to restrict the delivery of important public services. It is worth noting that capital projects reach development objectives, recurrent budgets also advance vital areas such as boosting human capital and improving health care.

4.3.1 Fiscal Strategy

The fiscal strategy over the next three years aims at reinforcing long-term fiscal sustainability and providing a sufficient fiscal and/or foreign reserve buffer against domestic and external shocks and imbalances. Prudent fiscal management will also help to sustain confidence of investors and development cooperating partners and help to secure financing for investment by the private sector and for infrastructure projects.

This objective will be achieved through a reduced dependence on volatile and pro-cyclical SACU receipts by moving to a situation where current expenditures can be covered by tax and non-tax revenues, with SACU revenues and donor funding being used to finance infrastructure and other capital expenditures and maintain sufficient reserves for financing forward capital spending commitments.

Key measures to achieve this outcome include:

- **Maintaining adequate reserves to provide 5 months of import cover** as a buffer against both external and fiscal shocks.
- **Reducing high and unsustainable level of recurrent spending**. This will require tighter control over recurrent expenditure budgets to ensure that existing resources are utilised more effectively and efficiently as well as targeting no real increases in recurrent spending over the next three years (excluding maintenance of assets).
- **Improving mobilization of domestic non-tax revenues**. This will require identification and assessment of new revenue sources and adjustment of selected fees, penalties and charges that have not been increased for several years. In addition, we would consider measures including exploring a new mining taxation regime, and improving revenue administration.
- **Mobilising additional resources**, especially grants to finance public investments and crowding- in private investment.

- **Investigate measures to improve tax efficiency.**

5. STRATEGIC PRIORITIES FOR 2016/17-2018/19

Key Policy Targets

It is proposed that in developing the government's budgetary plans for 2016/17 to 2018/19 the focus should be on the following policy targets that will contribute to the realisation of the NSDP and Vision 2020 strategic goals:

- Increasing economic growth towards a sustainable level of between 5 and 7 per cent per annum and create 10,000 jobs per year on average;
- Reducing food insecurity by increasing production on average by 16Ha per year;
- Reducing child mortality by 2/3 and maternal mortality by 3/4 by 2017/18;
- Reducing incidence of HIV and increase coverage for anti-retroviral treatment (ART). (reduce by 25% by 2016/17, 80 per cent coverage)

In order to achieve the above policy targets, interventions will be grouped under three clusters:

(i) facilitating job creation, inclusive growth and economic diversification; (ii) reducing economic and social vulnerabilities; and

(iii) improving public sector efficiency and service delivery.

These clusters are aligned with the NSDP in the chart below[6].

Alignment Between NSDP's Goals and Budgetary Priorities	
NSDP Goal	**Budgetary Alignment**
Pursue high, shared and employment creating economic growth	Intervention Cluster 1: Facilitating Job Creation, Inclusive Growth and Economic Diversification - *Investment climate and regulatory framework* - *Priority sectors to develop as sources of growth and jobs (Agric., Manufacturing, Mining, Tourism, Technology and Creative Industries)* - *Develop a minimum infrastructure platform for trade facilitation*
Develop key infrastructure	Intervention Cluster 3: Improving Public Sector Efficiency and effectiveness - *Shift the composition of recurrent to capital spending*
Enhance the skills base, technology adoption and foundation for innovation	Intervention Cluster 1: Facilitating Job Creation, Inclusive Growth and Economic Diversification - *Technology diffusion and technical skills* - *Education quality and access*
Improve health, combat HIV and AIDS and reduce vulnerability	Intervention Cluster 2: Reducing Social and Economic Vulnerability - *Improve maternal and child health and HIV/AIDS programmes* - *Reducesocio-economic vulnerability*
Reverse environmental degradation and adapt to climate change	Intervention Cluster 2: Reducing Social and Economic Vulnerability - *Adopt and implement climate change strategy to create green jobs, through protection of water sources and fragile ecosystems*
Promote peace, democratic governance and build effective institutions	Intervention Cluster 2: Reducing Social and Economic Vulnerability - *Reduce corruption and crime* - *Ensure improved access to services in districts* and Intervention Cluster 3: Improving Public Sector Efficiency and effectiveness - *Address ghost employees* - *Review fleet management* - *Consolidate asset management* - *Improve financial management*

[6]Going forward, in an effort to streamline expenditures with policy priorities, the Ministry of Finance will be restructuring the programs by sectors. The sectors will be aligned with the goals of the NSDP.

Public Sector Expenditure Strategy

The Public Sector Expenditure Strategy specifies interventions that will be implemented to achieve the above-mentioned policy targets.

Intervention Cluster 1: Facilitating Job Creation, Inclusive Growth and Economic Diversification

The major medium- to long-term challenge for government is developing and empowering the private sector as a necessary instrument for high and sustainable growth. This will involve expansion and diversification of the economic base and increase productivity in key growth sectors and in the green economy.

The NSDP identifies mining and water projects as two growth accelerators due to large investments that are expected during the plan period. However, ancillary activities will have to be promoted so as to sustain the growth and increase employment.

Investment climate reforms are regarded as the foundation for attracting private investment, with an impact of more than 2 per cent on GDP over the 5 years, through efficiency gains. Commercial Agriculture, Manufacturing, tourism and Technology based industries and creative arts reforms are regarded as major sources of jobs and growth.

In order to unlock potential in these growth sectors, the Government undertakes to provide:

Enabling Investment Climate and Regulatory Framework

Accelerate implementation of investment climate reforms under the guidance of the Cabinet Committee on Investment Climate Reform. This will require the following:

- **Ease doing business:** Accelerate implementation of investment climate reforms under the guidance of the Cabinet Committee on Investment Climate Reform. The areas to address include, reducing time and costs **to start a business, deal with construction permits, getting electricity, registering property, enforcing contracts, protecting investors, paying taxes, trading across borders and closing a business.**

- **Improve obtaining Visas and Work Permits:** Visa and work permit laws and processes will be reviewed particularly to ease travel by business persons and tourists.
- **Improve access to finance:** Improve management of, and cooperation between, LNDC and MoF credit guarantee facilities and implement mechanism for control of usage of funds and facilitate the establishment of the stock exchange
- **Reform Land tenure:** Facilitate the development of required policy and legislation for land reforms, including the consideration of establishing Special Economic Zones, especially to support commercial agriculture and private investment in industrial infrastructure and tourism.
- **Investment climate reform Legislation package:** Develop a package of legislation to support the investment climate reforms for consideration by Parliament
- **Complete the Establishment of the One-Stop Business Facilitation Centre (OBFC) with all necessary functions**
- **Heads of Border Agencies (HoBA) Coordinated Border Management implementation:** Follow up and implement the border management reforms to increase efficiency of border controls and services.

Priority Sectors to Develop as Sources of Growth and Jobs

Commercial Agriculture: Measures to increase agricultural productivity, commercialization and diversification will involve:

- Investment in expansion of water harvesting and irrigation capacities with a target of developing 200 ha per year
- Stimulate private participation in trading in agricultural inputs and farm machinery
- Develop and/or facilitate development of public marketing infrastructure for trade and to maintain food safety;
- Promote private investment in building integrated supply chains of existing sub-sectors (vegetables, fruits, potato, poultry, piggery, mushrooms, wool and mohair, organics and others)

- Promote commercial fruit production and increase by 100 ha per year
- In support of the supply chain development and expansion of commercial fruit production, a system to support farmers obtain third-party certification for export markets – modelled on the private sector competitiveness programme - should be put in place
- Facilitate the expansion of farms for products that qualify for bio-trade

Manufacturing: Transform the textiles sector and diversify products and markets

- Support at least 2 Basotho firms per year through incubation/productivity centres to create capacity to enter textiles manufacturing value chain
- Improve management of industrial zones, effectively sanction non-compliant beneficiary firms, improve rent collection and attract new firms on improved contracts with clear terms of compliance
- Facilitate contact between serious Basotho firms and entrepreneurs and concessional financing institutions
- Facilitate and Promote diversification of manufacturing, through the implementation of the AGOA response strategy
- Support the development of the national handicrafts incubation/production centre and promote development of products, expansion of markets and training provision

Mining: Facilitate access to electricity, equitable distribution of benefits and market integration for small operators

- Provide mining related infrastructure (communication, access roads and electricity connectivity)
- Develop mining tax code and other legislation
- Mobilise resources for National University of Lesotho (NUL) granite project
- Establish sandstone marketing platform to enhance market coordination

Tourism: Aim to increase volumes and length of stay of tourists as well as ensuring community participation in the sector.

- Engage private operators in the remaining developed tourism facilities
- Develop/review a master-plan to integrate district initiatives
- Conduct a feasibility study for an additional ski resort on the Highlands Ski route and promote private investment
- Develop a Lesotho tourism brand and market Lesotho in major source markets
- Facilitate the establishment of at least one community based project per year

Technology and Creative Industries

- Identify talent and establish incubation centres for music, film and fine art to take advantage of the opportunities brought about by analogue to digital migration
- Establish one pilot call centre
- Promote mobile money and e-services

Development of a Minimum Infrastructure Platform for Trade Facilitation

Industrial infrastructure: Develop a well-phased industrial and marketing infrastructure programme and implement in line with district advantages and provide basic infrastructure such as water and sanitation, electricity, roads and ICT

Customs Clearance: Continue (and complete) the process to operationalise and increase effectiveness of the border and customs clearance, control and management systems (software, scanners, and single windows),

Standards and Quality: In the short-term, facilitate third-party certification for Basotho exporter. In the medium- to long-term: Establish Standards, Quality, Accreditation and Metrology (SQUAM) coordinating body and standards in identified priority sectors as well as related infrastructure to support trade.

Information and Communication Technology: Consolidate backbone infrastructure to reduce wholesale costs and promote cost-efficient rollout of distribution network; Investigate anticompetitive behaviour in the industry; and Facilitate on line application for services, information dissemination and other critical e-services in health and education.

Green economy through Water and Energy: Implement pipeline projects to increase water distribution capacity and production of clean energy (hydro-power, wind and solar) for local consumption and export. In particular, the construction of Polihali Dam with a transfer tunnel to the Katse Dam; and the Kobong pump storage of 1 200 megawatt hydro-electricity scheme.

Transport: Initiate the development of a dry port facility and/or Moshoeshoe I International Airport as an international hub as well as providing key access roads to new economic nodes at local level.

Institutions: Transform and enhance capacity of the Ministry of Small Business, Cooperatives and Marketing (MoSBCM) and other institutions that support Micro, Small and Medium enterprises (MSMEs), especially to support start-ups and assist community based commercial projects, through business plan development, training on business management, incubation and/or facilitating access to technology and finance. The capacity of Lesotho's foreign missions should be enhanced to effectively promote investment, tourism and trade in key international markets.

Technology Diffusion and Technical Skills

- Establish technology and incubation centres for selected industries
- Upgrade Lerotholi Polytechnic to a university of technology
- Establish trade testing centre
- Develop capacity to source technology, acquire licenses and produce new industrial products

Education Quality and Access

Education is both a moral and economic responsibility and has implications for all levels of society. While ensuring access and quality in primary and secondary schools is a key government responsibility, the relevance of such education, as well as higher education, to the economic prospects of students must be also be ensured. Immediate measures to be taken are;

- Review the curriculum of TVET education in cooperation with the potential employers in the private sector, in order to ensure applicability of skills and employability of graduates
- Engage relevant firms to establish trainee/apprentice programmes
- Provide new guidelines for the tertiary bursary in order to redirect support towards programmes suited for domestic private sector employment and ensure the publication and understanding of new guidelines among the public
- Encourage NUL or another institution to set up a business school, preferably in collaboration with an internationally established business school. Such collaboration should ensure teacher training and guest lecturers to guarantee a high standard for the programme and imparting of a proactive business culture to business graduates

Intervention Cluster 2: Reducing Social and Economic Vulnerability

Deteriorating trends in morbidity and mortality depreciate our human resource capital, thereby reducing productivity, savings and growth. High and increasing mortality rates cause a reduction in the labour force, increasing numbers of orphans, and deepening and spreading poverty. The significant drivers are high HIV and AIDS prevalence, limited accessibility of essential maternal and preventive health care services that shows in relatively high out-of-pocket expenses, poor quality of services and access to essential drugs.

There is also need to enhance the social protection system such that it promotes prevention, reduction of exposure to vulnerabilities and enhance the management of risks and increases own capacity to reach livelihood security. Increasing crime and poor management of conflicts exacerbate social and economic vulnerability.

Ensuring timely government services, ranging from agricultural support services to health and registration services (passports, birth certificates etc.) to the rural and vulnerable population is also an immediate priority that should be addressed.

With regard to environmental vulnerabilities, limited adaption to climate change, due to increasing desertification, poor natural resource management, especially the fragile mountain ecosystems, wetlands, and degradation of forest and vegetation cover significantly reduce the capacity of catchments to capture and store water and increase soil erosion.

The key interventions therefore will be:

Improve Maternal and Child Health and HIV/AIDS Programmes

- Implement accelerated programme for reducing maternal mortality, under-five mortality, stunting and malnutrition;
- Operationalise guidelines for nutrition support for people living with HIV and AIDS
- Enhance the management of human resource for health and improve drugs and medical supply management.
- Scale-up HIV and AIDS behaviour change programmes, condom distribution and promotion of their use, expand coverage of ART treatment and rationalize the institutional infrastructure
- Review Apparel Lesotho Alliance to Fight Aids(ALAFA) model for efficiency and sustainability and implement recommended option
- Quickly and efficiently implement vaccination programmes to reduce mortality from curable diseases
    - Immediately ensure the rapid distribution and utilisation of the Pneumococcal Vaccine (PVC), already in the possession of the Ministry of Health

Reducing Socio-Economic Vulnerability

- Promote household food security;
- Consolidate social protection programmes to better target the poor and marginalised groups with the focus on increasing their own capacity for livelihood security;
    - Especially the roll-out of the Child Grant Programme is essential in this and its continued expansion and efficiency should be ensured.
- Accelerate the process of increasing coverage of basic services, including access to water and sanitation, health services, clean energy, communication services and improve public transport system;

- Strengthen special programmes between the Government and the private sector to encourage Corporate Social Responsibility (CSR) engagement and increase youth and young professionals' employment;
- Adopt and implement climate change strategy and plan thereby increase the creation of green jobs, through protection of water sources and fragile ecosystems and enhance climate change resilience.

Ensure improved access to services in districts

- Measures are already being taken to address the low availability and difficulty of access to services by the rural population. The Ministry of Local Government, in collaboration with UNICEF and GIZ, are launching a one-stop-shop pilot project for district service provision, covering the delivery of several essential government services. This project should be given all necessary support, as it addresses a pressing need and is likely to help improve performance in numerous areas through increased uptake of essential services (for example health services)

Reducing Corruption and Crime: On the Corruption Perception Index, Lesotho ranks 55 out of 174 in 2014 (1 is the least corrupt and 174 is the most corrupt).

- Review the national anti-corruption strategy and strengthen the Directorate on Corruption and Economic Offences(DCEO)
- Decentralize and capacitate the office of DCEO to southern and northern regions.
- Provide necessary equipment and infrastructure to fight Stock theft and other major crimes
    - Develop the Livestock Registration, Marking and Information System (LRMIS)
- Establish a Conflict Management and Resolution Institute

All the programmes should take into account population, gender, rural-urban dynamics and to ensure participation of people with disability and other marginalized groups.

Intervention Cluster 3: Improving Public Sector Efficiency and effectiveness

Public Sector efficiency and effectiveness still remains a challenge, despite the fact that Government has embarked on a number of reforms that were intended to improve service

delivery. The public sector is continuing to be burdened with excessive implementation and compliance problems related to maladministration (corruption) and accountability issues. A road map for service delivery has been developed to address these issues. For the Budget Strategy Plan period - 2016/17-2018/19, it is essential to continue to improve in critical areas of reforms. To achieve this, Government has to enhance and continue to implement the following expenditure and revenue reforms:

- Continue the shift in the composition of resource allocation from recurrent to capital expenditures by keeping the level of recurrent budget constant in real terms or allowing only increases associated with new productive investments.
- Fast track elimination of ghost employees and review of redundant positions by the Ministry of Public Service.
- Enhance efficiency and quality of spending through; i) a comprehensive review of the size and management of government's vehicle fleet with the view to reducing the fleet and prevent unauthorised use; ii) pursuing a year-round prioritization of international travel for all government ministries to minimize cost on international fares and subsistence; iii) restricting workshops and training to areas crucial for effective service delivery.
- Strengthen management and operations of the revolving fund under the tertiary bursary scheme. Effective recovery of loan bursaries will provide additional resources for the scheme while releasing annual revenue collections for funding of other development programmes;
- Government to establish a consolidated asset management function, to have in place a government asset register, to improve management and maintenance of public assets. National assets have often suffered waste due to lack of maintenance and eventually become very expensive to rehabilitate or reconstruct.
- Enhance procurement capacity to increase value for money, reduce fraud, and enhance transparency.
- Finalise the review of the procurement regulations in order to, amongst others improve on the efficiency and effectiveness of the current process.
- Undertake business process reviews and re-engineering in key public sector service delivery institutions e.g. One-Stop Business Facilitation Centre (OBFC).

- Improve financial management systems and administration to eliminate corruption and resource leakages.
- Rationalisation of Lesotho's diplomatic missions abroad.
- Heads of Border Agencies: The improvement of border procedures could both directly (through increased revenue collection and reduction of tax evasion) and indirectly (through World Bank triggered budget support) contribute significantly to government revenue streams.
    - Urgency in this process, and swift progress, could help mitigate the revenue reduction caused by reduced SACU receipt revenues in the short- to medium-term
    - Earmarked funds for this process could be sourced from the SACU-EU trade facility, World Bank, or the WTO trade facilitation fund, and implementation triggers World Bank budget support funding.
    - More than anything, this process requires changes in routines and procedures. Consequently, political will and engagement is the most important input.
    - In sum, the implementation of the HoBA border reforms would contribute both to private sector development and to government budgets directly.

6. TRANSLATING POLICIES INTO BUDGET ALLOCATIONS

6.1 Historical budget Allocations and Expenditure

Starting from financial years 2014/15, 2015/16 and 2016/17, the Government have taken strategic measures to streamline more resource allocations towards the NSDP Priority sector Ministries. Table 5 below shows the resource allocations to the said sectors.

Table 5 Coalition Agreement and NSDP Priority sector Ministries

MINISTRY		2014/15	2015/16	2016/17	2017/18
ECONOMIC SECTORS					
AGRICULTURE	**RECURRENT**	166,175,898	173,502,184	201,870,850	207,847,895
	CAPITAL	209,091,001	224,325,607	295,592,222	323,127,246
TRADE	RECURRENT	93,089,163	55,137,007	56,423,655	59,244,837
	CAPITAL	169,795,275	84,552,350	135,239,039	55,331,397
MINING	RECURRENT	20,447,909	26,200,596	68,492,290	70,690,469
	CAPITAL	8,100,000	4,000,000	5,479,760	5,856,879
TOURISM	RECURRENT	97,436,145	96,269,507	77,206,862	81,067,205
	CAPITAL	62,864,960	78,070,000	66,680,000	18,000,000
COMMUNICATIONS	RECURRENT	97,436,145	139,523,592	146,070,306	153,374,034
	CAPITAL	260,000,000	209,699,903	101,392,783	64,930,003
ENERGY	RECURRENT	167,480,587	56,063,878	43,352,011	45,519,612
	CAPITAL	1,269,244,647	140,880,336	215,109,546	153,438,336
SOCIAL SECTORS					

HEALTH	RECURRENT	1,697,955,707	1,780,984,494	1,813,748,458	1,719,380,828
	CAPITAL	133,497,627	183,808,553	619,970,539	577,349,581
EDUCATION	RECURRENT	2,034,558,256	2,249,847,463	2,182,623,537	2,252,273,375
	CAPITAL	229,477,547	86,000,000	84,580,000	75,000,000
SOCIAL DEVELOPMENT	RECURRENT	181,325,118	196,925,218	224,418,269	237,883,364
	CAPITAL	10,713,750	31,586,060		
DCEO	RECURRENT	15,575,095	23,414,321	34,173,338	35,407,045
LOCAL GOVERNMENT	RECURRENT	390,965,384	375,500,000	457,452,758	449,560,395
	CAPITAL	372,900,000	406,500,000	473,846,100	497,538,405
	Grants to Local Authorities	31,000,000	31,000,000	32,550,000	34,177,500

Table 6 Aggregate Expenditure Performance as Against Approved Budget and Forecasts

Expenditure by Type	FY2012/13		FY 2013/14		FY2014/15		FY2015/16	FY2016/17	FY2017/18	FY201//19
	Budget ‘000 000	Actual Exp ‘000 000	Budget ‘000 000	Actual Exp ‘000 000	Budget ‘000 000	Actual Exp ‘000 000	Budget ‘000 000	Projections ‘000 000		
Total	12 629	9 387	12 844	12 926	15 835	13 394	16 423	17 094	18 173	18,396
Recurrent	7 197	7 351	8 016	10 041	10 834	10 589	11 697	11 990	12 826	13 209
Capital	5 432	2 036	4 828	2 885	5 002	2 805	4 726	5 104	5 347	5 187
GoL	2 386	1 555	2 534	2 661	2 984	2 401	2 844	3 178	3 352	3 327
Donor	3 046	481	2 294	223	2 017	404	1 882	1749	1802	1860
Grant	1 893	134	1 331	213	894	338	952	1004	1057	1114
#Loan	1 156	346	962	010	1 123	66	930	745	745	746
#Recurrent as a % of Total	57%	78%	62%	78%	68%	79%	71%	70%	71%	72%
#Annual % increase/ Decrease	-	-	11%	-	35%	-	8%	2.5%	6.9%	2.9%
#Capital as a % of Total	43%	22%	38%	22%	32%	21%	29%	29%	28%	28%

#Annual % increase/ Decrease	-	-	11%	-	3.6%	-	5.5%	4.3%	4.6%	0.6%
GoL as % Capital % of total budget	25%	-	24%	-	22%	-	20%	21%	19%	20%
Annual % increase/ decrease	-	-	6%	-	18%	-	(5%)	12.%	5%	(.01)%
Donor % of Total budget	56%	24%	48%	8%	40%	14%	40%	35	34.9	35.8

Table 6 shows the historical budget allocations for the financial years 2012/13,2013/14, and 2014/15 and projections in to the medium-term. This table reflects that recurrent budget still takes a huge portion of the total budget while the policy direction envisages the move towards larger allocations to the development budget hence a need to contain recurrent expenditure

This therefore calls for Government to critically look at the issues which contribute towards this highly imbalanced mix between the two budgets by addressing the following challenges:

- High and unsustainable wage bill
- Low absorptive capacity in implementing development projects.

The following impediments to the Capital Budget's implementation need to be addressed:

a) Weak monitoring on projects and programmes as a result of irregular site visits and non-reconciliation between the physical and financial progress.
b) Non-compliance to financial and procedural requirements resulting in slow implementation process.
c) Understanding and appreciating the rules of fiscal discipline and the importance on application of trade-offs by all between priorities outlined by Government development documents and the annually announced
d) policies.
e) Addressing the challenge of institutional capacity for the whole government ministries

In order to address the above stipulated challenges, Government therefore needs to look critically at the current capital budget structure which is characterized by projects which have been in the budget for a number of years and are not showing signs of completion due to either an increase in scope during the implementation period or lack of resources. Most of these projects have been included in the budget without being appraised, as such there is no detailed information regarding the projects such as the project scope, total estimated cost, project life time etc.[7]

[7]It should be noted that within the PFM Reform Support Project supported by the EU, strengthening the project appraisal process is being considered in collaboration with the MoDP.

The following measures are therefore recommended to address the above-captioned capital budget challenges as shown in **annex 1**:

- All projects included in the budget should be appraised by Public Sector Investment Committee (PSIC) within the Ministry of Development Planning (MoDP).
- All appraised projects should meet minimum acceptance conditions set by the Ministry of Finance before they are considered for inclusion in the budget.
- Appraise all on-going projects that are already in the budget which were not appraised.
- Restructure projects that are not in line with new policy initiatives.
- Transfer projects that are recurrent in nature into recurrent budget.
- Other programmes/projects should be implemented in phases in order to enable monitoring and measure their impact.
- Strengthen project appraisal capacity in the MoDP and in line ministries.

Projections into the medium-term indicate a continued marginal increase in capital budget funding which constrains the available limited fiscal space for implementing new projects which are designed to implement the priorities of the NSDP. It is therefore recommended that a firm policy decision be made regarding the appraisal process and review of projects that are in the budget.

ANNEX 1

PROJECT TITLE	SOURCE OF FUNDING	APPROVED BUDGET	APPROVED BUDGET	PROJECTIONS	PROJECTIONS
		2014/15	**2015/16**	**2016/17**	**2017/18**
REFOCUS/RE-DESIGN					
Irrigated Crop Production	GOL	3 000 000,0	4 000 000,0	8 000 000,0	10 000 000,0
Renovation of Central Correctional Institution	GOL	8 000 000,0	10 000 000,0	10 000 000,0	-
Renovation of Leribe Correctional Institution	GOL	8 000 000,0	10 000 000,0	5 300 000,0	48 000 000,0
National Museum & Art Gallery	GOL	25 000 000,0	20 000 000,0	50 000 000,0	7 000 000,0
Construction of Low Income Houses	GOL	1 000 000,0	1 000 000,0	4 200 000,0	4 410 000,0
Construction of Bus Terminals	GOL	2 000 000,0	1 000 000,0	2 100 000,0	2 205 000,0
Youth Resource Centre	GOL	500 000,0	1 000 000,0	1 050 000,0	-
Vocational Training Centres	GOL	10 000 000,0	5 000 000,0	10 500 000,0	11 025 000,0
Social Compact for Youth-led Responses to HIV/AIDS	GOL	3 000 000,0	3 000 000,0	1 000 000,0	-
Total		**60 500 000,0**	**55 000 000,0**	**92 150 000,0**	
TRANSFER TO RECURRENT BUDGET					
		2014/15	**2015/16**	**2016/17**	**2017/18**
Capacity Building to SMME's	GOL	5 000 000,0	5 000 000,0	6 500 000,0	7 500 335,0
Summer Cropping Programme	GOL	130 000 000,0	120 000 000,0	164 750 000,0	170 887 500,0

PROJECT TITLE	SOURCE OF FUNDING	APPROVED BUDGET	APPROVED BUDGET	PROJECTIONS	PROJECTIONS
		2014/15	**2015/16**	**2016/17**	**2017/18**
Support to TB Control Programme	GOL	10 000 000,0	6 298 493,0	10 000 000,0	10 000 000,0
Support to Immunisation	GOL	9 000 000,0	10 000 000,0	14 100 000,0	5 000 000,0
Performance Based Financing	GOL	2 477 500,0	3 848 760,0	6 322 852,0	4 314 376,0
National Manpower Development Plan	GOL	-	2 000 000,0	2 555 784,0	350 000,0
2016 Population and Housing Census	GOL	12 000 000,0	45 631 158,0	59 694 330,0	15 045 197,0
Data Network	GOL	40 000 000,0	60 450 000,0	54 022 500,0	
Village Water Supply	GOL	40 000 000,0	35 000 000,0	42 000 000,0	44 100 000,0
Gender Advocacy	GOL	1 500 000,0	1 000 000,0	1 155 740,0	1 213 527,0
Rehabilitation of Ithuseng Vocational Recreation Centre	GOL	-	5 000 000,0	10 000 000,0	-
Mining Policy and Legal Framework	GOL	2 200 000,0	1 000 000,0	2 469 884,0	-
Livestock Registration	GOL	8 000 000,0	20 000 000,0	110 000 000,0	120 000 000,0
Data Network	GOL	40 000 000,0	78 761 500,0	-	-
E-Government	GOL	-	3 974 960,0	-	-
Records Management	GOL	6 000 000,0	5 000 000,0	4 585 790,0	2 149 725,0
Lesotho Diamond House Feasibility Study	GOL	3 400 000,0	2 000 000,0	3 009 876,0	5 856 879,0
Total		**309 577 500,0**	**404 964 871,0**	**491 166 756,0**	

PROJECT TITLE	SOURCE OF FUNDING	APPROVED BUDGET	APPROVED BUDGET	PROJECTIONS	PROJECTIONS
		2014/15	**2015/16**	**2016/17**	**2017/18**
IMPLEMENT IN PHASES					
Watershed Management	GOL	157 000 000,0	150 000 000,0	157 000 000,0	157 000 000,0
Maseru Waste Water	GOL	60 000 000,0	25 000 000,0	60 000 000,0	-
Rural Water Supply and Sanitation	GOL	70 000 000,0	50 000 000,0	73 250 000,0	76 662 500,0
Rural Electrification	GOL	80 000 000,0	80 000 000,0	150 000 000,0	100 000 000,0
Urban Roads Upgrading	GOL	200 000 000,0	180 000 000,0	233 081 100,0	244 735 155,0
Construction of Secondary Schools	GOL	6 000 000,0	12 000 000,0	17 000 000,0	30 000 000,0
Free Primary Education (classrooms)	GOL	3 000 000,0	10 000 000,0	20 000 000,0	25 000 000,0
Construction of Leribe Sports Complex	GOL	3 000 000,0	10 000 000,0	21 000 000,0	22 050 000,0
Private Sector competitiveness and Econ. Diversification : Phase II	GOL	4 000 000,0	4 000 000,0	7 210 000,0	3 730 000,0
Agric. Productivity and Trade Dev't. -EIF Tier II	GOL	1 000 000,0	770 000,0	594 802,0	-
Design of Urban Roads	GOL	3 000 000,0	3 000 000,0	6 300 000,0	6 615 000,0
Renovation of Police Stations	GOL	50 000 000,0	50 000 000,0	50 000 000,0	50 000 000,0
Solid Waste Management for Urban Councils	GOL	2 000 000,0	3 000 000,0	3 150 000,0	3 307 500,0
Total		**639 000 000,0**	**577 770 000,0**	**798 585 902,0**	**719 100 155,0**

PROJECT TITLE	SOURCE OF FUNDING	APPROVED BUDGET	APPROVED BUDGET	PROJECTIONS	PROJECTIONS
		2014/15	**2015/16**	**2016/17**	**2017/18**
MERGE WITH OTHER RELATED PROJECTS					
Slaughter House	GOL	6 000 000,0	3 000 000,0	65 137 666,0	55 500 000,0
Market Centres	GOL	5 000 000,0	3 000 000,0	11 516 400,0	15 000 000,0
Silos and Storage Facilities	GOL	3 000 000,0	3 000 000,0	10 500 000,0	10 000 000,0
Total		**14 000 000,0**	**9 000 000,0**	**87 154 066,0**	**80 500 000,0**
MOVE TO CENTRALISED ITEMS					
Consultancies & Studies		5 000 000,0	5 000 000,0	5 000 000,0	
Total		**5 000 000,0**	**5 000 000,0**	**5 000 000,0**	
TO BE COMPLETED 2015/16					
Recapitalisation of LAC	GOL	10 000 000,0	15 000 000,0	-	-
Rehabilitation of Farmers Training Centres	GOL	2 000 000,0	2 000 000,0	-	-
Health Centres (Medical Equipment)	GOL	-	12 000 000,0	-	-
Education Quality Enhancement Project III	GOL	6 000 000,0	6 000 000,0	-	-

PROJECT TITLE	SOURCE OF FUNDING	APPROVED BUDGET	APPROVED BUDGET	PROJECTIONS	PROJECTIONS
		2014/15	2015/16	2016/17	2017/18
Border Post Infrastructure Refurbishment	GOL	25 000 000,0	6 000 000,0	-	-
Millennium Challenge Cooperation (LMDA)	GOL	300 000 000,0	270 000 000,0	-	-
Rural Financial Intermediation Programme	GOL	3 280 000,0	3 800 000,0	-	-
Integrated Revenue Management System	GOL	18 400 000,0	37 400 000,0	-	-
Upgrading of Payroll and Human Resource Info System	GOL	5 000 000,0	8 209 000,0	-	-
Implementation of Customs Scanners	GOL	20 000 000,0	6 100 000,0	-	-
Assistance to Lesotho Institute of Accounts	GOL	1 000 000,0	1 000 000,0	-	-
Enhanced Integrated Framework (EIF) Tier I	GOL	3 000 000,0	3 000 000,0	-	-
Electrification of Thaba Tseka Correctional	GOL	-	4 000 000,0	-	-
Transforming Broadcasting Mode	GOL	220 000 000,0	30 632 280,0	-	-
Koma-koma Bridge	GOL	32 000 000,0	1 300 000,0	-	-

PROJECT TITLE	SOURCE OF FUNDING	APPROVED BUDGET	APPROVED BUDGET	PROJECTIONS	PROJECTIONS
		2014/15	**2015/16**	**2016/17**	**2017/18**
Recapitalisation of Lesotho Freight Bus Service Corporation (LFBSC)	GOL	-	12 000 000,0	-	-
Third National Communication on Climate Change	GOL		600 000,0	-	-
Maloti Drakensburg Transfontier II	GOL	10 000 000,0	40 000 000,0	-	-
Construction of Pitso Houses	GOL	1 500 000,0	1 500 000,0	-	-
High Altitude	GOL	20 000 000,0	28 000 000,0	-	-
Tsifa-li-Mali Court Complex	GOL	20 000 000,0	40 000 000,0	-	-
Rehabilitation of Ithuseng Vocational Recreation Centre	GOL	5 000 000,0	10 000 000,0	-	-
Lesotho Geo-chemical Mapping	GOL	2 500 000,0	1 000 000,0	-	-
Mejametalana Runway Rehabilitation	GOL	54 000 000,0	16 000 000,0	-	-
Urban and Peri-Urban Water supply Project	GOL	20 000 000,0	10 000 000,0	-	-
TOTAL		**778 680 000,0**	**565 541 280,0**	**-**	**-**