

PARLIAMENT OF THE KINGDOM OF LESOTHO

Implementing Poverty Reduction and Growth Strategy, and Consolidating Democracy

Budget Speech to Parliament for the Fiscal Year 2001/2002

by

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Planning**

Maseru

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Madam Speaker and Honourable Members of the House,

I wish to pay my respects to:

His Majesty the King;

The Right Honourable the Prime Minister;

The President of Senate;

Ministers;

Your Excellencies, Members of the Diplomatic Corps;

Ladies and Gentlemen.

It is my honour and privilege today to present for your consideration and approval, the budget proposals for the fiscal year 2001/2002.

Introduction

1. The dark cloud that hanged over our beloved country two and half years ago is slowly moving away. For the first time, progress is being made on both political and economic fronts. At this occasion last year, Honourable Members will recall that I prefaced my remarks with a rather bleak account of political and economic problems that beset our country. At that time, although political stability had returned, political parties were still locked in intensive debate about the appropriate electoral model and it appeared as though there would be no way out. On the economic front, economic activity was still showing signs of fragility; some foreign investors were withdrawing their investments; others were reluctant to make further investments; and the government's financial position was steadily weakening.

2. Today, as I stand in this Honourable House, that environment has improved significantly. Parliament has just approved legislation defining a new electoral model. The Independent Electoral Commission with a new membership is in place; it has decided on the method of voter registration; and most importantly, has announced a broad time-table for registration of voters. These are important political developments, as they pave the way for the holding of general elections. The economy is on the path of recovery; foreign investors and development partners are beginning to show renewed interest in our country, and the management of government's financial affairs has improved significantly.

3. Madam Speaker, the government is encouraged by these developments. They allow us to devote our attention to issues that are paramount to our programme of action, namely the reduction of poverty, creation of jobs, and the attainment of good governance.

The Budget Outturn for 2000/2001

4. Allow me Madam Speaker, to start by giving a brief report on how the government has utilised the budget approved last year. In this regard, it gives me great pleasure to announce that the government has managed the fiscal affairs of this country largely in line with the budget approved by this Honourable House. In fact, not only have we stayed within the boundaries defined by Parliament on the expenditure side, but we have also exceeded the revenue targets that we set for ourselves. Last year, we anticipated a budget deficit amounting to 3.7 percent of Gross National Product (GNP). We actually managed to attain a deficit amounting to only 2.5 percent of GNP.

5. This outturn marks a vast improvement when compared to recent performance in government's budgetary operations. Experience from developing countries indicates that it was common practice for governments to present one budget to Parliament and pursue quite a different one. As recently as 1999, the budget deficit stood at slightly more than 13 percent of national income. In less than two years, this government has managed to bring the budget deficit down to a sustainable level of 2.5 percent of GNP and yet continued to address the challenges confronting the economy.

6. I should point out that these achievements were attained against the background of difficult economic circumstances. Although the economic activity showed some strong signs of recovery during the past year, this growth was only concentrated in a few sectors of the economy such as manufacturing, financial, and telecommunication services. Other key sectors out of which government collects most of its revenues, showed little or no growth. As a matter of fact, sectors like retail and transportation services showed some decline. In general, therefore, the pool of income out of which government collects revenue by way of income and sales taxes, showed little or no growth during the past year. Yet, despite these difficult circumstances, we managed to collect more revenues.

7. How was it possible, you might ask, for government to collect more revenue than in any other year against such a difficult background? The answer to this question, Madam Speaker, lies in the improvements in tax collection efforts that the government undertook in the past year. Soon after Parliament approved the budget for last year, we intensified our

revenue collection measures. In total, we were able to collect M2.6 billion as against the budgeted amount of M2.5 billion, having mobilised an extra M152.8 million during the year. The lesson to be learnt from this is that, with commitment and determination, it is possible to achieve a sound budgetary position, even at times when economic conditions are not favourable.

8. Honourable Members will also recall that, last year I made a pledge to contain government expenditures within the approved budget. I announced that our strategy would be to seek to eliminate wasteful expenditure. This has not been an easy exercise. In August 2000, it became clear that budget implementation was sliding away from the prudential benchmarks we had set for ourselves. Our response was swift. In September, we imposed a spending freeze on non-interest and non-wage spending lasting two months. We repeated this course of action again in February 2001, in a concerted effort to maintain the budget on course for the end of year targets. Had it not been for these timely and decisive interventions, the budget deficit would have exceeded that approved by this House. Specifically, large cuts were made in the budgets for foreign travel and travel allowances, while spending on other goods and services was also reduced.

9. The Honourable House should note that we were able to curtail some spending, but without adverse impacts on public service delivery and without limiting the potential for economic growth. This was possible because the measures we implemented forced Ministries to re-allocate resources in favour of essential items.

10. A disappointing turn of events, however, has been in the capital expenditure category, where spending was below budget. Projections indicate that only M437.1 million was spent against a budgeted amount of M653.3 million. This raises concern, as it indicates lower spending on infrastructure conducive to the provision of economic and social development.

11. Madam Speaker, against trends, Lesotho has not succumbed to the debt crisis afflicting just about every corner of the globe as a result of a consistent policy of cautious borrowing on concessional terms. As a least developed country, we qualify for preferential development loans. A member of this House asked recently why Lesotho was also not receiving debt relief like many other African countries. The answer is simple: we do not qualify and this is because we have managed our debt

affairs prudently enough to avoid the dubious status of a Highly Indebted Poor Country.

12. We repaid some M371.8 million to our foreign lenders against a budgeted amount of M246.7 million. The main reason for this over-repayment is that we decided to settle in full a tax refund of M186 million to South Africa in connection with LHDA activities. Retaining this debt, on which we paid a massive M30 million in April 2000 as interest and would have had to pay M25 million this April had we not settled, was considered incompatible with prudent debt management. Our calculations indicated that by settling it, we would save the nation some M106.7 million as against spreading repayments until 2009. On the interest front, performance was satisfactory with interest spending of M255.9 million against a budget of M254.4 million. We must not however, be complacent for there continues to be pressure for borrowing on non-concessional terms in government, whereas debt policy is to borrow only on concessional terms for investment and not for consumption.

Other Developments in the Economy

13. I now wish to give a brief summary of economic performance in the last year in order to provide the House with the context for the budget proposals before you. For the third year running, the economy contracted, this time by 0.5 percent. On a cumulative basis, the economy has contracted by 11.5 percent since 1998. On the other hand, gross domestic product (GDP), which measures the economy's business activity, grew by 2.5 percent during 2000. Madam Speaker, Lesotho's national income is derived from both domestic economic activity and migrant labour remittances. Even though there was growth internally, this was offset by a further decline in remittances, which play an important role in our economy in terms of supporting consumption, investment, and tax revenues. It is estimated that, the number of miners retrenched has risen to 61,000 since 1989. On the other hand, migrant labour income declined from M1.4 billion in 1999 to M1.3 billion in 2000 reflecting a fall in migrant employment from 67,000 in 1999 to 64,000 in 2000.

Comment: Source: Central Bank of Lesotho. Economic Review January Number 4.

14. It is projected that GNP will **not** recover to its 1998 level before 2003. This is an important challenge requiring us to make more investments in the domestic economy in order to offset the adverse developments in the South African mining sector. The general recovery in the domestic economic activity shows deep variations. Some sectors

such as retail and transportation actually declined, while others such as, construction, services, and agriculture showed only modest growth of no more than 1 percent for the year. Manufacturing was singular in attaining a growth rate of 9 percent during the year.

15. Madam Speaker, the investments we made in order to strengthen the domestic economy must not be frustrated by impediments such as lack of infrastructure and high prices of utilities. To remove these, we are implementing a Utilities Sector Reform Programme aimed at improving service delivery. The privatisation of the Lesotho Telecommunications Corporation was completed during the year with the sale of majority shares to a consortium comprising Mauritius Telecom, Econet of Zimbabwe, and Eskom Enterprises of South Africa. The completion of the sale marks the end of many years of dependence by this corporation on the fiscus at the expense of other priorities. As part of the sale agreement, the major shareholders are to bring in new capital for the expansion of the telecommunications network in the country. Although there has been initial job losses, as is common with privatisation exercises, new jobs will be created within the sector as growth takes place. As indicated earlier, this sector registered positive growth during 2000, while some improvements in access to telecommunications are already being observed.

16. After years of poor performance at the Lesotho Electricity Corporation, which resulted in considerable burden on the fiscus, the Interim Management Task Force was recently installed at the corporation to improve its financial and technical operations and prepare it for eventual privatisation within a period of 18 months from February 2001.

17. Commercialisation of the 'Muela Hydropower Plant will be implemented shortly, with the hope that the plant will meet its operational costs. At the end of 1999, Government settled all commercial debts of 'Muela with the domestic banking system. The aim was to relieve the plant of the high costs of servicing the debts. 'Muela's international creditor, the European Investment Bank, is likely to convert its loan to equity if government succeeds with commercialisation.

18. Concerning water, plans are also in place to improve the supply of water for domestic and industrial purposes. The Water and Sewage Authority has begun the process of privatising some of its non-core functions with the view to increasing efficiency, reducing costs of service, and attracting private sector capital.

Challenges Facing the Lesotho Economy

19. Madam Speaker, in the past year, government continued to focus on poverty reduction, as it remained Lesotho's number-one enemy. The proportion of households living below the poverty line is estimated at 50 percent of the population. This means that the majority of Basotho do not have adequate access to basic human needs. As a country, we cannot expect to make any kind of worthwhile economic progress if our people are not well cared for. The reduction of poverty can only be addressed meaningfully if we tackle the underlying problems. In Lesotho, massive unemployment is the fundamental cause of the desperate poverty situation. Presently, about 40 percent of the labour force is in search of gainful employment. Creating jobs for this proportion of the population is an enormous challenge in itself. But, with 20,000 job seekers expected to enter the labour market every year, the situation is bound to worsen if decisive steps are not taken to tackle the problem head-on. Estimates suggest that in order to make a significant impact on unemployment, approximately 40,000 new jobs need to be created annually for a sustained period of time.

20. Although poverty and unemployment are by far the most serious challenges facing Lesotho, we continue to encounter difficulties in other areas of the economy. Most importantly, there is concern about our ability to finance much needed imports, as measured by the country's balance of payments position. Whereas previously, inflows of capital from abroad had been more or less sufficient to cover our imports of goods and services, we have now begun to rely on our stock of foreign reserves to pay for the shortfall. Last year, this shortfall amounted to 8 percent of GNP. For us to be able to maintain a sound external position, this figure must fall to at least 3 percent of GNP. Another challenge is related to the amount of revenue collected from customs duties. The absolute amount accruing to Lesotho is expected to decline in the coming years due to trade liberalisation efforts implemented under various international and regional arrangements.

21. This House knows of global and regional developments that bode ill for us in future. On 11 October 1999, South Africa and the European Union signed the Trade, Development and Cooperation Agreement, effective January 2000, granting South African exports duty free access into the union. As a result, Lesotho's exports to the union, which enjoy duty free access, will now compete on par with South African exports. The agreement requires South Africa to reciprocate EU's trade privileges

by 2005 through the reduction of tariffs imposed on industrial exports bound for South Africa. This reciprocation will reduce the amount of tariff revenue collected in the common revenue pool and thereby Lesotho's share in that pool. Customs revenue has traditionally been the largest source of government's revenue accounting for more than 50 percent of revenue budget. Lesotho has also ratified and implemented the SADC Trade Protocol, which binds us to extend trade privileges to other SADC countries, with the same impacts on SACU revenue pool. It is crucial that we prepare ourselves for these risks.

22. While the potential loss of SACU revenue may be painful, the same protocol will open a SADC market of 170 million consumers. The challenge for us is the readiness to take advantage of this opportunity, which if fully utilised could more than offset the loss of revenue emerging from liberalisation of regional trade. Cultivating a culture of quality production among our producers is essential to obtaining a competitive advantage.

23. The private sector is the vehicle by which jobs for our people are to be created. We are however concerned about the pervasive fragility of the sector, particularly the domestic one. It lacks both capital and managerial skills. In my speech last year, I indicated that private sector development would be pursued through privatisation of state-owned enterprises with a view to bringing technical expertise, reducing the cost of utilities and opening the enterprises for public ownership. Madam Speaker, since the privatisation process begun, some Basotho have become shareholders and owners of formerly state enterprises by buying shares that were reserved by the government for Basotho. More shares will be transferred indirectly through purchases of units in the Lesotho Unit Trust, which is presently being established.

24. At the time of my budget speech last year, the government had just completed the restructuring of the financial sector. Our hope was that the restructured banking system would find ways of providing much needed loans to promising and viable business concerns, and thereby help not only the process of reconstruction after the unfortunate events of 1998, but also stimulate the economy by providing investment resources. We are concerned about the considerable disparity between lending and deposit rates and the effect this has on savings mobilisation and lending to the domestic business sector, which remains weak. Our consultations reveal that commercial banks remain sceptical about the availability of bankable opportunities in the country. Furthermore, they continue to be apprehensive about the repayment culture that proved fatal to the former

state banks. Through consultations, we are addressing these constraints. For example, In May 2000, we established a commercial court for the purpose of expediting commercial disputes.

25. Madam Speaker, we are also concerned about the apparent lack of competitiveness by Lesotho businesses, which has resulted in a culture of Basotho preferring to shop at South African border towns. We feel that most of the income earned in Lesotho must be retained in order to stimulate domestic business activity. I appeal to the business community to actively address this problem in the interest of all.

26. While it is evident that this government faces a number of formidable tasks, we must not paint too grey a picture. There is some good news. Firstly, as I have already pointed out, the government's financial situation is slowly, but steadily improving. Revenue receipts are already reflecting an increase in the efficiency of collection and administration, while recurrent expenditure, as a proportion of total spending is being reduced, leaving more funds available for investment in the improvement of the quality and delivery of social services. The government's prudence regarding fiscal matters means that Lesotho's budget deficit is now much smaller compared to that of many other African countries. In addition, inflation has also been steadily declining and some sectors of the economy, such as the manufacturing and telecommunications are beginning to show good signs of growth. However, in order to significantly improve economic conditions in this country, we must actively build on this progress.

The Strategies for Tackling these Challenges

Poverty Reduction Strategy

27. The budget proposes a number of measures aimed at reducing poverty. In order to refine the poverty reduction plans, we have established a process of developing a widely consultative and comprehensive strategy. Its preparation involves participation of all stakeholders, while government plays a lead role in the process. The consultative mechanism is such that it will be possible to take on board, views and aspirations of all segments of society. Members of this Honourable House are expected to play a critical role of sensitising the population to provide inputs. An Interim Poverty Reduction Strategy Paper was completed this year, while an evaluation of previous studies on poverty and its magnitude is on course. It is expected that the Poverty

Reduction Strategy, which is being formulated with the assistance of the World Bank and the International Monetary Fund, will be ready for implementation by mid-year 2002. The two institutions and other international cooperating partners have pledged financial support at the point of completion.

28. Our present strategy in tackling the problem of poverty remains two-fold. The first pillar is to put in place **direct** measures. Our commitment to this approach is based on the belief that market forces alone are not sufficient to address this problem. Last year, the government announced a series of **direct** measures such as pension payouts to veterans of the two world wars and free primary education (FPE). The second pillar relies on **indirect measures** of poverty reduction. Under this approach, we seek to put in place measures that will expand the capacity of the private sector to create more jobs and for those who are economically active, to take advantage of opportunities created.

29. Naturally, the bulk of our efforts will be geared towards creating suitable conditions for people to find jobs. Countries that have been successful in reducing poverty were only able to do so after at least several years of strong economic growth of not less than 6 percent per year. Given that our economy is currently growing at only 2 percent, our challenge in this regard is phenomenal. The government is keenly aware that a lasting solution to problems of poverty lies in a commitment to market-based policies and careful planning.

Direct Measures for Poverty Reduction

30. Madam Speaker, in this year's budget we will continue to provide pension payouts to the veterans of the two world wars and their widows. During implementation last year, the government realised that the number of eligible pensioners had been underestimated and subsequently the budget was adjusted to cover everyone.

31. This year, we are pressing ahead with the programme of free primary education. In January 2001, the second group of Class 1 students was taken, while last year's group moved to Class 2. In support of this expanding responsibility, the government is proposing that a provision for recruitment of 326 additional teachers be made to ensure that the programme succeeds. This is in addition to over 400 teachers engaged last year. We are also continuing our efforts to provide meals to primary school students under this programme. We view the FPE

programme as part of our drive towards private sector development. The programme is designed to establish, at the local level, various kinds of businesses including catering to support the school feeding programme and maintenance units supporting the physical upkeep of school buildings. Additional opportunities for Basotho businesses include construction of buildings, supply of furniture, and transportation of teaching materials, all of which generate jobs.

32. The government plans to continue using the Lesotho Fund for Community Development (LFCD) as an additional vehicle in its fight against poverty. The programme aims at two important outcomes: creation of jobs and development of local infrastructure such as roads, dams, and footbridges. Communities are directly involved in the identification of projects. The Fund began its operations towards the end of the last fiscal year.

Indirect Measures for Poverty Reduction: Creation of an Enabling Environment for the Private Sector to Expand Job Creation

33. Allow me, Madam Speaker, to briefly elaborate on the indirect strategies that the government is pursuing in its fight against poverty. As in the past year, our strategies centre around five key policy areas:

- Building strong relationships with our International Development Partners;
- Promoting the export sector and attracting foreign investment;
- Private sector development;
- Pursuit of macroeconomic stability; and
- Promoting good governance and fighting corruption.

The strategies aim to create an environment conducive for the private sector to thrive and thereby create jobs. They are complementary in nature and therefore must be pursued collectively rather than individually.

Forging Strong Partnerships with Multilateral and Bilateral Donors

34. During the past few years, our ability to implement the development programme has been hampered by inadequate funds. We believe that in order to adequately discharge our programme of building schools, hospitals, roads and other social infrastructure, we need to spend as much as 40 percent of GNP in these areas. Yet presently, we are only able to spend roughly half of this required amount. This is partly because of the declining level of donor support, which has steadily fallen from a high of 6 percent of GNP in 1996/97 to slightly over 2 percent in this past year.

35. There is now an urgent need to increase the level of donor support if we are to achieve the required level of investment. In this regard, I am happy to announce that the Board of the International Monetary Fund (IMF) approved in March this year, a loan amount of some M256.0 million in Balance of Payments Support. This is a significant development because a strong and amicable relationship with the Fund usually serves as a catalyst for increased support from other donors.

36. Following the conclusion of the agreement with IMF, the European Union made available a grant amounting to M21 million to be utilised in the areas of village water supply, maintenance of rural clinics, and road rehabilitation. In addition, the EU has committed a further grant of M135 million for the next three years, which is conditional on the government maintaining fiscal prudence and remaining on the programme with the IMF. Earlier, I indicated that the trade liberalisation agreement between the EU and South Africa will have fiscal and trade impacts on Lesotho. The EU, cognisant of this fact, has committed further support to Lesotho within the Economic Integration Support Programme aimed at creating capacity for Lesotho to take advantage of the benefits of the said trade liberalisation.

37. Firm promises of financial support either in project funding or budgetary support have also been received from other development partners. Overall as much as M200 million has been promised by donors, conditional upon government forging and maintaining a close relationship with the Fund. In all cases, emphasis of the support is poverty reduction. Madam Speaker, it is clear that the renewed interest by our development partners is a result of the improvements made in the management of the economy. We must capitalise on these and secure more external support both at the official and private level.

38. Finally, the presence of well-known international funding bodies can signal the viability of our country as an investment destination and

thus encourage foreigners to invest. But if we fail to honour the agreements made and reject the principles of good economic management, the consequences would be intolerable as both official and private sector support vanish.

Promoting the Export Sector and Attracting Foreign Investment

39. Honourable Members, we need to admit that Basotho businesses do not have adequate financial resources to create sufficient job opportunities for our labour force. Most of the time their investments generate limited job opportunities. Yet, this government should rely on the private sector for generating the necessary jobs, which are needed at the rate of 40,000 per year. The reason for this is that there is a general economy-wide shortage of savings. At present, the private sector saves about 20 percent of national income. Although this is high by African standards, it unfortunately falls far short of the level required to expand the productive capacity of the private sector. If local businesses are to generate the required jobs they ought to save, and therefore invest, at least twice this value. Since private sector savings are not adequate for our requirements, the balance must come from external sources. One way of mobilising additional resources is to open up the economy to foreign investors. The presence of well-known international funding bodies is of great help in this regard.

40. Provision of infrastructure is one of the key functions of any government. In aid of its policy of promoting the manufacturing and export sector, the government is pursuing a policy of providing affordable and reliable utilities to the sector, which will serve as a platform for attracting foreign investors. For example, the government intends to provide infrastructure and utilities at the Thetsane Industrial Area, which will facilitate the establishment of factories that will generate nearly 4,500 job opportunities in the textile industry immediately. At full capacity, the factories will employ between 5,500 and 10,000 workers. We need to move with speed and dedication on this matter. Any delay will disadvantage Lesotho as investors attracted by the United States' Africa Growth and Opportunities Act (AGOA) might turn to other countries in the region.

41. Madam Speaker, in the past year, we observed new interest by foreign firms to invest in investor-owned factory buildings. This marks a change in the character of the industry towards a more stable one. The change occurs in the context of duty free privileges offered under AGOA and also the fact that Lesotho is the third largest sub-Saharan African

exporter of textiles to the United States, after South Africa and Mauritius. This status should however, not lull us into complacency because these privileges have prompted other African countries into action to attract foreign investors. For example, it was reported in the media¹ recently that Malawi and Madagascar are rapidly increasing their shares of textile exports to the United States.

Private Sector Development

42. The government has recently concluded a loan agreement with the World Bank and African Development Bank amounting to M300 million in which 8,000 new connections are to be made by LEC within the next 18 months. In addition, new service areas are to be explored with the aim of extending access to electricity to the rural populace. The re-structuring of the electricity sector is expected to generate benefits for the entire population through more competitive prices and better coverage of services. Rural electrification will raise the standard of living for a vast proportion of Basotho. In addition, better prices and service will make the country more attractive to foreign investors and lay the basis for strong growth. More businesses will now be able to connect to the electricity grid, creating more job opportunities and contributing to economic growth. In addition, there will be opportunities for private sector firms to participate in the supply of electricity either through generation or distribution.

43. The development of the domestic private sector is a difficult task. Export markets must be found, production costs kept low so that products are competitive, firms must have access to appropriate technology, and there must be access to financial resources. Clearly the challenge is formidable. We are however, making efforts in every one of these areas of development. Industrial estates have been provided and presently new ones are being developed in Botha-Bothe. The Basotho Enterprise Development Corporation is undertaking training of small enterprises. In addition, I will be submitting proposals to government on how the proceeds of privatisation can be used to support the programme of private sector development.

Pursuit of Macroeconomic Stability

44. One of the key indicators of macro-economic stability is the government's budgetary position. This government intends to make

¹ Business Day, 22 January 2001.

further improvements in its conduct of fiscal policy, both on the side of revenue collection, as well as expenditure rationalisation. The proposed budget is the cornerstone of this policy. No tax increases are proposed, yet revenues are expected to increase through widening of the tax base and reforms in tax administration.

Launching the Lesotho Revenue Authority

45. One of our vehicles for fiscal stabilisation is through increased revenues. Our efforts last year, of increasing tax compliance and collecting tax arrears are to be continued this fiscal year and will remain in force as long as compliance is inadequate and tax arrears remain. To bolster these efforts, the government plans to launch the Lesotho Revenue Authority (LRA), which shall be a semi-autonomous body governed by a board responsible to the Minister of Finance. The LRA shall, through its board, design its corporate structure, payroll, and staffing levels free of civil service restrictions. Madam Speaker, we have decided on this approach in order to introduce corporate culture in revenue collection. For this purpose, we propose to allocate M20 million for setting up the LRA. In future, funding the authority shall be strictly dependent on its performance in raising revenues. Next month, I plan to submit to this House, legislation that will pave way for the establishment of the authority by end of September 2001.

Introduction of Value Added Tax

46. The Honourable House will recall that in my speech last year, I promised to present before you legislation preparing for the introduction of value added tax (VAT). I am pleased that both houses have recently passed the said legislation. As indicated then, it is hoped that even at the same rate, VAT will increase revenue. Our plans are to introduce VAT on or around April 1, 2002 under the auspices of the Lesotho Revenue Authority, which shall come into operation 6 months prior to the introduction of VAT.

Containing Government Expenditure

47. Madam Speaker, as indicated earlier, the political unrest of 1998 contributed to the destruction of the economy and consequently donors and investors reduced their support. This has had a chilling effect on the financing of government operations. As an illustration, in May 1999 the government had over M2 billion of savings with the domestic banking system, but by December 2000 these had declined to only M733 million. This rapid decline in government savings is a direct result of government assuming greater responsibility for reconstruction at the time when our development partners were withdrawing their support. The effect has not only been on domestic reserves, but also on the stock of foreign currencies, which are used to pay for our imports particularly those earmarked for industry.

48. These trends were, however, contrary to our objective of building up reserves in preparation for the anticipated decline in SACU revenue. Madam Speaker, we must agree that the pressures of reconstruction have slightly eased. It is therefore, incumbent on us to once again pursue the noble objective of preparing for the future. Our success in containing government expenditure lies in clearly identifying government priorities; developing a realistic budget consistent with identified priorities; cultivating the will to conform to approved spending limits; and monitoring budget performance and if necessary implementing the required corrective measures.

Improving Financial Intermediation and Capacity for Monetary Policy

49. The highlight of reforms in the financial sector for last year was the transfer of the commercial banking services to private hands and liquidation of insolvent banks. We will continue to make improvements in the sector, particularly to increase lending for business purposes and financial intermediation in rural areas. Our concern was the plight of the small depositor who was barred from the commercial banking system by the high minimum deposits required by banks. These concerns are being addressed as banks are beginning to accommodate small depositors through the operation of automated teller systems, which do not require the M500 minimum deposit. While we are grateful for this innovation, we must acknowledge that it is only a partial solution as the majority of our people in the rural areas still do not have access to banking services. Discussions are advanced in government to revive the post office bank as a way of mobilising additional savings and extending banking services to the wider population.

50. Madam Speaker, before the end of the year, the government will introduce further reforms in the financial sector. As part of our poverty fighting strategy, it is our concern that inflation is put under control in order to forestall erosion in the purchasing power of the poor. To this end, the government has granted permission to the Central Bank of Lesotho to operate a Treasury bill market for the purpose of controlling inflation. As of August this year, the Bank will begin conducting Treasury bill auctions aimed at fighting inflation.

Promoting Good Governance and Fighting Corruption

51. The programme for attracting foreign investors will be complemented by improvements in governance. This approach is based on the belief that fair and transparent business practices will serve as catalysts for an improved business climate. Madam Speaker, we remain concerned about our judicial system, which remains plagued by delays in the administration of justice. Our success at attracting foreign investors and developing the domestic private sector is dependent on the ability of the system to safeguard and protect rights. Any doubts regarding the justice system and the enforceability of rights will discourage potential investors.

52. We will, however, continue our efforts at making improvements to the system. We have taken a number of steps in this direction. The Labour Court and the Directorate of Dispute Prevention and Resolution are in place to safeguard stable industrial relations. The Commercial Court has been established to expedite commercial disputes, while the Anti-Corruption Unit will be established this year to fight corruption.

Making Government More Efficient

53. Madam Speaker, earlier I shared with this House our disappointment that government had not fully utilised the appropriated development resources, partly due to the inability to fulfil conditions for grant and loan disbursements. In order to redress this situation, in future there will be closer monitoring of development spending to ensure that government fulfil set conditions. To this end, the government has established a ministerial sub-committee to monitor the implementation of the development budget. In addition, Ministries of Finance and Development Planning will ensure that conditions for disbursement of grants and loans are met on time. Such administrative improvements are expected to lead to better utilisation of development resources. Indeed, the concern about poor public service delivery has led to the creation of

other oversight mechanisms aimed at ensuring that approved resources are utilised. Ministerial sub-committees, assisted by technical committees, have been established to monitor implementation in reconstruction, industrialisation and the economic and financial programme.

54. The above improvements are likely to bear fruit only if the civil service plays its role fully. Reform of the civil service has been on the cards as far back as 1988 as part of Lesotho's first structural adjustment programme. Limited progress has been achieved on this front, while the quality of civil service has continued to deteriorate. It is our conviction that radical transformation must take place. Far-reaching reforms are planned as part of a more focussed Public Sector Improvement and Reform Programme being implemented under the leadership of the Office of the Government Secretary. This programme, which advocates private sector style of management, emphasises, *inter alia*, performance management, rewards for excellence, political neutrality, meritocracy in recruitment and promotion, reskilling including development and recognition of leadership, and cost effectiveness in public service delivery. Madam Speaker, as of January 2001, a performance appraisal system was introduced in government as a new guiding principle for delivery of public services.

55. Finally, as part of expenditure control and improvements in the quality of public service, the government intends to review its present structure commensurate with its new priorities. A Public Expenditure and Budget Management Review exercise aimed at improving the government's budgeting process is being planned. The Ministries of Education and Agriculture have begun their sectoral expenditure reviews, expected to shed light on the productivity of past investments made in these sectors and to provide new directions. In terms of investments in human resources, a more comprehensive manpower strategy, consistent with the national vision and productivity needs, is urgently needed to complement the review.

2001/2002 Budget Proposals

56. Madam Speaker, the budget that I present before this House today is the result of extensive consultations within government. It is directed at implementing the government's poverty reduction and growth strategy, which is being supported by the International Monetary Fund, through its Poverty Reduction and Growth Facility and other development partners.

Most of the resources are allocated to programmes directed at poverty reduction, provision of general public services, building up reserves for the future, and short to medium term investments.

57. In preparing the budget, we have taken into account that we have limited resources, that we must live within our means, and that we cannot fulfil all our needs at once. Priorities were thus carefully identified, but even these were not allocated sufficient amounts. Madam Speaker, this budget proposes a total appropriation of M3.3 billion plus a provision for loan repayments of M402.2 million. This commitment will be financed by government-owned resources of M2.9 billion, grants amounting to M326 million, and loan disbursements of M307 million. These figures imply a sustainable deficit of M42.4 million or 0.6 percent of GNP.

58. Tax revenues are estimated at M2.3 billion of which M1.4 billion will be SACU receipts; M530.2 million, income tax; and M365 million, sales tax. Water royalties are estimated at M167 million, while other revenues, including interest on government deposits, dividends, fines and forfeits, and road and petrol levies are expected to be in the region of M384 million.

59. Madam Speaker, the key elements of the budget proposals are recurrent and capital expenditure set respectively, at M2.5 billion and M802.6 million. Slightly over M1 billion of the recurrent budget covers wages, salaries, pensions and gratuities, while M1.2 billion consists of subventions to government-supported institutions and other goods and services. Finally, M215.5 million is a provision for interest payments on domestic and foreign loans.

60. In this budget, the largest allocation goes to Ministry of Education in the amount of M690.7 million against M589.0 million last year. This is an increase of 15 percent in line with government's objective of increasing the resources to this sector by at least 5 percent above inflation. Of the total allocation, M78.4 is intended specifically to support free primary education, which this year comprises Classes 1 and 2. The sector engages about 7,600 teachers at primary and 3,100 at post primary levels.

61. The Ministry of Health receives an allocation of M236 million including grants and loans. Of this, M203.6 million, which has increased by 13.4 percent from last year, will come from government-owned resources. The allocation is to support about 950 nurses and 173 doctors in the delivery of healthcare. Included in the allocation, is a subvention of

M14.3 million for the Christian Health Association of Lesotho, which plays an important role in the delivery of healthcare. Reforms are also advanced within the sector to improve the delivery of healthcare, reduce the proportion of administration costs in the total sectoral allocation, and combat HIV/AIDS. To this end, the government has secured a loan from the World Bank and a grant from the African Development Bank to support the Health Sector Reform Programme, which is presently under implementation. During the last year, the Lesotho Aids Programme Coordinating Authority (LAPCA) was established to focus on and coordinate interventions in the fight against HIV/AIDS.

62. The Ministry of Agriculture is allocated a total of M182.8 million against M159.8 million last year. Of this, M62.5 million is earmarked for development purposes, while M120.2 million is to cover recurrent expenses. In the allocation, M35 million will be used as government support to farmers in the procurement of tractors, fertilisers, and seeds. The Ministry will also use M20.8 million under the Agricultural Policy and Capacity Building Project aimed at promoting agricultural growth and reducing poverty. In addition, M10 million will be used under the Sustainable Agricultural Development Programme for the Mountain Areas aiming at improving household food security and nutritional status of the poor in the districts of Mokhotlong, Thaba-Tseka, and Qacha's Nek.

63. The Ministry of Industry, Trade and Marketing has been allocated M79.2 million, of which M54.5 million is set aside for the provision of utilities in support of establishing factories. A further allocation of M5.5 million has been set aside for the completion of an industrial estate in Qacha's Nek and the development of an industrial park in Botha-Bothe. These allocations give effect to government's objectives of creating jobs and reducing poverty. To help cultivate a conducive climate for investment, an allocation of M6.4 million is set aside for the Directorate of Dispute Prevention and Resolution under the Ministry of Employment and Labour. Furthermore, economic corruption will be fought through an initial allocation of M1.3 million to the Anti-Corruption Directorate, which is to be set up by the Ministry of Justice and Human Rights during the year.

64. As part of government's policy of providing affordable utilities to industry and creating jobs, the Lesotho Electricity Corporation is under consideration for privatisation. An allocation of M61.6 million has been provided under the Ministry of Finance to recapitalise the corporation. An Interim Management Task Force has been engaged to improve

efficiency and prepare the corporation for privatisation. Part of the allocation will be used to connect 8,000 new business and domestic customers to the electricity grid and to convert 8,000 existing credit meters to prepaid ones.

65. An amount of M318.4 million has been allocated to the Ministry of Public Works in an endeavour to develop new infrastructure and maintain the existing one. Madam Speaker, part of this allocation will be used on projects geared towards job creation. For example, M40 million is allocated to support the activities of the Rural Roads Department, which are labour intensive.

66. In addition, the government will continue using the Lesotho Fund for Community Development as an additional vehicle for providing community infrastructure and fighting poverty. Honourable Members will recall that last year Parliament approved a budget allocation of some M40.0 million for the Fund. Because of the delay in setting up the Fund's institutional mechanisms, only M15 million was used. This year, we are proposing an allocation of M30 million over and above the balance from last year.

67. The Ministry of Development Planning, which is responsible for planning Lesotho's development path, is allocated an amount of M145.4 million, which has increased from last year's allocation of M121.1 million. The bulk of this amount (M114.1 million) is a provision for scholarships. This means that the government will spend more on education than is reflected by the allocation to the Ministry of Education.

68. Some M90 million is allocated to the Independent Electoral Commission for the purpose of conducting general elections in support of a stable political environment. In total, the commission is allocated M100 million to cover both elections and its recurrent costs.

69. Defence is another area to which we have devoted significant resources. The allocation has increased from M172.3 million last year to M194.7 million this year on account of M25 million earmarked for purchase of helicopters. Madam Speaker, it is government's policy to reduce the proportion of defence spending in the budget in the medium term. To this extent, government has implemented a rationalisation programme aimed at developing options for restructuring of the Ministry of Defence.

70. Madam Speaker, I have already indicated that the economy, as measured by real GNP, has contracted by 11.5 percent since 1998 and that although recovery is underway, it will be a while before it recovers to its 1998 level. A projected growth rate for 2001/02 is only 1.7 percent. On the basis of this, and consistent with the wage bill ceiling of 14.9 percent of GDP, the government has decided to increase public servants' salaries by 2 percent across the board during 2001/02.

71. Finally, despite my promise last year to present this year's budget well in advance of 1 April 2001, I have not succeeded. There are two main reasons for this. First, as was the case last year, consultations with the IMF took place at the time allocated to budget preparation. Second, the conservative budget ceilings set as part of prudent fiscal management required careful prioritisation of allocations to different sectoral programmes. More time was therefore spent in an attempt to contain allocations within the programme.

72. It would be remiss of me if I concluded my presentation without extending my word of gratitude and thanks to all who participated in the formulation of this budget. They include my cabinet colleagues, their senior officials, as well as those from the Ministries of Finance, Development Planning and the Central Bank of Lesotho. I wish to extend a word of gratitude also to all those who, during the last financial year, participated in the implementation of the budget through their membership of various management committees. They must have learned a lot from that experience of interaction amongst Ministers, senior and junior officials, and managers of parastatal organisations, where emphasis was on performance of functions assigned to each of us and not on status. We each discovered weak and strong points in respect of ourselves as persons and concerning our organisations. It was a good experience, which must be continued through mutual respect of our various functions and statuses. What was revealed by the experience is that there is a general lack of administration of affairs within government and in parastatals. This weakness is one of the greatest challenges facing the Nation.

I conclude by thanking you Madam Speaker and this Honourable House for your patience.

Khotso! Pula! Nala!

Annex 1.1: Government Budget Operations (million maloti)

Budget Item	Approved 2000/01 Budget	Projected Outturn for 2000/01	Proposed 2001/02 Budget	Programme Budget 2001/02
Revenue and Grants	2,751.5	2,719.8	3,210.5	3,153.1
Revenue	2,470.8	2,623.6	2,884.5	2,879.1
Customs	1,126.2	1,126.1	1,438.2	1,438.2
Income Tax	395.8	468.5	530.2	530.0
Sales Tax	284.1	279.0	365.0	360.0
Oil Levy	70.3	59.6	58.0	57.6
Water Royalties	135.0	157.9	167.0	160.0
Other Revenues	459.4	532.5	326.1	333.3
Grants	280.7	96.2	326.0	274.0
Expenditure & Net lending	3,035.2	2,912.2	3,252.9	3,206.5
Recurrent Expenditure	2,381.9	2,475.1	2,450.3	2,455.9
Wages and Salaries	945.2	925.1	1,006.6	1,010.4
Interest Payments	254.4	255.9	215.5	215.5
Other Goods & Services	1,182.3	1,294.1	1,228.2	1,230.0
Capital Expenditure	653.3	437.1	802.6	750.6
Overall Deficit before Grants	-564.4	-288.6	-368.4	-327.4
Overall Deficit after Grants	-283.7	-192.4	-42.4	-53.4
Total Financing	283.7	192.4	42.4	53.4
Foreign Financing	-97.4	-223.4	74.9	77.6
Loan Drawings	149.3	148.4	307.6	307.6
Amortization	-246.7	-371.8	-232.7	-230.0
Domestic Financing	381.1	415.8	-32.5	-24.2
Bank	371.1	372.2	-32.5	-24.2
Nonbank	10.0	43.6	0.0	0.0

Programme budget refers to one agreed to with the International Monetary Fund.

Annex 1.2: Government Budget Operations (percent of GNP)

Budget Item	Approved 2000/01 Budget	Projected Outturn for 2000/01	Proposed 2001/02 Budget	Programme Budget 2001/02
Revenue and Grants	35.7	35.3	41.7	40.9
Revenue	32.1	34.0	37.4	37.4
Customs	14.6	14.6	18.7	18.7
Income Tax	5.1	6.1	6.9	6.9
Sales Tax	3.7	3.6	4.7	4.7
Oil Levy	0.9	0.8	0.8	0.7
Water Royalties	1.8	2.0	2.2	2.1
Other Revenues	6.0	6.9	4.2	4.3
Grants	3.6	1.2	4.2	3.6
Expenditure & Net lending	39.4	37.8	42.2	41.6
Recurrent Expenditure	30.9	32.1	31.8	31.9
Wages and Salaries	12.3	12.0	13.1	13.1
Interest Payments	3.3	3.3	2.8	2.8
Other Goods & Services	15.3	16.8	15.9	16.0
Capital Expenditure	8.5	5.7	10.4	9.7
Overall Deficit before Grants	-7.3	-3.7	-4.8	-4.2
Overall Deficit after Grants	-3.7	-2.5	-0.6	-0.7
Total Financing	3.7	2.5	0.6	0.7
Foreign Financing	-1.3	-2.9	1.0	1.0
Loan Drawings	1.9	1.9	4.0	4.0
Amortization	-3.2	-4.8	-3.0	-3.0
Domestic Financing	4.9	5.4	-0.4	-0.3
Bank	4.8	4.8	-0.4	-0.3
Nonbank	0.1	0.6	0.0	0.0

Programme budget refers to one agreed to with the International Monetary Fund.

Annex 2: Recurrent and Development Budget for Fiscal Year 2001/2002: Sectoral Allocations

#	Ministry/Cost Centre	2000/1 Budget					2001/2 Budget					
		Recurrent Budget	Capital Budget 2000/1	Capital Budget financed by GOL	Total Budget	Total Budget Financed from the Consolidated Fund	Recurrent Budget	Capital Budget 2000/1	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total Budget Financed from the Consolidated Fund
1	Education	518,243,410	70,750,000	16,222,000	588,993,410	534,465,410	551,482,240	139,233,000	46,000,000	93,233,000	690,715,240	597,482,240
2	Health	172,071,990	35,214,000	7,452,000	207,285,990	179,523,990	195,521,740	41,116,000	8,100,000	33,016,000	236,637,740	203,621,740
3	Defence	170,347,520	2,000,000	2,000,000	172,347,520	172,347,520	194,655,490			0	194,655,490	194,655,490
4	Works	115,359,110	189,328,000	74,003,000	304,687,110	189,362,110	119,905,660	198,478,000	54,670,000	143,808,000	318,383,660	174,575,660
5	Development Planning	103,607,610	17,485,000	3,339,000	121,092,610	106,946,610	136,791,330	8,523,769	2,180,000	6,343,769	145,315,099	138,971,330
6	Agriculture	103,752,750	56,068,000	5,599,000	159,820,750	109,351,750	120,220,860	62,534,122	7,400,000	55,134,122	182,754,982	127,620,860
7	Home Affairs	127,761,080	5,417,000	5,417,000	133,178,080	133,178,080	123,487,720	150,000	150,000	0	123,637,720	123,637,720
8	Electoral Office	139,152,840	0	0	139,152,840	139,152,840	100,653,030	0	0	0	100,653,030	100,653,030
9	Natural Resources	37,316,770	127,878,000	64,154,000	165,194,770	101,470,770	37,982,100	137,419,000	59,160,000	78,259,000	175,401,100	97,142,100
10	Local Government	78,658,070	40,420,000	36,100,000	119,078,070	114,758,070	78,656,420	20,858,000	15,960,000	4,898,000	99,514,420	94,616,420
11	Foreign Affairs	84,986,950	0	0	84,986,950	84,986,950	90,472,000	0	0	0	90,472,000	90,472,000
12	Finance	83,473,820	10,650,000	3,750,000	94,123,820	87,223,820	77,479,380	61,613,000	10,100,000	51,513,000	139,092,380	87,579,380
13	Industry Trade & Marketing	18,743,180	12,770,000	1,500,000	31,513,180	20,243,180	19,194,810	60,000,000	55,000,000	5,000,000	79,194,810	74,194,810
14	Justice & Human Rights	50,640,620	2,738,000	2,738,000	53,378,620	53,378,620	60,407,460	0	0	0	60,407,460	60,407,460
15	Prime Minister's Office	32,440,390	18,062,000	3,911,000	50,502,390	36,351,390	32,732,150	13,748,000	2,250,000	11,498,000	46,480,150	34,982,150
16	LFCD	0	40,000,000	40,000,000	40,000,000	40,000,000	0	30,000,000	30,000,000	0	30,000,000	30,000,000
17	Communications	32,689,420	985,000	985,000	33,674,420	33,674,420	29,979,210	0	0	0	29,979,210	29,979,210
18	Law	20,869,220	0	0	20,869,220	20,869,220	25,067,940	0	0	0	25,067,940	25,067,940
19	Gender & Environment	12,881,560	19,834,000	3,000,000	32,715,560	15,881,560	14,984,960	27,343,000	4,430,000	22,913,000	42,327,960	19,414,960
20	Tourism	22,531,440	1,100,000	1,100,000	23,631,440	23,631,440	18,195,250	300,000	300,000	0	18,495,250	18,495,250
21	National Assembly	17,624,900	0	0	17,624,900	17,624,900	17,070,020	0	0	0	17,070,020	17,070,020
22	Employment	10,203,370	540,000	0	10,743,370	10,203,370	16,099,540	0	0	0	16,099,540	16,099,540
23	Public Service	11,219,370	2,000,000	2,000,000	13,219,370	13,219,370	12,409,050	1,300,000	1,300,000	0	13,709,050	13,709,050
24	Auditor General	6,979,250	0	0	6,979,250	6,979,250	7,428,790	0	0	0	7,428,790	7,428,790
25	His Majesty	6,041,430	0	0	6,041,430	6,041,430	6,143,390	0	0	0	6,143,390	6,143,390
26	Senate	6,428,470	0	0	6,428,470	6,428,470	6,027,190	0	0	0	6,027,190	6,027,190
27	Public Service Commission	2,396,950	0	0	2,396,950	2,396,950	2,391,840	0	0	0	2,391,840	2,391,840
28	Ombudsman	1,474,960	0	0	1,474,960	1,474,960	2,229,960	0	0	0	2,229,960	2,229,960
29	Principal Repayments	439,142,120	0	0	439,142,120	439,142,120	402,192,500	0	0	0	402,192,500	402,192,500
30	Interest Charges	237,637,750	0	0	237,637,750	237,637,750	215,500,000	0	0	0	215,500,000	215,500,000
31	Pensions & Gratuities	53,300,000	0	0	53,300,000	53,300,000	64,000,000	0	0	0	64,000,000	64,000,000
32	Statutory Salaries	5,306,250	0	0	5,306,250	5,306,250	5,465,150	0	0	0	5,465,150	5,465,150
33	Subscriptions to International Org.	5,500,000	0	0	5,500,000	5,500,000	1,632,480	0	0	0	1,632,480	1,632,480
34	Refunds on Erroneous Receipts	6,000,000	0	0	6,000,000	6,000,000	6,000,000	0	0	0	6,000,000	6,000,000
35	Advances	8,000,000	0	0	8,000,000	8,000,000	5,000,000	0	0	0	5,000,000	5,000,000
36	Contingencies	60,000,000	0	0	60,000,000	60,000,000	55,000,000	0	0	0	55,000,000	55,000,000
37	Total	2,802,782,570	653,239,000	273,270,000	3,456,021,570	3,076,052,570	2,852,459,660	802,615,891	297,000,000	505,615,891	3,655,075,551	3,149,459,660