



Government of Lesotho

MID-TERM BUDGET REVIEW

Citizens' Guide

2023 / 2024

From Reconstruction and Recovery to Growth and Resilience



MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

KEY TAKEAWAYS

- The government remains committed to effective, transparent, and accountable spending on service delivery and investments that deliver economic growth and employment opportunities for Lesotho's communities. The Mid-Term Budget Review is a key document for ensuring that the government's promises are put into action.
- Global macroeconomic factors continue to affect the local economy and the government's budget performance. This includes the reverberating effects of the COVID-19 recovery, tightening global monetary policy, and the Russia-Ukraine war.
- The government projects a decrease in revenues by M2.4 billion compared to original estimates, largely driven by a tax shortfall.
- Execution of expenditures, which is the rate of spending compared to the total budget, is lower than expected by a projected M2.2 billion. This is caused by several factors, including a hiring freeze for government positions and delays in capital expenditures that fund large, complex projects.
- Despite these constraints, there has been notable progress and strong actions taken by the government in sectors such as economic growth, infrastructure, human capital, and governance and accountability, among others.



WHAT IS A MID-TERM BUDGET REVIEW?

The Mid-Term Budget Review (MTBR) is an opportunity for the government to assess the performance of its revenues and expenditures, macroeconomic indicators, and associated budget adjustments halfway through the budget year. The MTBR also highlights *budget execution*, which is how Ministries, Departments, and Agencies (MDAs) are spending the funds that they were allocated in the budget and whether they are over or underspending. The MTBR and this citizen's version of the MTBR are important tools for both Parliament and the public to monitor budget execution to determine whether the government is on track to deliver on the promises made in the budget and if they are spending less or more relative to what was pledged in the budget.

Government Commitments

This Mid-Term Budget Review is an important component of the government's commitment to transparency and accountability. The overall objective of the 2023/24 budget is to accelerate inclusive employment and generate economic growth by balancing spending on effective service delivery in the near term with public investments that will improve Lesotho's long-term resilience and stability. To achieve these goals the government is committed to:

- ✓ Spending money more efficiently and on the right issues.
- ✓ Improving our evaluation and monitoring of projects to ensure that government funding leads to results.
- ✓ Avoiding wasteful spending and preventing corruption and fraud.
- ✓ Respecting our environment by increasing spending on projects and programmes that reduce our carbon footprint.
- ✓ Focusing more on long-term investments to secure our children's' future.
- ✓ Increasing productivity by working closer with the private sector.
- ✓ Continuing to monitor debt levels.

MACROECONOMIC PERFORMANCE

The budget is based on macroeconomic projections, which are the government's expectations about how the domestic and global economy will grow. These projections help the government anticipate how much revenue it will raise and how much it will need to spend. The Mid-Term Budget Review provides an opportunity to monitor these factors.

Global Factors

The global economy continues to struggle through a recovery phase.



COVID-19 Recovery



Russia-Ukraine War



Global Monetary Policy Tightening



What is monetary policy?

Monetary policy is how governments, usually via their Central Banks, control the overall supply of money in their country. Central Banks use tools like changing interest rates and requirements for how much money banks must have in their reserves to either increase or decrease the money supply. Right now, most Central Banks around the world are trying to reduce the supply of money to lower inflation rates. In turn, this has an impact on both the economic needs of communities and the government's revenues and expenditures.

Local Factors

In the last six months Lesotho has made progress on some economic indicators while projections for overall economic growth have been slightly lowered.

↓ 0.7 %
GDP

The economy's annual growth, measured in Gross Domestic Product (GDP). A decrease signals lower economic output.

↑ 6%
Inflation

The average annual increase in the price of goods and services.

↑ 11.25%
Interest rates

The amount it costs everyone to borrow money, including the government.

CAUSES

9.2% contraction of agriculture sector

22.1% growth in tourism

CAUSES

14% rise in cost of healthcare

24.6% rise in alcohol and tobacco prices

CAUSES

Rate hikes by global central banks and the Central Bank of Lesotho

FISCAL PERFORMANCE

These global and local macroeconomic factors directly impact how much money the government spends (expenditures) and how much money it collects (revenues). The Mid-Term Budget Review is an opportunity to evaluate these factors, including how much of the allocated budget has been spent and any changes to projected revenues.

Overall Expenditures

M9.9 billion
Spent

M13.7 billion
Projected Remaining

Budget vs. mid-year projection: ↓ M2.2 billion

Overall Revenues

M9.8 billion
Collected

M14.3 billion
Projected Remaining

Budget vs. mid-year projection: ↓ M2.4 billion

Recurrent Expenditures: M20.9 billion

M11.8 billion
Remaining

M9.1 billion
Spent



Donor Capital Expenditures

M3.6 billion



*Not included in budget totals

Government Capital Expenditures: M2.7 billion

M1.9 billion
Remaining

M794 million
Spent

Tax Revenue: M11 billion

M7.4 billion
Projected Remaining



M3.6 billion
Collected

↓ 17%

SACU Revenue: M10 billion

M5 billion
Projected Remaining

M5 billion
Collected

Other Revenue: M2.9 billion

M1.8 billion
Projected Remaining

M1.2 billion
Collected



Not all expenditures are the same.

There are two types of expenditures - recurrent and capital. *Recurrent expenditures* represent ongoing operating costs and include salaries, goods and services, and subsidies. *Capital expenditures* represent assets or investments, like building roads, schools, or hospitals.

Why are government expenditures lower than expected?

- An ongoing hiring freeze for government jobs.
- Delays in the implementation of large projects, which are mostly under capital expenditures.
- Complexities with implementing the recently enacted Public Procurement Act, compounded by a malware attack on both the Financial Management Information System (IFMIS) and Central Budget Management System (CBMS), the automated systems the government uses to manage the budget.

Why are government revenues lower than expected?

- Tax revenue is down by 17% compared to initial budget estimates for the year. This is because global and local macroeconomic factors, such as inflation, have led to decreased demand for goods and services that citizens pay taxes on.
- Adjustments to levies on alcohol and tobacco.



What is a Public Procurement Act?

A Public Procurement Act is a law that defines the standards and policies for how a government purchases goods and hires contractors for services. These laws typically include provisions to ensure impartial competition, competitive bidding, and fair prices. Earlier this year, Lesotho enacted a landmark Public Procurement Act that lays the foundation for fully electronic procurement across the government to prevent fraud and ensure efficiency and transparency.

ENHANCING INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH

Key budget figures

Budget: M2.4 billion

Expenditures so far: M667 million

Execution rate: 28%

The proportion of funds that have been spent by a programme or ministry in the first six months of the fiscal year compared to the total budget allocation.



Agriculture, Food Security, and Nutrition

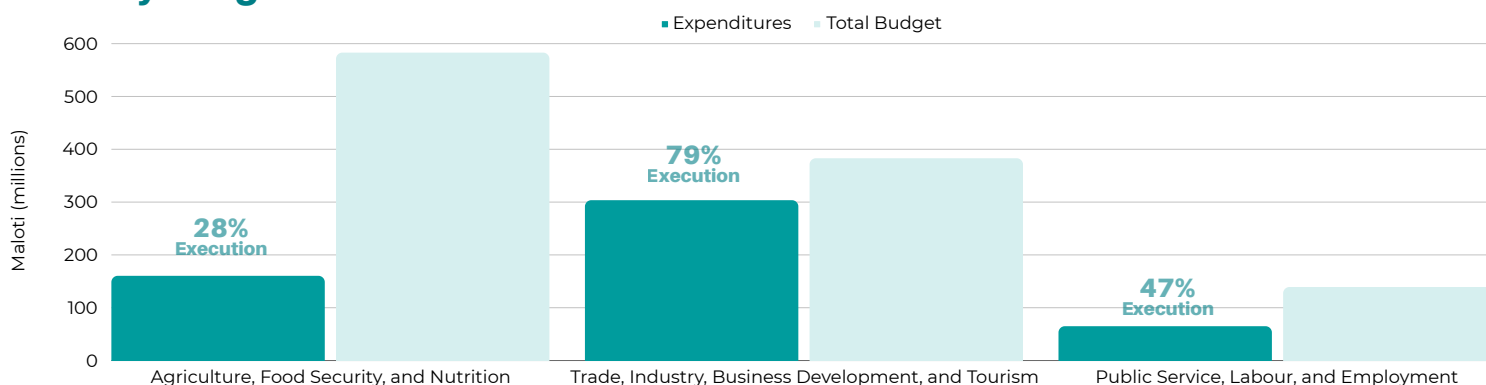
- Establishment of block farms in Liribe, Maseru, and Mafeteng to optimize wheat production for increased food security and economic prosperity.
- Improved irrigation in Tsitsong, Nkh'unh'u, Makoabating, and Thaba-Phatšoa.
- Establishment of an Artificial Insemination Center in Quthing, which will significantly improve Lesotho's wool and mohair production.



Trade, Industry, Tourism, and Small Businesses

- Ratification of the African Continental Free Trade Area (ACFTA) under the Southern African Customs Union (SACU), which makes trade easier between Lesotho and its neighbors across the continent.
- Start of the World Bank-supported Competitiveness and Financial Inclusion (CAFI) project, which provides support services and financing for 50 startup businesses.
- Establishment of a Double Taxation Agreement with Mauritius. Similar agreements with the United Arab Emirates and Malawi are expected in the future.
- Completion of the financial sector strategy, in partnership with the World Bank.

Ministry Budget Execution



REBUILDING ENABLING INFRASTRUCTURE

Key budget figures

Budget: M2.1 billion

Expenditures so far: M808 million

Execution rate: 38%



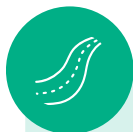
Local Government

- Successful completion of local government elections.
- Construction of the Malingoaneng Principal Chief's Office.
- Refurbishment of offices for the Rothe, Tebang, Quthing, Qacha's Nek, and Makhoakhoeng Principal Chiefs.



Information and Communication Technology (ICT)

- Expansion of mobile network coverage through the completion of 26 new Base Tower Stations.
- Establishment of a government call centre.
- Progress on studies for the development of a new broadcasting complex.



Roads

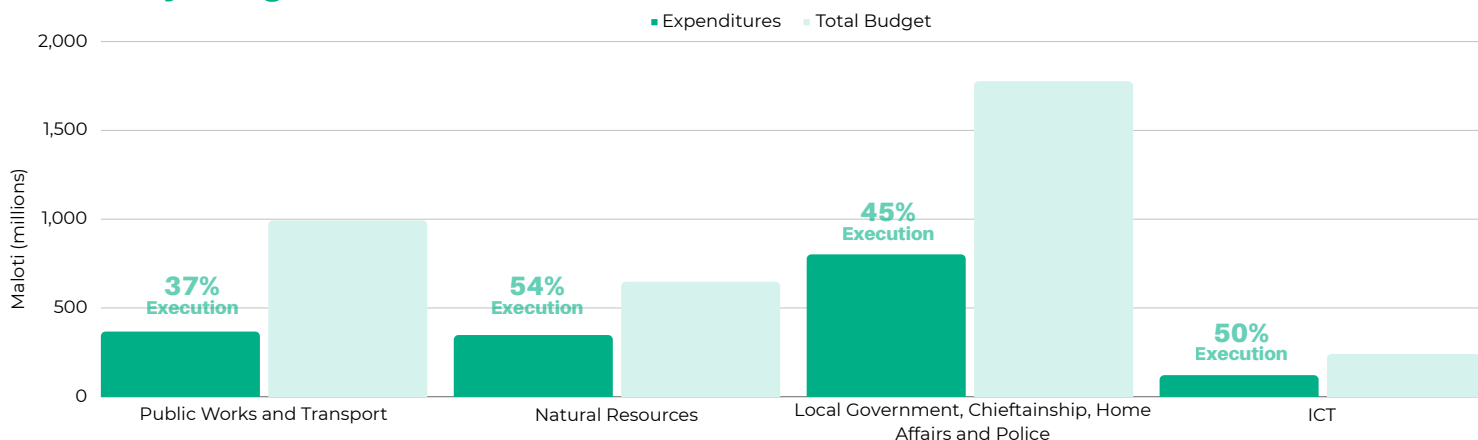
- Construction of footbridges in Quthing, Maseru, Mohale's Hoek, Leribe, and Mokhotlong.
- Rehabilitation and construction of roads from Makabei to Monotsa, Mpiti to Sehlabathebe, and Ha 'Malesaoana to Botha Bothe, as well as a 22 km section of the Moshoeshoe Road.
- Completion of the Pulane Sekoakoaneng bridge.



Natural Resources

- Integration of the Ramarothole Solar Generation Plant into Lesotho's national power grid, which will help mitigate energy shortages.
- Electrification of schools and health centers across the country.
- Completion of the Ha Setene Hydrometric Station and repair of key water and sanitation systems.

Ministry Budget Execution



STRENGTHENING HUMAN CAPITAL

Key budget figures

Budget: M7.9 billion

Expenditures so far: M3.5 billion

Execution rate: 45%



Social Protection

- Increased coverage of child and disability grants.
- Registration of pension beneficiaries for mobile cash services and digital payments.
- Provision of 1,080 ewes and 108 rams to vulnerable herders in Bothe, Leribe, and Berea, along with the acquisition of locally-grown maize and beans for food-insecure households.



Health

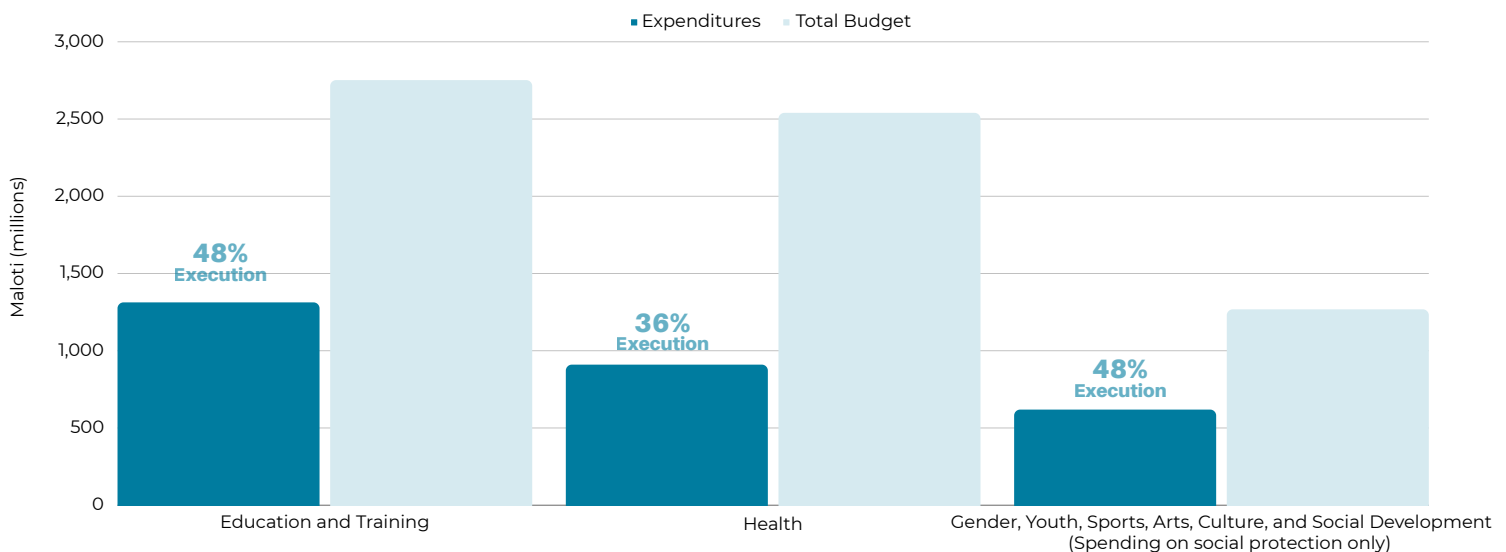
- Continuation of immunization campaigns and tuberculosis screening via the 'Hlasela Lefuba' initiative.
- Construction of new health centres in key areas across the country.
- Significant progress on the construction of the Maseru District Hospital, which is on track for completion in March 2024.



Education

- Establishment of new reception classrooms with dedicated teachers in 68 primary schools.
- Distribution of M612.6 million in student grants via the National Manpower Development Secretariat (NMDS).
- An additional M229 million for school food programmes.

Ministry Budget Execution



STRENGTHENING NATIONAL GOVERNANCE, ACCOUNTABILITY, AND SECURITY

Key budget figures

Budget: M3.9 billion

Expenditures so far: M1.5 billion

Execution rate: 40%



Justice and Law

- Decentralization of probation services to local districts, allowing for improved management of juvenile cases.
- Creation of the High Court of Leribe, as well as Civil Litigation and Legal Aid departments, to make legal services more accessible regardless of geographic location.



Anti-Corruption

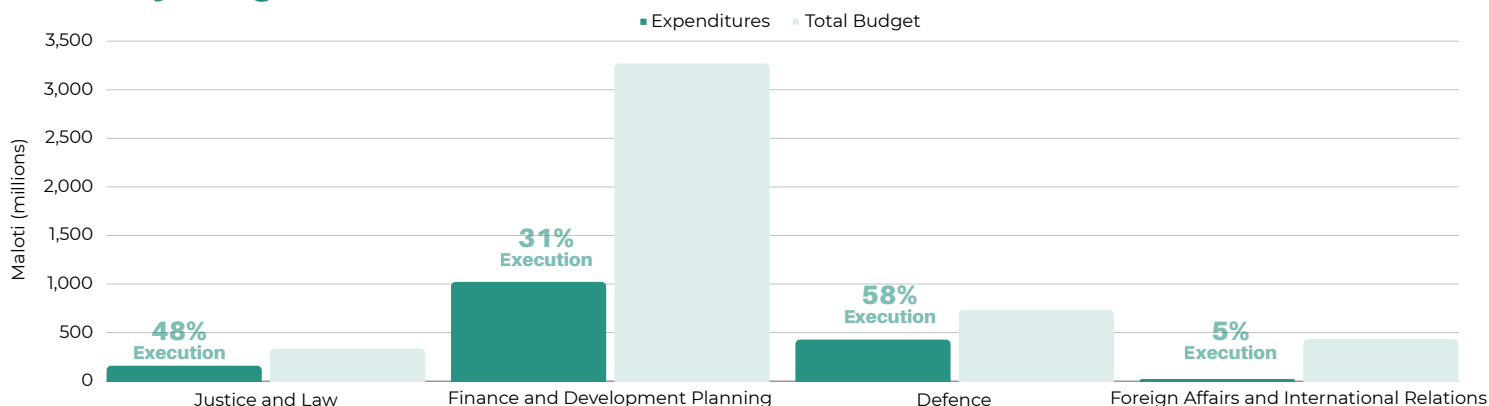
- Recovery and repatriation of over M6 million in stolen funds by the government Anti-Corruption Unit, including funds linked to the “M50 million case” at the Ministry of Finance.
- Forfeiture of M44.1 million in assets from criminal actors.
- Development and launch of an anti-money laundering/combating the financing of terrorism (AML/CFT) action plan.



Public Financial Management

- Notable revenue and resource mobilization wins, including EU financing for renewable energy and M2.4 billion in commitments from the World Bank.
- Expansion of the digital Integrated Revenue Management System to three ministries to improve fiscal transparency and efficiency.
- Formation of partnerships between the Office of the Auditor General and international and regional audit organizations for staff training and certification.
- Launch of the A-SEAT online audit management system to strengthen government accountability and streamline audit processes.

Ministry Budget Execution



CROSS-CUTTING THEMES

Key budget figures

Budget: M161 million

Expenditures so far: 29.2 million

Execution rate: 18%



Youth

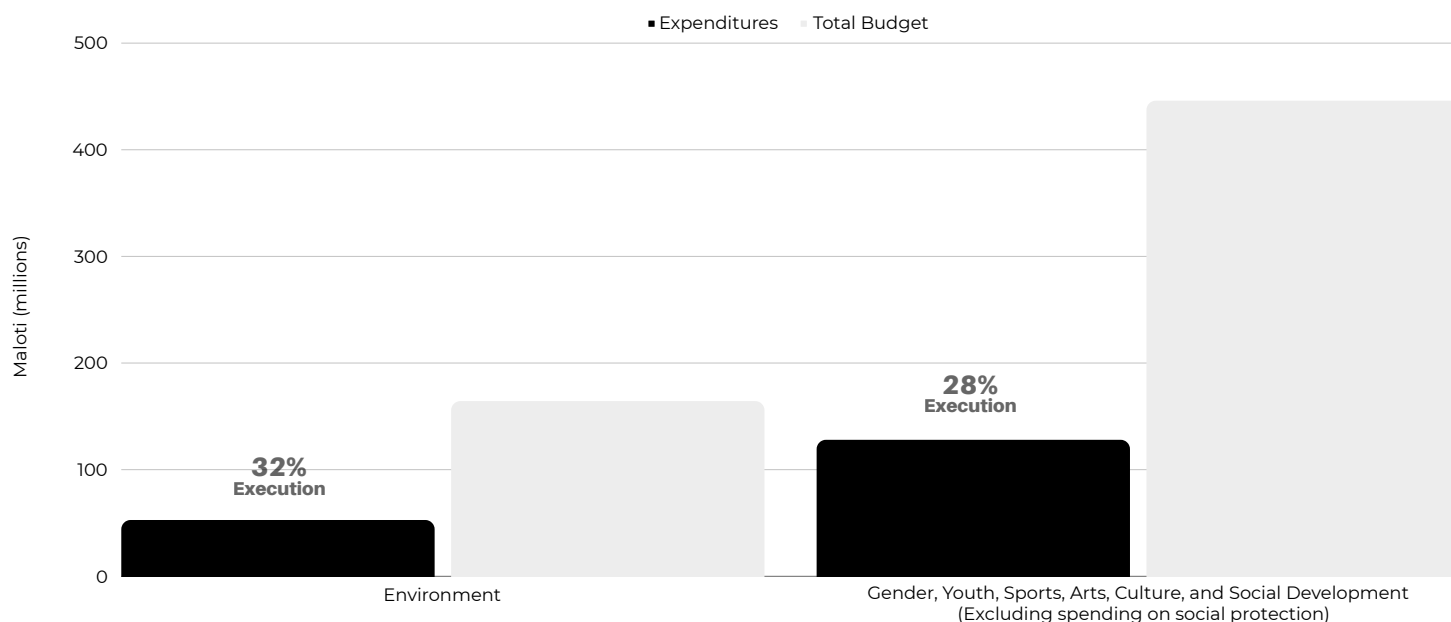
- Launch of the National Youth Entrepreneurship Programme, which so far has matched 216 mentees with 23 business mentors.
- Disbursement of 80 grants totaling M19.2 million to youth working on climate-smart agriculture and animal husbandry.



Environment

- Continuation of the Restoration of Landscapes and Livelihoods (ROLL) project in partnership with the International Fund for Agricultural Development, which is projected to benefit 68,000 rural households through coalition-building and financial support for regenerative agricultural practices.
- Improvements to climate early warning systems and practices to bolster agricultural and economic resilience, such as deeper engagement with communities on seasonal forecasts and climate hazards and assessments for additional weather monitoring stations throughout the country.

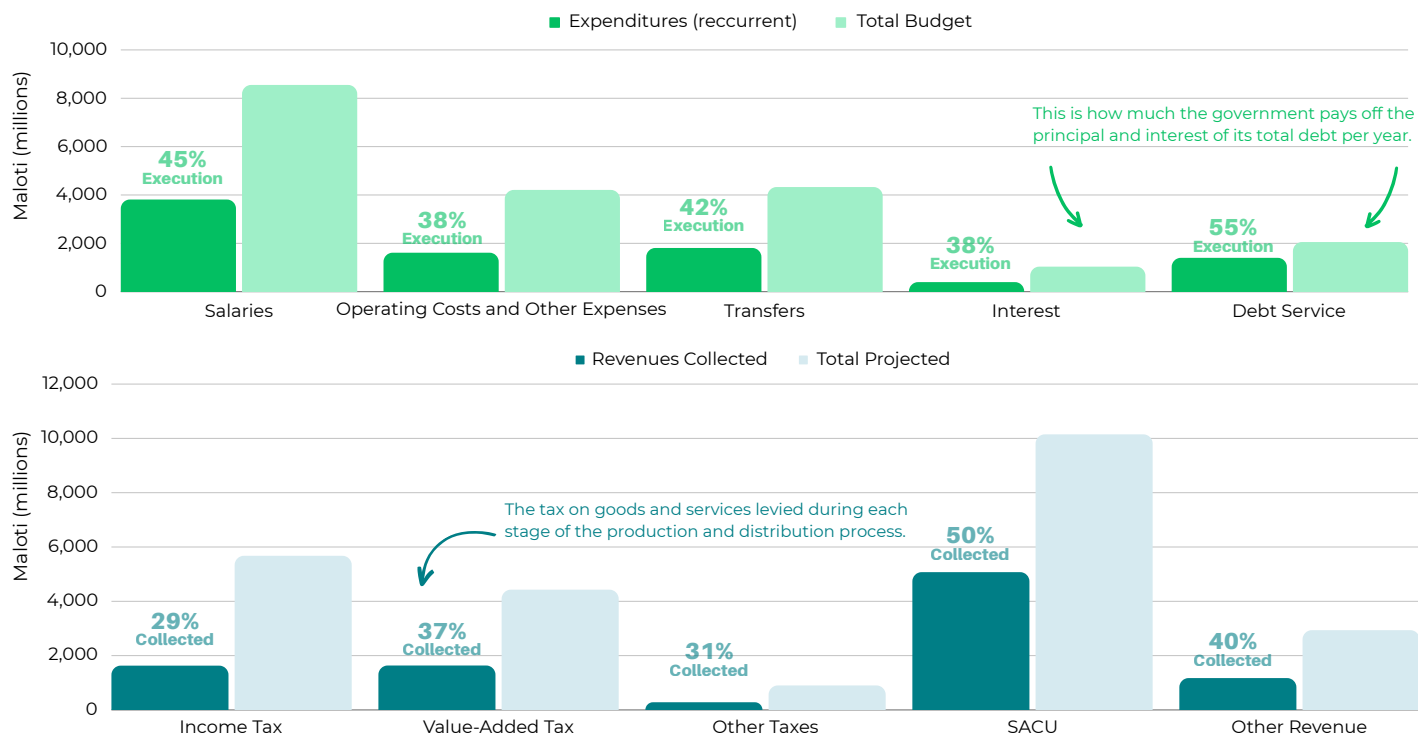
Ministry Budget Execution



MORE ON EXPENDITURE AND REVENUE PERFORMANCE

In addition to reviewing how the government is executing its budget across priority programmes and ministries, it is important to view the performance of expenditures and revenues in other ways. This information indicates in more detail from what sources the government collects money (revenues) and what types of spending it prioritizes (expenditures).

Expenditures and Revenues by Type



Adjustments

Because the needs of communities and the government change throughout the year, it is typical to adjust spending levels for certain priority areas. Key adjustments in 2023 include:



A supplemental allocation of M500 million to address outstanding government arrears, which is critical for the country's financial stability and overall government effectiveness.



Additional funds for improvements to government payroll and performance management systems, payments for electricity imports from Mozambique, and refurbishment of the Muela Hydropower Plant.

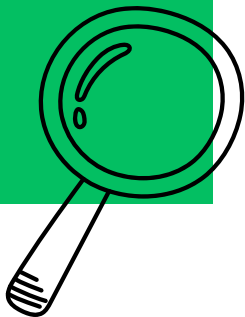


Utilisation from Contingencies Fund to address critical challenges that fall outside typical ministerial budgets and programmes. This includes M40.1 million for the Ministry of Local Government, Chieftainship, Home Affairs, and Police to procure passport booklets, M18.8 million for the Ministry of Defence to pay for increased aircraft insurance and M2.6 million for transportation and fuel costs to facilitate local government elections in remote areas.



What are arrears?

Arrears are funds that the government owes to its suppliers and creditors. Repaying this money is important for the government's financial standing but also because arrears can lead to incorrect projections for expenditures, which impacts government operations and services.



GLOSSARY AND ADDITIONAL RESOURCES

This section provides definitions for public finance terms and resources to learn more about the budget.

Arrears

Funds that the government owes to its suppliers and creditors.

Budget execution

The expenditure by ministries of funds allocated to them in the budget and the rules and processes that govern how these funds are spent.

Budget execution rate

The proportion of funds that have been spent by a programme or ministry compared to the total budget allocation.

Capital expenditure

An expenditure that is like an asset, like purchasing land or constructing a building.

Gross Domestic Product (GDP)

The total value of all goods and services produced in a country. This is the most typical way to measure a nation's economy.

Inflation

The rate of increase in the price of goods and services.

Interest rates

The amount it costs everyone, including the government, to borrow money.

Monetary Policy

How governments, usually via their central banks, control the overall supply of money in their country.

Public Procurement Act

A law that defines the standards and policies for how a government purchases goods and hires contractors for services.

Recurrent expenditure

An expenditure that is like an operating cost for things like goods and services, wages, and interest payments.

Revenue

Money the government collects, such as through taxes, that funds expenditures.

South African Customs Union (SACU)

A free trade area comprised of South Africa, Lesotho, Eswatini, Namibia, and Botswana. SACU members share revenues from taxes on trade.

Value-Added tax (VAT)

The tax on goods and services levied during each stage of the production and distribution process.

Additional Resources & Data

Mid-Term Budget Speech to Parliament

The Finance Minister's speech on the Mid-Term Budget Review.

The enacted national budget (Appropriation 2023-24 Act)

The government's entire official budget, as passed by Parliament.

Budget Speech to Parliament

The Finance Minister's speech on the initial 2023/2024 budget.

The Public Financial Management and Accountability Act, 2022

The government's overall public financial management guidelines for how it collects revenues and spends money.

Get in touch with us about the budget.

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