BUDGET STRATEY PAPER
GOVERNMENT OF LESOTHO

MINISTRY OF FINANCE
AND
MINISTRY OF DEVELOPMENT PLANNING

10/14/2016

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I. ACRONYMS

AGOA – African Growth and Opportunities Act

ART – Antiretroviral Treatment

BFP – Budget Framework Paper

BSP – Budget Strategy Paper

CGP – Child Grant Programme

CPI – Consumer Price Index

ECCD – Early Childhood Care and Development

FY – Financial Year

GDP – Gross Domestic Product

GOL – Government of Lesotho

Ha – Hectare

HIV/AIDS - Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome

IMCI – Integrated Management of Child Illness

LDHS – Lesotho Demographic Health Survey

LRA – Lesotho Revenue Authority

MCC – Millennium Challenge Corporation

MDP – Ministry of Development Planning

MF – Ministry of Finance

MTEF – Medium-Term Expenditure Framework

MTFF – Medium-Term Fiscal Framework

NCD – Non Communicable Diseases

NER – Net Enrolment Rate

NSDP – National Strategic Development Plan

NUL – National University of Lesotho

PAC – Project Appraisal Committee

PBM – Pediatric Bacterial Meningitis

PFMA – Public Financial Management and Accountability

PMTCT – Prevent Mother-to-Child Transfer

PVC Vaccine – Pneumococcal Vaccine

PQTR – Pupils Qualified Teacher Ratio

PSIC – Public Sector Investment Committee

RISDP – Reginal Indicative Strategic Development Plan

SACU – Southern African Customs Union

SOE – State Owned Enterprises

SDG – Sustainable Development Goals

TVET – Technical and Vocational Education and Training

UN – United Nations

VAT – Value Added Tax

WB – World Bank

WB SCD – World Bank Systematic Country Diagnostic

WEO – World Economic Outlook

1. EXECUTIVE SUMMARY

1.1. INTRODUCTION

The Annual National Budget is the key instrument through which the Government of the Kingdom of Lesotho implements its strategic policy objectives as required in Section 7 (1) of the Public Financial Management and Accountability Act (PFMA) 2011. As a key instrument for guiding and anchoring the budget, the Budget Strategy Paper (BSP) provides the link between Government's overall policies and the Annual Budget. It lays out the fiscal policy framework and strategy for the budget year and sets out how the Government intends to achieve its policy objectives over the medium term through the budget. The macroeconomic framework presented in the BSP forms the basis for resource projections and indicative expenditure allocations. It also forms the basis for the detailed estimates of revenue and expenditure to be laid before Parliament.

In particular, the BSP outlines Government interventions for Social and Economic Development in FY 2017/18 and over the medium term in line with Government's Macroeconomic and Fiscal strategy, National Vision 2020 and the NSDP. The NSDP lays out the Government strategic five-year plan from FY2013 to FY2017.

The BSP brings together into a single document three key elements of importance to the budget mainly:

(i) *Overview of the Economy and Fiscal Trends* – this provides an assessment of recent macroeconomic and fiscal performances and a macroeconomic outlook for the coming years. The outlook presents in a clear tone economic assumptions underlying the forecasts of the resource envelope, particularly tax and non-tax revenue, and provides the context for choices about expenditure in the budget.

(ii) *Medium-Term Fiscal Framework (MTFF)* – this establishes the resource envelope available over the three-year period of the MTEF. It is prepared to capture all sources of revenue (tax revenue and non-tax revenue), grants from donors, and any likely borrowings (both domestic and external). The MTFF also sets out any fiscal rules that the government has agreed to abide by and an overview of fiscal risks, from both the expenditure and revenue perspectives.

(iii) *Medium-Term Expenditure Framework (MTEF) (Government Expenditure Plans and Priorities)* – this presents the Government's policy priorities and how, given the resource envelope identified in the Medium Term Fiscal Framework, these will be reflected in the budget. The MTEF process has three main objectives: ensuring fiscal discipline by spending what the public sector can afford; allocating resources in line with national priorities; and ensuring national resources are used efficiently. The MTEF is designed to draw consistent linkages between the medium and long-term policy objectives as set out in the NSDP and Vision 2020, and the framework for resource allocation – the national budget.

Therefore, to strengthen the link between national priorities set out in the national development plan and the budget, the MTEF sets out two separate phases of the budget preparation process: a strategic phase and an operational phase. The strategic phase is used to review high-level priorities and strategies before detailed resource allocation is undertaken. The operational phase of the budget preparation involves the allocation of resources to sectors and various spending entities/units, and concludes with the passing of the national budget by the national legislature.

The BSP is in essence the final output of the strategic phase of the budget intended to

facilitate consultation with key stakeholders on revenue and expenditure priorities for the fiscal year 2017/2018. It provides the public an opportunity to measure/gauge the government performance and commitment on pursuing and achieving its policies.

The Budget Strategy Paper, therefore, contains:

- ✓ Budgetary principles
- ✓ Highlights of recent economic performance and provides an updated medium-term economic outlook.
- ✓ The initial macro-fiscal framework for 2017/18 - 2019/20 and the fiscal strategy from which ministerial budgets allocations will be developed.
- ✓ Strategic policy priorities and public expenditure strategy that would guide the preparation of Budget Framework Papers (BFPs) for all Ministries.
- ✓ A discussion on the risks to the budget parameters, the strategy and the national socio economic outcomes.

1.2. NSDP PROGRESS AND ACHIEVEMENTS

Table 1: Summary Assessment of Progress and Achievements

Broad Strategic Goals	Strategic Outcomes	Performance Targets	Progress and Achievements	Key Challenges and Risks	Resource Utilization YTD/Budget Performance (M'000)
Pursue high, shared and employment creating economic growth		GDP growth rate from 7.2 in 2012 to 10.6 per annum in 2015/16	3.03 as an estimate of real GDP growth in 2015	Agricultural sector was adversely affected by the climate change (El Nino) Manufacturing was also affected by unpredictable AGOA agreement	
Develop key infrastructure (Minimum Infrastructure Platform)	-Increased access to safe and clean water -Increased access to basic sanitation	-Increase % of population with access to safe and clean water from: 63.6% (2010) to 79.5% (2015/16) in rural areas and 56.8% (2010) to 70.7% (2015/16) in urban areas -Increase % of population with access to basic sanitation from: 53.1% (2010) to 65.6% (2015/16) in rural areas and 77.8% (2010) to 88.9% (2015/16) in urban areas	Rural Access to clean & safe water has increased from 63.6% in 2010 to 75.0% in 2015/16 while Urban access has increased from 56.8% in 2010 to 96.3% in 2014/15. Rural access to basic sanitation has increased from 53.1% in 2010 to 54% in 2015/16 while Urban access has reduced from 77.8% in 2010 to 49% in 2014/15.	-Vandalism of water infrastructure -Persistent El Nino induced drought	

	- Increased access to ICT	Increase percentage of mobile phone subscribers from 54% in 2010 to 57.1% in 2015/16	Percentage of mobile phone subscribers has increased from 54% in 2010 to 93% in 2014/15.	Development of communications and complimentary infrastructure is costly due to difficult terrain.	
	Increased power generation	Increase power generation capacity from 72MW in 2012 to 180MW in2015/16	Power generation capacity has increased from 72MW in 2012 to 74MW in 2015/16	Inadequate infrastructure to increase power generation	
	Improved Roads Network	Reduce % of paved roads classified as poor (Construct more & Improve quality) by 5% per annum	Percentage of poor paved roads has reduced from 25% in 2012 to 22% in 2014/15 while percentage of poor unpaved roads has reduced from 96% in 2012 to 83% in 2014/15. Poor Paved roads network have reduced to 22% while poor unpaved roads have reduced to 83% in 2014/15.	-The need to design climate proof infrastructure increases construction costs -Unregulated Construction Industry and Uncoordinated Infrastructure Development. -Road Reserve Encroachment	
	Planned human settlements	Increase area under well planned human settlement (% of total area) from 3.8% in 2012/13 to 4.1% in 2015/16	Area under well planned human settlement has reduced from 3.8% in 2012/13 to 2.5% in 2013/14	-Lack of qualified land surveyors to complete the spatial planning process	
Enhance the skills base, technology adoption and foundation for innovation	- Increased Enrolment at ECCD, Primary, Secondary and TVET	Increase Net Enrolment Rate (NER) at Primary level from 81.1% in 2012 to 96.3% in 2015.	Primary NER has dropped from 81.1% in 2012 to 75.8% in 2015. - Reception classes (attached to primary schools) enrolment increased by 12%.	Child labour Children taking care of siblings and sick parents Child marriages	

	- Improved Quality of Education - Improved Innovation Capacity		- Enrolment of students with special educational needs increased by 3.4%		
		Increase Secondary Education NER from 36.5% in 2012 to 42.5% in 2015	Secondary NER has been increasing steadily since 2012 from 36.5% to 38.7% in 2015. It is however below 42.5% target.	Secondary school fees are still unaffordable to scores of poor families	
		Increase TVET total enrolment from 3,296 in 2012 to 3,436 by 2016.	TVET total enrolment increased by around 34% from 3,296 in 2012 to 4,410 in 2015.	-Key risk is the persistent youth unemployment -The skills and qualification of some TVET instructors remain questionable.	
		Reduce Pupil – Qualified Teacher Ratio (PQTR) at Primary from 50 in 2012 to 40 in 2015 Reduce PQTR at Secondary from 32 in 2012 to 25 in 2015	Primary PQTR has successfully declined from 50 in 2012 to 33.1 in 2015. Secondary PQTR successfully declined from 32 in 2012 to 24 in 2015.	-Declining PQTR may also be a result of declining number of children attending school, especially at primary where NER is declining. -Maths and Science pass rates have remained low over the years despite low PQTR.	
		Register at least ***two*** Patents (IPRs) annually.	A total of 8 patents have been registered since NSDP inception year 2012. None were registered in 2012, three were registered each 2013/14 and 2014/15 FY. Two were registered during 2015/16. Therefore, the set target has been maintained.	- Low level of IP appreciation on issues of IPR for enforcement purposes where IPR infringements are observed	
Improve health, combat HIV and AIDS	Improved Maternal Health	Reduce Maternal Mortality (per 100 000 births) from	Maternal mortality reduced from 1155 in 2009 to 1024 in 2014 (per 100, 000 births)	-Inadequate Human Resources at different levels	

and reduce vulnerability		1155 (2009) to 1100 by (2015/16)		-Increasing prevalence of Non Communicable and Communicable diseases (Disease Burden).	
	Reduced HIV Incidence	No target due to lack of baseline information	There is no Data on HIV incidence Prior 2014, HIV incidence (New infections per 100 person-years of exposure) is 1.9 (2014).		
	Improved Child Health	Reduce Under 5 Mortality (per 1000) from 117 (2009) to 100 in (2015/16)	Under 5 Mortality (per 1000) has reduced from 117 in (2009) to 85 in (2014). Infant mortality decreased from 91 to 59 per 1000 live births		
	Reduced Malnutrition	Reduce Malnutrition prevalence, height for age (% of children under 5) from 39 (2009)	Stunting decreased from 39% to 33%		
Reverse environmental degradation and adapt to climate change	Increased Rehabilitated Area	Rehabilitate areas affected by soil erosion	From 2012/13 to 2015/16, 16 dams, 1,224km of stone lines, 120 km diversion furrows and 333,620m^3 gully structures were constructed to rehabilitate areas affected by soil erosion.	-Environmental (Climate Change) -Vandalism of already existing structures	
	Increased area covered by forest	Increase area covered by forest from 13,550 ha (2012/13) to 16,380 ha (2016/17)	From 2012/13 to 2015/16, forest cover increased from 13,550 ha to 53,105 ha.		
Promote peace, democratic	Protected civil liberties improved	Improve civil liberties to not exceed 3	Civil Liberty Index has not changed since 2012. It is still 3 in 2015	Fragile political stability	

governance and build effective institutions	Protected political rights improved	Improve protected political rights to not go under 3	Political Rights Index has declined from 3 in 2012 to 2 in 2015/16		
	Reduced corruption	Reduce corruption from 3.5 in 2012 to 4.5 in 2015	Lesotho score on the corruption perception index declined from 49 points in 2012/13 to 44 points out of 100 in 2015/16.	-Ministries are not cooperative -Having no local tool of measurement of corruption	
	Women empowered increased	Increase women in Parliament from 23 to 30	Women in Parliament has increased from 23 in 2012 to 25 in 2015	Women adherence to cultural norms towards political leadership	
		Increase women in Cabinet from 30 to 40	Women in Cabinet decreased for 30 in 2012 to 22 in 2015		
		Increase women in local councils from 49 to 53	Women in Local Councils increased from 49 to 63		
	Improved Public Finance Management	Reduced time to complete financial statements from 6 to 3 months	Completion of Financial statements reduced from 6 months to 3 months		

Source: MDP - Department of Monitoring and Evaluation

1.3. THE FY 2017/18 BUDGET STRATEGY

The 2017 Budget will be guided by the Vision 2020, NSDP (2013-2017), and the Public Financial Management Accountability Act 2011(PFMA). The Government will live within its means by producing a budget that is responsible, affordable and sustainable yet responsive to the needs of the country. For the past three years, economic growth has been driven by significant activity in the Mineral & Water sector and supported by the associated high levels of construction.

As this has abated over the last 12 months, the Government has continued the fiscal expansion to support the NSDP enablers. However, in response to consistent drop in SACU revenues (29 percent of GDP in FY 2014/15; 24 percent of GDP in FY 2015/16), the impact of South Africa Rand consistent depreciation against the US Dollar on external debt stock ( ) and the impact of drought, and taking into consideration strong expenditure growth in recent Budgets which have allowed for significant surplus/deficit Budgets (3.5 percent of GDP in FY 2014/15; -1.3 percent of GDP in FY 2015/16).

1.3.1. Budgetary principles

To achieve this outcome, the following principles will underpin and guide the 2017 Budget:

a) Achieve consistency of the MTEF to the NSDP; and efficiency, effectiveness and value for money in public expenditure;
b) Adopt a Budget that is affordable and sustainable over the medium term;
c) Achieve sufficiency in domestic revenue mobilization to finance Government programmes;
d) The Government's recurrent expenditure shall not grow more than the developmental budget;
e) The Government's expenditure on compensation of employees should not be seen growing as a percentage of GDP;
f) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
g) Management of fiscal risks in a prudent manner;
h) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future
i) Ensure fiscal consolidation through expenditure prioritisation that will result in quality spending;
j) Improve monitoring, transparency and accountability mechanisms to ensure expenditure efficiency;
k) Expand the sources of public debt financing to enable the government to restructure its public debt portfolio and to better facilitate the financing of deficit; and

2. DEVELOPMENT CONTEXT

2.1. 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 percent of the population lives below the national poverty line (M246.60 per month), which is far from the NSDP target of reducing it to 15 percent by 2016/17. An estimated 39 percent of households are vulnerable to food insecurity, despite agricultural support programmes, including input subsidy schemes and crop sharing schemes. Around 70 percent of the population resides in rural areas and most of which 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 adaptation of high yielding technologies and poor adaption to climate change.

The recently published Global Burden of Disease Study, 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 (GBDS, p.32).

Table 2: 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: MDP - Department of Policy and Strategic Planning

Maternal mortality rate has had a slight improvement from 1155 to 1,024 per 100 000 live births due to the indicators relating to maternal health care having improved as depicted by Lesotho Demographic Health Survey (LDHS) 2014. The proportion of women who received ANC services from skilled providers increased from 90 percent in 2004 to 95 percent in 2014. There LDHS also reported a significant increase of births attended by skilled health providers from 55 percent (2004) to 62 percent (2009) then to 78 percent (2014). The proportion of births that occurred in the health facilities also increased significantly over the years, recording 52 percent in 2004, 59 percent in 2009 and 77 percent in 2014 (AJR, 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). Likewise, infant/child mortality has also decreased from 91 to 59 per 1000 live births, as a result of, among others, the training of nurses and doctors on Integrated Management of Child Illnesses (IMCI) in all districts; conducting surveillance on Pediatric Bacterial Meningitis (PBM) and Rota Virus; and introducing Pneumococcal Conjugate Vaccine (PCV 13). Stunting has also been stabilising over time in Lesotho, from 39 percent in 2009, the 2014 LDHS indicates that only 33 percent of Basotho children are stunted; this suggests that food security at the household level has been improving, mainly due to efforts being made to address the problem like implementation of "Blanket Feeding Strategy" and the intensive training of pregnant and lactating mothers on options of proper nutrition for child feeding.

The HIV prevalence has increased to 25 percent and still maintains Lesotho's second position as most impacted by HIV/AIDS in the world. However, efforts are being made to prevent or minimize this high prevalence, especially towards prevention from the mothers to their

babies such as the "mother-baby pack"; and new PMTCT guidelines which are aimed at scaling-up PMTCT services to a greater proportion of pregnant women and new-borns who would otherwise not receive antiretroviral drugs to prevent mother-to-child transmission. Pregnant & lactating mothers, HIV Positive & TB clients, and also malnourished under-5 are being provided with food supplements. Access to health services is constrained largely by high out of pocket expenses for specialized medical health needs, especially in the rural areas and critical human resources for health are still limited.

The number of orphaned and vulnerable children is still high mainly because of the high HIV/AIDS deaths. However, the government has recently launched the "test and treat" campaign in which every infected person will get treatment regardless of their CD4 count. One of critical interventions has been the Child Grant Programme (CGP), which has reached at least 25,000 households and provided benefits for more than 70 000 children across the 10 districts.

Trends in access to water and sanitation are moving in the right direction with 96.3 percent urban and 70.3 percent rural population having access to safe drinking water. However, access to electricity is still low at around 39 percent.

2.2. POLITICAL GOVERNANCE AND MANAGEMENT

Lesotho ranked 61 (tied with four other countries) out of 174 (1 is least corrupt and 174 is the most corrupt) in the 2015 Corruption Perception Index rankings, with a score of 44/100 (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 community level conflicts still arise, especially over communal grazing and stock theft. 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 decentralization 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 improving business in Lesotho 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. 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 timely 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 unsatisfactory. Enrolment in primary schools had been steadily decreasing since 2004 and the primary school net enrolment rate in 2013 was 77.3 percent, down from 81.8 percent in 2010. Over the same period, secondary net enrolment increased from 34.2 percent to 37.3 percent, while enrolment of learners in TVET remained stagnant, with 3296 in 2012 and 3303 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 (WB SCD, 2015). 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.

3. MACROECONOMIC TRENDS AND OUTLOOK

3.1. GLOBAL ECONOMIC REVIEW AND OUTLOOK

According to the latest World Economic Outlook (WEO) report released in April 2016, the point of departure projection for global growth in 2016 is a modest 3.2 per cent, broadly in line with 2015, and a 0.2 percentage point downward revision relative to the January 2016 World Economic Outlook Update. The recovery is likely to strengthen in 2017 and beyond, motivated primarily by emerging market and developing economies, as conditions in stressed economies start gradually to normalize. The risks to the near-term outlook for global growth are broadly related to the increased uncertainty, and risks of weaker growth scenarios which are becoming more tangible. The fragile conjuncture increases the urgency of a broad-based policy response to raise growth and manage vulnerabilities.

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 spill-over effects on other sectors. The economy has registered modest average growth of 3.4 percent between 2013/15 and 2015/16 lower than the growth of 5 - 7 percent stipulated in the NSDP. This growth was broad based, spread across primary, secondary and tertiary sectors.

Growth in the primary sector (5.4 percent) between 2013/14 and 2015/16 was stirred, among other things, by the recovery in mining (15.5 percent), which was driven by increased production from Lets'eng diamond mine at the start of the last quarter of 2014/15. This has been boosted by the recent high technology investment made by Lets'eng. Consequently, this has increased diamond mining optimisation and reduced diamond damage. Furthermore, favourable weather conditions during reference period have boosted agricultural production, registering an average growth of 6.7 per cent.

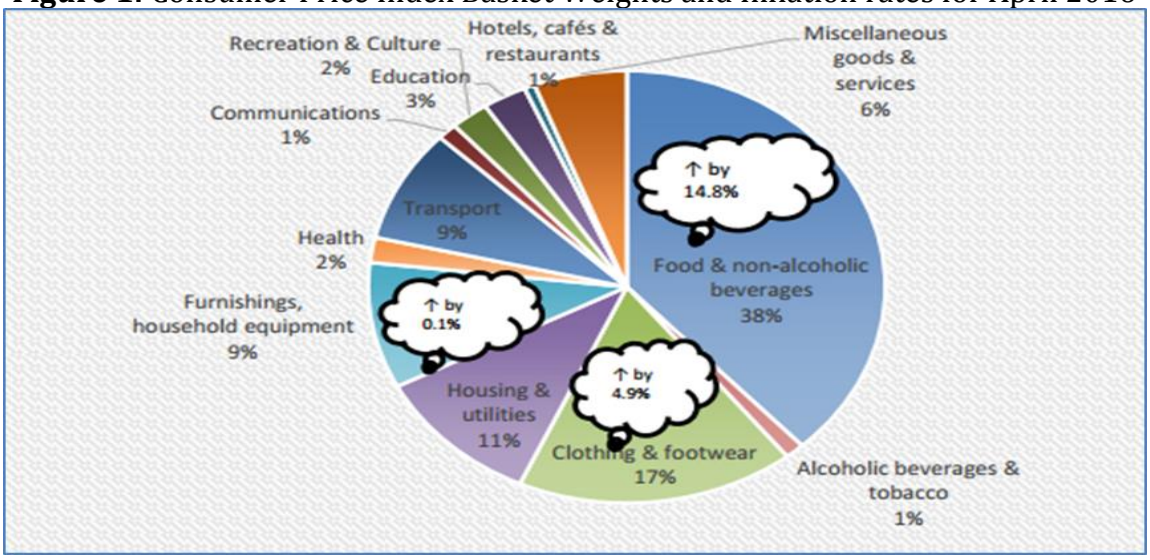
The secondary sector recorded a negative average growth of about to 1.5 percent during the same period, largely underpinned by drop in the manufacturing, particularly the textile and apparel sub-sector. The facing out of MCC construction projects in 2013/14 have had a negative impact on sectoral growth.

The tertiary sector recorded a modest average growth of 5.1 per cent between 2013/14 to 2015/16, owing to a stronger growth of wholesale and retail trade, financial intermediation and transport and telecommunication. The economy is expected to remain resilient despite increased uncertainties and weaker growth scenarios in global economy. The economy is projected to attain modest growth 3.8 percent in 2016/17 and an average of 4.5 percent over the medium term (2017/18 - 2018/19), the growth will be driven by strong growth in primary sector both in 2016/17 and medium term.

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. The annual inflation rate continued to rise in April 2015, rising by 7.9 per cent from 7.5 per cent in the preceding month. A year earlier inflation rate was 2.0 per cent during the corresponding month. The acceleration in annual inflation rate between April 2015 and April 2016 was mainly due to price increase in food & non-alcoholic beverages (14.8 per cent up from 4.2 per cent in April 2015) that accounts for 38.1 per cent of the overall inflation basket. The other main categories based on the basket weights indicated that clothing & footwear prices increased by 4.9 per cent in April 2016, while the prices of the third main category, furnishings, household equipment increased by 0.1 per cent as reflected in figure 1 bellow. On average, prices increased by 0.2 per cent between March 2016 and April 2016. During the month of April 2016 the Central Bank of Lesotho rate stood at 7.00 per cent, while the prime lending rate stood at 11.63 per cent on the back of increased global oil and food supply coupled with low demand. Food prices have a significant weight of 38% in the Consumer Price Index (CPI) basket.

Figure 1: Consumer Price Index Basket Weights and Inflation rates for April 2016



Source: Bureau of Statistics

The Loti, which is pegged to the South African Rand, depreciated by an average of 16% against the US dollar between 2013/14 and 2015/16. As the South African economy's performance has been modest, the Rand has seen depreciation against international currencies. Similarly, the Loti is expected to depreciate further in 2016/17 through the medium term due to weak fundamentals in the South African economy including deterioration in economic growth as well as weak capital inflows

3.4. EXTERNAL SECTOR

The current account balance registered an annual average deficit of 10.6 per cent of GDP between 2013/14 and 2015/16. Stronger export growth was offset by a higher growth in imports due to increased demand for imports over the reference period. 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 2016/17 through the medium-term. The current account balance is expected to register a deficit of 17.6 per cent of GDP in 2016/17 relative to a deficit of 13.6 per cent recorded in 2015/16, 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.

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 3: Medium Term Fiscal Framework 2013/14 to 2018/19

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	**13 274.49**	**14 593.62**	**15 104.58**	**14 098.78**	**15 707.79**	**17 585.00**
Tax revenue	5 147.65	5 796.51	6 409.55	6 983.83	7 881.38	8 725.34
Grants	1 047.46	495.70	966.11	1 169.49	1 235.47	1 300.74
Other revenue	1 024.83	1 267.34	1 330.29	1 351.70	1 397.33	1 473.92
SACU	6 054.55	7 034.07	6 398.62	4 518.90	5 193.60	6 085.00
Expense	**10 468.93**	**10 744.70**	**12 403.79**	**13 425.15**	**12 729.28**	**13 991.13**
Compensation of Employees	4 588.71	4 984.49	5 528.89	6 353.17	6 647.40	6 935.54
Use of goods and services	3 026.34	2 829.65	3 363.59	3 596.98	2 786.95	3 641.46
Interest Payments	188.59	177.23	263.30	322.65	286.99	281.62
Subsidies	232.20	201.36	250.92	273.97	265.26	269.46
Grants	898.83	1 036.98	1 245.20	1 006.24	998.92	1 061.22
Social Benefits	762.53	779.07	874.67	944.90	993.67	1 046.30
Other expense	771.72	735.94	877.22	927.24	750.10	755.53
Net Worth and its Changes	**-3 228.75**	**-3 673.14**	**-2 162.70**	**-673.64**	**-2 978.51**	**-3 593.87**
Nonfinancial assets	-3 409.77	-2 986.89	-3 034.83	-3 333.29	-3 826.90	-3 999.35
Financial assets	-339.13	-1 499.27	598.73	2 228.22	482.88	264.09
Liabilities	520.16	813.02	273.40	431.44	365.51	141.39
ANALYTICAL MEASEURE						
Overall fiscal balance	-2.8%	3.5%	-1.3%	-9.6%	-2.6%	-1.2%
Tax revenues	23.4%	23.8%	24.4%	25.3%	24.5%	24.8%
SACU	27.6%	28.8%	24.3%	16.4%	16.1%	17.3%
Revenues	60.4%	59.8%	57.5%	51.1%	48.8%	49.9%
Expense	47.6%	44.0%	47.2%	48.6%	39.6%	39.7%
Government total expenditures	63.2%	56.3%	58.7%	60.7%	51.5%	51.1%
Savings	9.3%	15.6%	10.3%	0.0%	6.7%	7.8%
Gross investment	15.5%	12.2%	11.5%	12.1%	11.9%	11.4%
Debt	49.4%	48.9%	50.9%	50.5%	42.9%	37.7%
Total Capital Budget By Source	**4 393.25**	**3 857.41**	**4 347.94**	**4 970.50**	**5 011.03**	**5 247.49**
Government of Lesotho	2 794.09	2 400.21	2 831.24	2 867.43	2 832.71	2 982.85
o/w Road Fund Subvention	132.79	145.26	161.57	177.29	201.74	221.80
Donor Loan	700.80	965.70	565.10	933.58	745.10	746.10
Non-Metolong	148.48	415.70	565.10	933.58	745.10	746.10
Metolong	552.32	550.00	-	-	-	-
Donor Grants	898.36	491.50	951.60	1 169.49	1 231.47	1 296.74
MCC	347.50	-	-	-	-	-
Non-MCC	550.86	491.50	951.84	1 169.49	1 231.47	1 296.74

Source: Ministry of Finance - Macroeconomic Policy & Management Dept. Estimates

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 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 an increase from M6, 353.2 million (2016/17) to M6, 647.4 million in 2017/18.
- It's also noteworthy that the development expenses fluctuate between 2013/14 and 2017/18 of around M4, 526.03 and M5, 383.38 million, and is projected to average at least M5, 645.84 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 60.1 per cent of GDP between 2013/14 and 2015/16 due to increase in tax revenue. Tax revenue is expected to total M6, 983.8 million in 2016/17. However, total revenue is expected to fall to M14, 098.8 million against M15, 441.3 million recorded in 2015/16. This fall is the result of poor performance of SACU revenue which registered 16.4 per cent of GDP (M4, 518.90 million) relative to 24.3 per cent of GDP (M6, 398.62 million) recorded in 2015/16.

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 to M7, 881.4 million by end of 2017/18 and average M9, 306.3 million per annum between 2018/19 and 2019/20 which is 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 decreased from 2013/14 to 2015/16 due to facing out of Millennium Challenge Corporation (MCC) grants and budget support. The Government received a sum of M2, 499.0 million over three-year period (2013/14 – 2015/17) as budget support. In 2017/18, grants are projected to increase to M1, 235.5 million from M1, 169.5 million expected in 2016/17 budget year. Between 2018/19 and 2019/20, grants are projected to average a total sum of M1, 335.1 million as reflected by the budget estimates.

4.1.3. Non-Tax Revenue

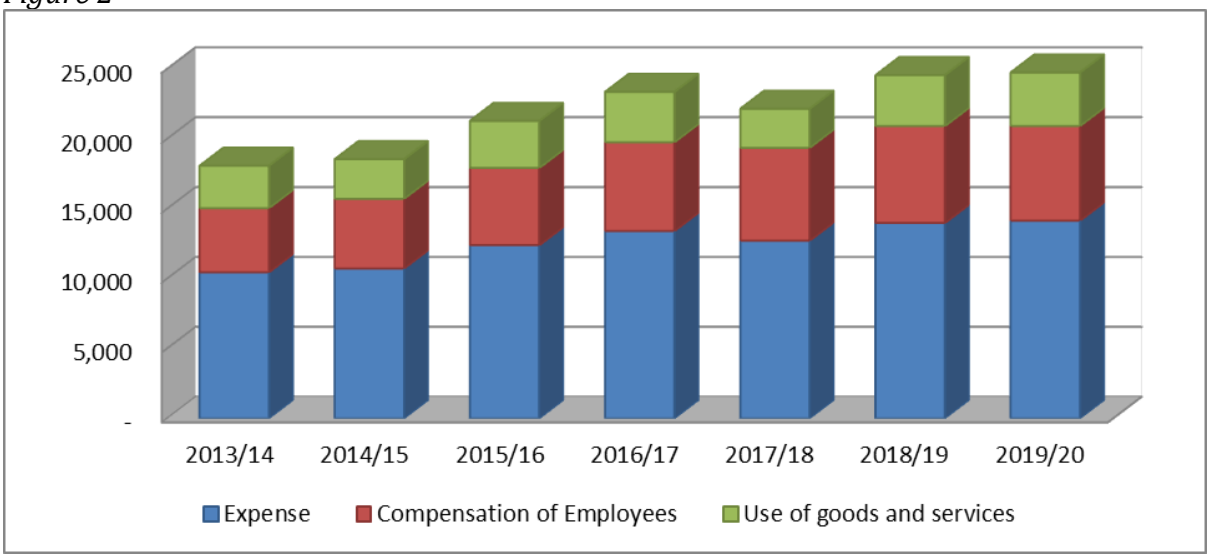
Under non-tax revenue, the most important components are water royalties received from South Africa, Dividends from the mines and the Central bank. During the period under the review, non-tax revenue grew at an average rate of 16.9 per cent (M1, 230.00 million). In 2016/17 through 2018/19, non-tax revenue is expected average M1, 472.9 million.

4.2. EXPENDITURE

4.2.1. Recurrent Expenditure

Recurrent expenditure grew by more than double inflation rate in the past three years despite government's commitment to curb recurrent expenditure growth to remain constant in real terms. From 2013/14 to 2015/16, expenditure registered an average growth rate of 12.0 per cent per year. Under recurrent expenditure, compensation of employees took an annual average growth of 46 per cent of the total recurrent expenses from 2013/14 to 2015/16. 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 51.0 per cent 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 6.0 per cent increase in public servant's wage.

Figure 2



Source: Ministry of Finance - Macroeconomic Policy & Management Dept. Estimates

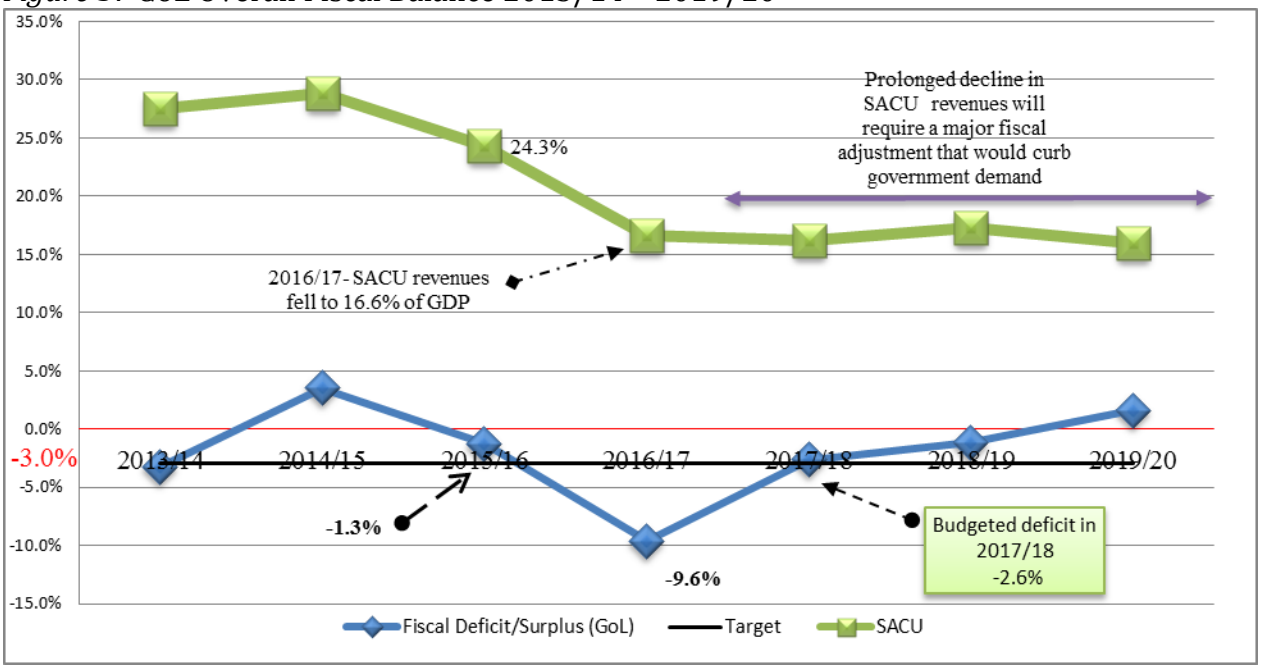
On the other hand, Use of Goods and Services increased by an annual average rate of 12 per cent (M3, 073.20 million) from 2013/14 to 2015/16. This stemmed from the growth in domestic travel and transport resulting from additional fleet requirements for the new established ministries in 2013/14. In the medium-term, Use of Goods and Services is expected to total M3, 597.0 million by end of 2016/17, reflecting a growth of 6.9 per cent relative to 2015/16 and projected to grow at an annual average rate of M3, 417.9 million over the medium term.

4.2.2. Capital Expenditure

GoL funded capital expenditure continued to increase during the period under review. However, from 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 3.0 per cent (M12, 379.3 million) due to a reduction in donor loans.

4.3. OVERALL FISCAL BALANCE

Figure 3: GoL Overall Fiscal Balance 2013/14 – 2019/20



Source: Ministry of Finance – Macroeconomic Policy & Management

The overall fiscal balance is mainly influenced by SACU transfers. Given the volatile movement of the said transfers, a major policy intervention is required. In 2013/14, the government registered a deficit of 3.3 per cent of GDP (Fig. xxx) as a result very volatile SACU receipts during the period, registering a modest growth of 1.5 per cent (M6, 054.6 million) relative to 2014/15 (M5, 966.3 million). In 2014/15, a slight increase was received from SACU from M6, 054.6 million in 2013/14 to M7, 043.1 million; as a result, a 3.5 per cent of GDP surplus was recorded. In 2016/17 fiscal year, SACU receipts fell to 16.6 per cent of GDP from 24.3 per cent in 2015/16, for this reason, the government registered a deficit of 9.6 per cent of GDP. The medium term forecasts are expected to remain subdued as SACU receipt continue to fall as a share of GDP.

The unsustainable fiscal balances compromise the government's ability to implement the NSDP. This means that ministries will have to identify the scope for freeing up fiscal space from their recurrent budgets through cutting back possibly important priority activities (e.g. health and education) and generating savings that will 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.

Without any fiscal consolidation Lesotho can end up drawing down the reserves below a critical value and can undermine the sustainability of the peg. The government need to find avenues to create fiscal space through reducing current expenditures. It has been government's concerns over a potential significant liability for the government, requiring transfers from the budget, and contingent liabilities in the form of debt obligations. Currently, the extent of the liabilities remains unknown. Reducing 'leakage' to SOEs can reduce recurrent expenditures and thus reduce the pressure on the deficit.

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.
- Investigating measures to improve tax efficiency.
- Identifying policies for closing the fiscal gap, specifically concentrating on the State owned enterprises.
- The rationale for continuing government involvement in the State owned enterprises should be reviewed hence need for clear government policy in regard to these investments.

4.3.2. Debt Strategy

4.3.2.1. Evolution of Debt and Debt Indicators

Table 4

Main Debt Indicators (LSLM)						Thresholds
	2011/12	2012/13	2013/14	2014/15	2015/16	
Gross Central Debt	7,000.03	8,562.65	10,101.05	11,158.09	14,158.25	
External Debt	5,907.8	7,394.0	9,076.0	9,991.1	13,081.7	
PV of External Debt	10,669.5	11,045.5	11,363.3	11,440.8	11,445.8	
Domestic Debt	1,092.23	1,168.65	1,025.05	1,166.99	1,076.55	
Solvency Ratios						
PV of External Debt to GDP (%)	57.26	55.14	51.72	46.90	43.55	40%
PV of External Debt to Exports (%)	130.7	131.6	139.3	121.5	114.5	150%
PV of External Debt to Revenue	112%	84%	86%	78%	74%	250%
Liquidity Ratios						
External Debt Service to Revenue (%)	3.12%	2.59%	3.21%	3.07%	4.09%	30%
External Debt Service to Exports (%)	3.68%	4.06%	5.22%	4.76%	6.31%	20%
TDS to Revenue (%)	21%	20%	21%	17%	20%	
TDS to Exports (%)	23%	31%	35%	26%	31%	
Total Debt to GDP	37.56%	42.74%	45.97%	45.74%	53.87%	62%
External Debt to Reserves (%)	4.59	3.78	4.12	3.57	4.08	
Domestic Debt to GDP (%)	5.86	5.83	4.67	4.78	4.10	

Source: MF - Department of Public Debt Management

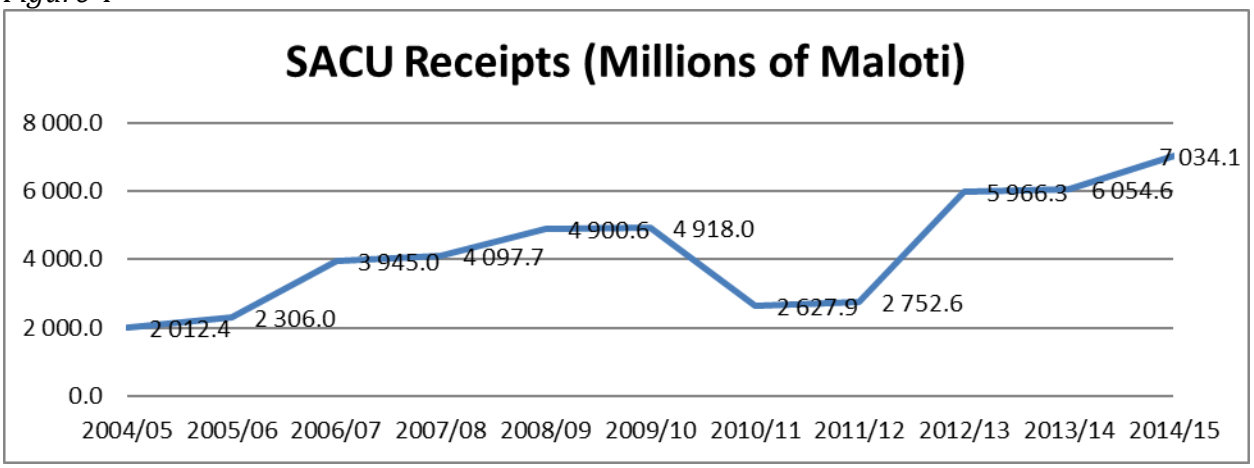
Table 4 above depicts the change is debt levels as well as the evolution of debt critical indicators for a period 2011/12 – 2015/16. There is a 102% increase in government total debt between 2012 and 2016, with external increasing by 121% during the same period while domestic debt registered a decline of 1.4%. A substantial amount of the increase in external can be attributed to adverse movements in exchange rates against the world major currencies. Taken in isolation, the consistently rising debt levels are worrying and can negatively impact on credit ratings for a country.

Both liquidity and solvency ratios of the debt burden indicators show Lesotho to be of moderate risk and not in immediate danger, except the PV of external debt to GDP where there have been breaches throughout the period. It is imperative to show that it is highly recommended that these ratios should not be analysed one in isolation; otherwise it would give a wrong interpretation. As a result, in terms of debt burden, Lesotho is of moderate risk in that it looks like Lesotho will still be able to meet her debt repayment obligations.

4.3.2.2. Vulnerabilities in terms of Debt Servicing

SACU Receipts: The following figure shows evolution of SACU receipts over a period of ten years from 2004/5 to 2014/15.

Figure 4



SACU revenues have been an integral part of Lesotho revenue collection because on average, Lesotho collects around 50% of its total revenue from this source. Unfortunately, SACU receipts are highly volatile and there is a possibility that the sharing formula might be changed, and Lesotho might get much less than what she used to get.

Exchange Rate Fluctuations: The table 5 below shows the effect of exchange rates on debt levels.

Table 5

	2011/12	2015/16
Disbursed Outstanding Debt (DOD) in LSL	5,907.8	13,081.7
Disbursed Outstanding Debt (DOD) in USD	769.2	880.3
Exchange rate (2011/12)	7.68	
Apply 2011/12 rate on 2015/16 USD DOD	6,761.10	
Difference due to Exchange Rates	**6,320.60**	

Source: MF - Department of Public Debt Management

The LSL6, 320.60 represents funds that will have to be paid to the donors and yet it is money that Lesotho did not receive.

Future Borrowing

Table 6 presents expected new borrowing[1] together with their respective loan amounts for the year 2016/17.

Table 6

	Project	**Amount**
1	Moshoeshoe I International Airport	LSL 1,028.69mn
2	Public Sector Modernisation	LSL 160.73mn
3	TB & Health Systems Support	LSL 642.93mn
4	Social Development	LSL 321.46mn
5	Transport Sector Development	LSL 482.20mn
6	Education Sector Development	LSL 642.93mn
7	LEC Phase II	LSL 199.43mn
8	Upgrading of 92 km Road Project	LSL 1,600mn

Source: MF - Department of Public Debt Management

Although there is no formal strategy yet, the government has an implicit strategy to first seek grants when sourcing funds; and then apply for concessional funding mainly through multilateral organisations. Most of the above projects will be financed by the World Bank.

5. STRATEGIC PRIORITIES FOR 2017/2018 BUDGET

Key Policy Targets

It is proposed that in developing the government's budgetary plans for 2017/18 to 2019/20 the focus should be on the Drought related and resilience projects and programmes as proposed in the National Emergency Response Plan of 2016.This was brought about by the country experiencing the impacts of El Nino including two years of consecutive drought and erratic rains. Proposals for focus will be on the following policy targets that will contribute to the realization of the Coalition Agreement, National Emergency Response Plan, and National Strategic Development Plan (NSDP) and Vision 2020 strategic goals. These are

[1]USD 1 = LSL16.07
BUA 1 = LSL22.16 as at 01/02/2016

expected to be aligned to the Global, continental and regional agendas, namely, Sustainable Development Goals (SDGs), Agenda 2063 and Revised Regional Indicative Strategic Development Plan (RISDP) 2015-2020:

- Reducing food insecurity by increasing production on average by 16Ha per year;
- Provision of Water for household consumption, irrigation and industrial use
- 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; Focusing on youth Employment
- 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)
- Bringing down stunting and underweight to 5% by 2025

In order to achieve the above policy targets, interventions will be targeted towards programmes aimed at:

i. Reducing Food insecurity
ii. Mitigating Climate Change and drought
iii. Reducing Youth unemployment
iv. Reducing Social and Economic Vulnerability

Reducing Food insecurity

Measures to increase agricultural productivity, commercialisation and diversification will include**:**

- Promote household food security
- Investment in expansion of water harvesting and irrigation capacities with a target of developing 200 ha per year
- Promote drought resistance crops
- Engage Young Farmers for specific agricultural products where we have comparative advantage to create job opportunities throughout the agricultural value chain
- 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

Mitigating Climate Change and drought

The environmental vulnerabilities, limited adaption to climate change, due to increasing desertification, poor natural resource management. Lesotho already vulnerable to impacts of extreme weather conditions such as heavy rainfall and floods, snow and strong winds and Elnino induced drought. These changes will increase risks in human and socio economic development. There is therefore need to take adaptive and mitigation measures to combat climate change as motioned bellow.

- Build resilience to climate and weather related risks
- Mainstream resilience and risk management in policies, strategies and investment plans
- 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

Reducing Youth Unemployment

The major medium to long term challenge for government is developing the private sector through youth employment and empowerment 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.

- 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
- Expand creation of technology hub for youth
- Establish one pilot call centre
- Facilitate the establishment of at least one community based project per year
- Support NUL Innovative projects to improve youth participation
- Improve services for job information and search
- Promote apprenticeship programmes to give experience and increase employability
- Identify limited number of sports in which to develop professional players of international standards
- Support the development of the national handicrafts and technology incubation/production centre and promote development of products, expansion of markets and training provision

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 limited 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.

- Strengthen the implementation of Health Leadership Reform Programme
- Implement an accelerated programme for reducing maternal mortality, under-five mortality, stunting and malnutrition;
- Improve Preventive measures for HIV and AIDS and Non-Communicable Diseases(NCD) to avoid overburdening the Health system
- Enhance the management of human resource for health and improve drugs and medical supply management.
- Scale-up HIV and AIDS behaviour change programmes, male circumcision, condom distribution and promotion of their use, expand coverage of ART treatment and rationalize the institutional infrastructure
- Intensify Test and Treat programme
- Implement vaccination programmes to reduce mortality from curable diseases
- 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;

6. MEDIUMTERM BUDGET PROJECTIONS FOR 2017/2018

For the Government to achieve its overall priorities, in the medium term, it is estimated that budget for 2017/2018 financial year total revenues and grants is expected to be **M15, 707.8 million**; an increase of **11 percent** from the 2016/17 approved budget estimates of **M14, 098.8 million**. Of which domestic revenue is **M14, 472.3 million** and total grants is **M1, 235.5 million.** Tax Revenue is estimated to amount to **M7, 881.4 million** which is an increase of **13 percent** from 2016/17 approved target of **M6, 983.8 million**. Using SACU revenue forecasts of the total Customs and Excise Pool, Lesotho shares of SACU revenue is forecasted to be **M5, 193.6 million** in 2017/18 **from M4, 593.8 million** in the previous year; which is an increase of **13 percent** from 2016/17 target. Other Non-Tax revenues are projected to be **M1, 397.3 million**, which is an increase of **3 percent** from the **M1, 351.7** million in 2016/2017 driven mostly by receipts from water royalties, diamond royalties, diamond dividends, oil levy, and electricity Muela. This significant growth rate of the other non-tax revenue is supportive of efforts that Government is undertaking, however more emphasis is still required in order to realise even better benefits. Over the medium term, revenue is projected to be **M17, 585.0 million** and **M18, 950.4 million** in 2018/2019 and 2019/2020 respectively.

Total expenditure is projected to reach **M16, 558.0 million** in 2017/18, from **M16, 761.4 million** in 2016/17, a decrease of **1 percent**. Of this, recurrent expenditure is projected to be **M11, 546.3 million**; development expenditure is projected to be **M5, 011.7 million**,

while net-lending is estimated at **M848.4 million**. The proposed budget for 2017/18 financial year envisages a deficit of **M850.2 million** or **2.6 percent** of GDP. The proposed budget is also in line with the current government policy of reducing recurrent budget and increasing the development budget in order to realise economic growth and development.
Over the medium term, total expenditure is expected to be **M13, 991.1 million** and **M14, 162.0 million** in 2018/2019 and 2019/2020 respectively. The projected deficit over the medium term is expected to be **1.2 percent** and **1.6 percent** of GDP in 2018/2019 and 2019/2020 respectively. The net financing remained negative by **M2, 659.7 million** in 2016/2017, and is expected to significantly decrease to **M 848.4 million** in 2017/2018; representing a decrease of **68 percent**. Over the medium term net financing is expected to marginally decrease to **M405.5 million** and **M607.5 million** in 2018/2019 and 2019/2020 respectively.

7. TRANSLATING POLICIES INTO RESOURCE ALLOCATION

Recurring Projects and programmes: From the time Project Appraisal Committee (PAC) became dormant (after 1998 political unrest) most projects were allocated funding without having been appraised. Traditional Planning Cadre was also not functional for a long time. The implications of these are/were that, most projects were allocated funding without being adequately planned; they by-passed the PAC technical level screening and appraisal, as there was no institutional set up that ensured that all key aspects of a good project are considered prior to funding and implementation. September 2013 was when PAC was revived by cabinet decision and renamed Public Sector Investment Committee (PSIC). Cabinet confirmed the position of PSIC as the highest administrative authority for the appraisal of projects for inclusion in the Capital Estimates and the Public Sector Investment Programme (PSIP).

There are projects that have been in the Budget for a number of years and are not showing signs of completion due to increase of scope during the implementation of a project, projects that have been included in the budget while they are not ready for implementation and had not gone through appraisal process. There is also a problem of weak monitoring which creates a gap between financial and physical progress.

It is therefore proposed that a firm decision be made regarding such projects whether it be through i) refocusing or restructuring where such projects are not in line with new policy initiatives, ii) termination of projects that no longer have impact, iii) transfer into recurrent budget for those projects that are recurrent in nature or iv) implementing projects in phases

in order to enable monitoring and to measure their impact. Any of these proposals should be well informed and to achieve it is recommended that:

- All projects the ongoing capital projects which were not appraised are appraised. This exercise should take into consideration training of planners to equip them with necessary skills that will enable them to re-develop viable project proposals
- The process of resuscitating Planning Cadre should be expedited.
- Sector working groups should be established to promote complementarity

The table below contains some of the projects which have to be considered as recommended.

There is a need to look closely into the capital projects of all ministries as some projects need to either be redesigned or terminated. Any of these conclusions however need to be informed by an in-depth evaluation of these projects. Projects that will be redesigned have

to be subjected to in depth appraisal by PSIC. The following are the examples of projects which may be considered for redesign or termination:

Table 7:

Proposed Recommendations for Creating Fiscal Space 2017/2018					
RECURRING PROJECTS					
PROJECT TITLE	**SOURCE OF FUNDING**	**APPROVED BUDGET**	**APPROVED BUDGET**	**PROJECTIONS**	
		2015/2016	**2016/017**	**2017/2018**	**2018/2019**
REFOCUS/RE-DESIGN					
Renovation of Central Correctional Institution	GOL	10,000,000	5,760,137	25,000,000	0
Renovation of Leribe Correctional Institution	GOL	10,000,000	1,132,353	15,000,000	0
Watershed Management	GOL	130,000,000	15,000,000	15,700,000	15,700,000
Irrigated Crop Production	GOL	4,000,000	8,000,000	10,000,000	0
TOTAL		**154,000,000**	**29,892,490**	**65,700,000**	**15,700,000**
TRANSFER TO RECURRENT BUDGET					
Data Network	GOL	78,761,500	66,311,000	56,663,550	57,782,952
Gender Advocacy	GOL	1,266,027	1,200,000	1,266,027	1,329,329
Support to TB Control Programme	GOL	6,298,493	4,300,000	10,000,000	10,000,000
Support to Immunisation	GOL	10,000,000	13,000,000	500,000	5,300,000
Performance Based Financing	GOL	3,848,760	3,000,000	4,314,376	4,573,239
Livestock Registration	GOL	20,000,000	15,000,000	15,000,000	120,000,000
E-Government	GOL	3,974,960	16,000,000	16,868,599	17,712,029
National ID and Civil Registry	GOL	100,000,000	130,000,000	150,000,000	150,000,000
Summer Cropping Programme	GOL	130,000,000	120,000,000	164,750,000	170,887,500
TOTAL		**354,149,740**	**368,811,000**	**419,362,552**	**537,585,049**
TERMINATE					
Solid Waste Management for Urban Councils	GOL	2,000,000	3,000,000	3,150,000	3,307,500
TOTAL		**2,000,000**	**3,000,000**	**3,150,000**	**3,307,500**
IMPLEMENT IN PHASES					
Urban Roads Upgrading	GOL	180,000,000	100,000,000	105,000,000	110,250,000
Design of Urban Roads	GOL	3,000,000	31,500,000	3,307,500	3,472,875
Free Primary Education (classrooms)	GOL	10,000,000	10,000,000	45,000,000	50,000,000
Construction of Royal Palace	GOL	72,000,000	20,000,000	49,000,000	0
TOTAL		**265,000,000**	**161,500,000**	**202,307,500**	**163,722,875**
TO BE COMPLETED IN 2016/2017					
Assistance to Lesotho Institute of Accounts	GOL	1,000,000	1,000,000	0	0
Lesotho Millennium Development Agency	GOL	270,000,000	189,059,196	0	0
Integrated Revenue Management System	GOL	37,400,000	8,000,000	0	0
Upgrading of Payroll and Human Resource Info System	GOL	8,209,000	5,800,000	0	0
Education Quality Enhancement Project III	GOL	6,000,000	3,000,000	0	0
Roma-Ramabanta-Semongkong-Sekake Road	GOL	12,000,000	12,000,000	1,500,000	0
Integrated Transport Project	GOL	150,000,000	150,000,000	23,000,000	0
Maloti Drakensburg Transfontier II	GOL	40,000,000	7,530,000	0	0
High Altitude	GOL	28,000,000	10,000,000	0	0
TOTAL		**552,609,000**	**386,389,196**	**24,500,000**	**0**

Source: Ministry of Finance – Budget Department

While the good work of resuscitating appraisal committee is applauded, its work is compromised by the prevailing professional capacity problems of the planning cadre.

- Planning Cadre needs to be resuscitated. This is clear because there is PSIC which appraises projects, but projects are not coming from line Ministries. Therefore, PSIC does not have any projects to appraise. The resuscitation process needs to be well thought e.g strong focus should be on capacitating the Ministry of Development Planning which is expected to lead

all government ministries in coming up with viable projects long term strategy to build planning think tank of government of Lesotho in order to enhance better performance of capital projects, Planning Cadre as well needs to be resuscitated. The rate at which projects are coming from line ministries is also not so good. The root course of this is lack of expertise in the entire Planning Cadre.

The recurrent budget ceilings are fixed by an incremental process, which means that they mostly reflect the previous year's budget adjusted for inflation. Under this approach it is not possible to switch the relative shares of the Ministries in the aggregate recurrent budget. This implies that GoL cannot flexibly and on an annual basis give preference to recurrent activities that address emerging challenges and address national objectives. Given the rigid recurrent budget ceilings, GoL then resorts to including expenditure items that reflect new activities under the more flexible capital budget ceilings, regardless of the misclassification.

Table 8: Projects that Address Drought, Climate Change and Food Insecurity

Projects Names	Challenge Addressed	Agent/Responsible Ministry	Justification
Integrated Poultry production	Food insecurity	Agriculture and Food Security & Trade and Industry, Cooperatives and Marketing	Commercialised farming of poultry products like eggs, live chickens or slaughtered chickens
Intensive piggery value chain improvement in Lesotho	Food insecurity	Agriculture and Food Security & Trade and Industry	Commercialised farming of piggery products like live pigs, pigs breeding, slaughtered pigs and pork products.
Wool and Mohair promotion project	Food insecurity	Agriculture and Food Security & Trade and Industry	Commercialised farming of live sheep and goats or their products
Environment and energy survey	Climate change and drought	Development Planning	Collection of data on the Gas, electricity, pollution and home refuse so as to reduce environmental degradation
Lesotho lowlands water supply and sanitation	Drought	Water Affairs	Erected reservoirs for collection and distribution of water to dry lowlands areas
Rural water supply using mobile water treatment plants in the three regions (North, South and Central) of Lesotho.	Drought	Water Affairs	Collection of water from rivers by tankers ultimately distributed to village tanks for use
Assessment of ground water resources in lowlands of Lesotho using isotope methods	Drought	Water Affairs	Feasibility checking into available water resources to inform best mechanism towards addressing drought
Integrated water resource Management (IWRM) project	Drought	Water Affairs	Protection of wetlands
Rural water supply using mobile water treatment plant in Berea, Mohale's Hoek and Quthing	Drought	Water Affairs	Water treatment plants shall deliver water to tanks for supply to community
Improvement of early warning systems phase 2	Climate Change	Energy and Meteorology	Installation of weather detecting machines and adaptation of new agricultural methods (for crops and plants)
Hydro-chlorofluorocarbons phase out	Climate Change	Energy and Meteorology	Phase out of dangerous or pollution emitting devices

Source: Ministry of Development Planning – Project Cycle Management Department

8. CONCLUSION

The 2017/2018 budget allocation will take into consideration various developmental needs from both the economic, social and environmental aspects. This will not only require macroeconomic stability, but also policy initiatives that promotes inclusive growth premised on both current and future strategic planning of available resources some of which come from exhaustible sources.

Through the proposed budget for 2017/18, Government aims at addressing the developmental challenges facing the country. To this end, the priority will remain at completing ongoing projects, providing enough resources for maintenance of existing infrastructure, capitalising on high impact projects, and funding social protection programmes. While investment on high return projects is necessary to unlock economic prospects for job creation, especially for the youth, it is equally important to provide for social development programmes that directly address social needs of our communities. Moreover, human development and productivity will always remain critical for accelerating economic growth and diversification. This should be supported by development of the private sector to a level that it is competitive in the global markets, while the role of Government will remain being a facilitator and a regulator of the economy.