

**PARLIAMENT OF THE KINGDOM OF LESOTHO**

**Improving Delivery of Service to Basotho,  
Strengthening Democracy through a More  
Representative Parliament and Collectively Developing a  
Long-Term National Vision with a Focus on Poverty  
Reduction**

**Budget Speech to Parliament for the Fiscal Year 2002/2003**

**by**

**Honourable Mohlabi Kenneth Tsekoa**

**Minister of Finance and of Development Planning**

**Maseru**

**25 January, 2002**

Madam Speaker

I salute you on this great day and through you, I wish to recognise and declare my respect to:

**His Majesty King Letsie III and Head of State  
The Right Honourable the Prime Minister Head of Government  
The Honourable President of the Senate  
My Colleagues, Honourable Ministers of His Majesty's Government  
Honourable Members of both Houses of Parliament  
Distinguished Senior Government Officials  
Your Excellencies Heads of the Diplomatic Corps and International Organisations  
Distinguished Members of the Media  
The Entire Basotho Nation across Lesotho and elsewhere  
Ladies and Gentlemen**

**INTRODUCTION**

1. Greetings to the beautiful people of Lesotho!  
The proud people of Moshoeshoe the Great,  
A nation that was born of wonderers, rolling stones and fleeing refugees,  
A nation united, over the years,  
By one language and one culture.
2. I am delighted this morning to table an issue of immense national importance that directly affects the very development and well-being of our land and her people. That issue is the budget proposals for the now imminent and new financial year. The significance of budget proposals in the life of a people cannot be over-stated.
3. Government has taken a deliberate decision to present the budget before Parliament as early as now precisely to inculcate a new culture and nudge the machinery of Government to fall into rhythm with respect to presenting annual budgets timely. Success in this regard will mean that annual budgets are presented before Parliament ahead of the month of March.
4. The debates and deliberations that will ensue from this budget presentation will need to be handled with speed and yet with wisdom. The average Mosotho is well aware that the sunset of the life of this Parliament is now imminent. Lesotho's general elections have been estimated to take place between the last half of April and the first half of May, 2002. However, this Honourable House and the Basotho nation should be mindful of the fact that, in accordance with the law, the exact date for the elections can only be announced after the dissolution of Parliament. Thus, to a significant extent, the speed with which the polling day will be announced depends on the speed and sense of duty with which the budget proposals will be dealt with.
5. The act of tabling the budget proposals today ushers a unique opportunity of self-evaluation-taking stock of the road Lesotho travelled in the past year, verifying how far she has gone and making choices of where she should be in the next financial year. Because of the foregoing, I would like to plead with Honourable Members to do a thorough job of debating the budget proposals within the shortest possible time and with total honesty and a sense of service to the Basotho.

## **GLOBAL, REGIONAL AND DOMESTIC DEVELOPMENTS DURING 2001/2002**

### **The World Economy**

6. We began the last fiscal year with optimism that the world economy would be characterised by prosperity, but in the course of the year tragic events including those of 11 September 2001 in the United States of America, proved us wrong. The ever declining value of the Rand and hence of the Loti, added to our miseries brought about by the depressed world economy and deepening poverty levels. The harsh realities of being a member of the globalising world economy have hit us in the face.

7. The fact is that world economic outlook prior to the unfortunate events of 11 September already projected bleak prospects for global economic growth, following a recession of the US economy that began in March 2001. The events of 11 September only exacerbated the situation. Global economic recovery from recession originally projected to begin at the end of 2001 was then delayed to 2002. The slow economic recovery on the global front is a direct result of recession experienced by world economic giants such as Europe, United States and Japan.

8. Despite the bleak global outlook, growth prospects in developing countries in general and Africa in particular, remain promising. While growth forecasts have been revised slightly downwards, it is now predicted that Africa's output will grow by 3.5 percent in both 2001 and 2002. The continent will however be adversely affected by a fall in commodity prices projected at 3 percent lower in 2001 and 2002. Recent Economic downturns are also closely linked to developments in the financial markets. With partially developed financial markets, developing countries are likely to escape the negative effects that come through financial markets.

9. The world economic slowdown also led to the fall in international crude oil price. The Lower price benefited non-oil producing countries like Lesotho in that it helped to partially offset the impact of the depreciating currency on domestic inflation. The oil price is expected to remain at relatively low levels during 2002.

10. On the political front, there were positive developments that took place in the past year including peace-building initiatives by the UN Secretary General, African Unity as well as the Southern African Development Community. The formation of the African Union is one of the more positive developments on the continent.

11. The New Partnership Initiative for Africa's Developments (NEPAD) is another positive milestone to put on record. United Nations' efforts to make arrangements in the past year to assemble the World in Monterrey, Mexico in March this year, to discuss the important subject of Financing for Development appear to be holding and we can anticipate the forum to take place.

### **Developments in the Southern African Development Community**

12. Closer home, South Africa has revised its growth prospects down to 2.6 percent from 3.5 percent during 2001. Analysts doubt South Africa's ability to maintain a healthy balance of payments position, targeted levels of inflation, attainment of a better than budgeted fiscal outturn and recovery, in the face of current economic problems. By the end of December 2001, the Rand had depreciated by some 40 percent against the US Dollar when compared with the same period a year earlier. More disturbing is that market speculators expect the Rand's weakness to last for most of 2002.

13. At the SADC level, Heads of State and Government resolved to centralise sectoral activities after many years of decentralisation through sectoral co-ordination. This move, will no doubt, have a significant impact on the budgets of member states. In the course of the past year SADC has reached numerous agreements in the form of Memoranda of Understanding and Protocols, aimed at strengthening economic integration. Most importantly, SADC Finance Ministers have recently agreed to recommend to the SADC Summit a formula for sharing costs of running SADC institutions proportionately in accordance with Member State's ability to pay. SADC is also looking for ways that would ensure self-financing of its activities.

14. At the sub-regional level, the Southern African Customs Union (SACU) Member States concluded long and protracted re-negotiation of the 1969 SACU Agreement. This fulfilled a long-standing desire by Member States to democratise the institution and to have an all-inclusive decision-making process. They also agreed on a new revenue-sharing formula likely to raise their shares of the revenue-pool to a higher and more equitable level. Another notable agreement reached is to search, within two years, for a long-term mechanism for managing the Customs Revenue Pool. In the meantime, South Africa has been mandated to continue to manage the pool.

### **Developments in Lesotho**

15. In Lesotho, factors that influenced economic growth in the year 2000 continued to support

strong economic activity during 2001. These include growth in manufacturing, construction and financial sectors. The retail sector also grew moderately as a few enterprises joined the sector. The outlook for Agriculture remained bleak, as weather conditions were unfavourable. Though there was on the average adequate rain in 2001, it came either too late or in more than required amounts, thus affecting sowing, crop growth, maturity and harvesting. Overall, the economy grew by 3.3 percent during 2000 and the same level of growth is expected in 2001. For the next fiscal year, we project a slightly lower growth rate of 2.8 percent after factoring in some of the impacts of the September 11, 2001.

16. Inflation rose from 6.2 percent in 2000 to 7.3 percent by the end of the third quarter in 2001. The rise is attributed mainly to an increase in the price of food, which was in short supply on account of a reduction in agricultural output due to unfavourable weather conditions early in 2001. Since the same conditions applied to South Africa, Lesotho's main supplier of foodstuffs, import costs also went up. Rising costs in the transport sector also contributed to rising inflation. Sadly, the rise in the cost of food is proving to be very hurtful to Basotho.

17. Employment in the manufacturing sector stabilised during the latter part of 2001 as business watched events. It is expected to pick up during 2002 as confidence returns. Migrant labour employment, particularly in the mining sector continued to decline. It stood at 63,000 during the second quarter of 2001 but fell to 61,000 by the end of the third quarter. Construction activities for Phase 1B of the Lesotho Highlands Water Project are expected to end in the course of 2002. This means that labour employed by the project may rejoin thousands of the unemployed. However, efforts are afoot to negotiate Phase 2 of the Project.

18. Government efforts were directed at buttressing democracy through a more inclusive representation at Parliament level, preparations for general elections, preparation of a Poverty Reduction and Growth Strategy, likely to attract more resources from the donor community. Government efforts were also directed at mobilising Basotho to participate through representation, in collectively developing a long-term vision for Lesotho. As I present this budget, the National Steering Committee that will drive the Vision development process is up and running. The year 2001/2002 saw the start of the implementation of the Public Sector Improvement and Reform Programme in a number of key areas including Agriculture, Finance, Health, Justice, Labour, Local Government, Law and the Public Service. The experiences of the educational sector in the implementation of Free Primary Education for three years in succession with a resultant rise in enrolment, confirmed without doubt, the importance of the programme and the need for further concerted efforts to sustain the momentum.

19. The visit to Lesotho by President Thabo Mbeki of South Africa in April last year will remain a significant landmark in our history as it brought to us a new spirit of cooperation between Lesotho and South Africa at the highest possible level. The signing of Memoranda of Understanding committing the two countries to closer economic cooperation holds out promise of a prosperous future that will enable Lesotho to get out of the classification of Least Developed Countries. That visit is already bearing fruit, as there is progress in the development and fine-tuning of areas of closer cooperation and in the charting of the very destiny of our peoples.

#### **THE 2001/2002 BUDGET OUTTURN**

Madam Speaker  
Honourable Members

20. Last April, this Honourable House approved budget proposals for the fiscal year 2001/2002 covering the period up to March this year. That budget was intended to address priority needs of the Basotho within the means of the economy. Allow me, Madam Speaker, to give an account of how the budget allocation for 2001/2002 was utilised. The projected outturn for the 2001/2002 budget reflects a budget surplus of M153.5 million, which is equivalent to 2.2 percent of the Gross Domestic Product (GDP). The Honourable House will recall that the budget had projected a deficit of M42.4 million, equivalent to 0.6 percent of GDP.

21. Total resources consisting of revenue and grants were projected at M3.2 billion but are expected to emerge slightly lower at M3.1 billion by end of March 2002. Revenue will decline on account of less than expected performance in the collection of sales tax. Sales tax was budgeted at M365 million, but projections indicate a lower figure of M306.5 million by the close of the financial year. Grants from Lesotho's development partners were estimated at M326 million, but only M257.6 million will be received. These figures reflect a shortfall of M88 million in revenue plus grants. Other revenues including income tax, oil levy, and water royalties, are expected either to exceed the budget or come out as projected. Government's efforts to enforce tax compliance yielded positive results, but much work remains to be done in order to move towards a 100 per cent compliance.

22. Recurrent expenditure is expected to exceed the budget of M2.5 billion by M12 million or 0.2 percent of GDP. Areas of high expenditure include primary education, health and preparations for elections. The wage bill is expected to fall slightly below the budget of M1 billion or 14.5 percent of

GDP to M984.7 million or 14.2 percent of GDP. The under-spending is largely due to the high vacancy factor in the public service, resulting from unavailability of suitable candidates to fill vacancies, the sluggishness of line Ministries in filling vacancies as well as relatively non-competitive packages offered by Government in relation to prevailing market rates especially for technical and professional personnel. In the past year, Government also implemented the law to retire public servants aged fifty-five (55) years and above.

23. Capital expenditure will fall short of the budgeted amount of M802.6 million by M176 million or 2.5 percent of GDP. The capital budget is financed through Government resources, donor grants and loans. The expectation is that Government resources will be overspent by the end of 2001/2002. The Government spending on capital programmes was budgeted at M297 million, but expenditure is expected to reach M335 million. Capacity to absorb aid and to utilise loans is low and remains a subject of the Public Sector Improvement and Reform Programme. Grants were estimated at M266 million but only M161 million would be committed by end of March 2002. Loans were projected at M240 million but only M131 million will be spent.

24. The plan was to disburse an amount of M307.6 million of loans from conventional multilateral financing agencies to finance the anticipated budget deficit of M42.4 million during 2001/2002. This would result in a saving of M33 million to guard against emergencies such as increased import costs resulting from currency depreciation. This is important for Lesotho as an open and dependent economy. In June 2001, Government bond in the amount of M120 million issued to Lesotho Bank (1999) for re-capitalisation of liabilities of the old bank taken over by the new bank was retired. This is because liquidators of the old bank collected debts more efficiently than forecast and were thus able to redeem the bond. This had an impact of Reducing Government domestic debt by the same amount and consequently turning a budget deficit into a surplus of M153.5 million, an equivalent of 2.2 percent of GDP by end of March 2002.

Madam Speaker  
Honourable Members

25. The Government continues to pursue a policy of borrowing on concessional terms to the extent possible. The policy takes advantage of the favourable terms including low interest rates and long maturity periods as well as significant grant element being part of the debt offered by bilateral and multilateral financing institutions. In line with this policy, the Government is committed to redeeming expensive commercial loans from the Government's debt portfolio.

26. The 2001/2002 debt stock consists of domestic and external debt. Outstanding domestic debt, which comprises treasury bills issued to the public for both fiscal and monetary policy purposes, short and long term bonds issued to re-capitalise Lesotho Bank (1999), and loans taken for financing the Maseru By-Pass road, amount to M413 million. An amount of M154 million will be paid by the end of 2001/2002 as the Government phases out the traditional treasury bill instrument that was used to supplement financing of the Government budget. Instead, a new special issue, set at a maximum of M500 million has been introduced as a monetary policy instrument. Proceeds of the monetary policy instruments are deposited in a blocked account at the Central Bank. The policy instrument is used to squeeze excess liquidity and to control inflation. There is a plan to settle in full an amount of M22 million owed by Government to the domestic banking system for financing the Maseru By-Pass road by end of March 2002.

27. External debt, which represents borrowing primarily for developmental purposes amounts to M6.4 billion. This constitutes about 94 percent of the national debt stock. Despite the fact that 75 percent of the external debt is concessional, debt servicing will continue to increase due to the depreciation of the Rand/Loti. I should make it clear that borrowing from bilateral and multilateral financing institutions has continued to service pressing needs and programmes in sectors such as Education, Water, Public Works and Health, where infrastructural development is the main focus.

#### **ACHIEVEMENTS DURING 2001/2002**

Madam Speaker  
Honourable Members

28. Having presented the projected budget outturn for the fiscal year 2001/2002 I now wish to provide this Honourable House with a brief summary of achievements attained and setbacks that confronted the Lesotho economy during the same period. The 2001/2002 budget emphasised Government's commitment to the reduction of poverty through direct and indirect means. This entailed pursuit of a number of objectives. The most important of all being creation of jobs, one of the best way of alleviating poverty. To this end, Government efforts were directed at promoting the export sector and Foreign Direct Investment. In the course of the past year, the economy managed to attract a significant number of foreign investors. The increased investment led to the creation of some 7,000 new jobs, raising employment in the Lesotho National Development Corporation (LNDC)'s sponsored companies to 36,000.

29. Development of industrial infrastructure was key in the 2001/2002 plans. In particular, the Government planned to make available electricity and water to industries in order to support private sector investment in textile industries. I am happy to report that work has begun and institutions responsible for construction works have put in place plans to complete the infrastructure. In terms of the rehabilitation of the Botha-Bothe to Letseng high voltage line, work is to proceed after some delay. The subsidiary line from Letseng to Mokhotlong has been completed and the city of Mokhotlong will soon have a reliable power source once the Khukhune to Letseng line is completed. Government remains much concerned with the level of vandalism on telecommunications and electricity infrastructure. Apparently, there are few but determined individuals who frustrate national efforts to extend services to the majority of Basotho. These acts of impunity cause much hurt not only in terms of the delay in the delivery of services and the disruption caused, but also in terms of cost. Provision of economic infrastructure is necessary in order to take advantage of opportunities offered by the US Government, through the Africa Growth and Opportunities Act (AGOA). The scheme affords eligible Sub-Saharan African countries duty free access to the US market. Through concerted efforts by Government during 2001, Lesotho was the fifth Sub-Saharan African country to fulfil the requirements of the scheme. Since April 2001, Lesotho's apparel and textile exports to the United States rose by 38 per cent. Favourable export prices during the period under review also contributed significantly to the Lesotho's economy.

30. Development of the private sector was given much attention during the past year, in line with Government's determination to raise the level of employment in the country. Studies aimed at developing best strategies for Government's intervention in Private Sector Development were initiated. M26 million was set aside as an initial Government input in the Venture Capital Fund, established to finance viable development proposals from small to medium-size enterprises, which may not have access to bank credit. Considerable care will be taken to ensure that proposals are viable, that funds provided are used exclusively for the purpose granted and that borrowers repay every cent due and on time. To this end, strict surveillance measures will be developed as part of this initiative. This is because over a long period of time, some Basotho have developed a bad culture of defaulting. There is a determined effort on the part of Government to introduce and enforce a new culture of compliance.

31. The policy to reform the Utilities Sector was implemented through the privatisation of Telecom Lesotho and sale of Government shareholding in Vodacom Lesotho (VCL) to Sekhametsi, a Basotho owned company. Cell Africa, the second mobile cellular service company, began its operations in Lesotho on 23 October 2001. This has enhanced competition, which is necessary for a healthy development of the sector to the benefit of both investors and their clientele.

32. Reforms in the Power Sector included engagement of an Interim Management Task Force at the Lesotho Electricity Corporation (LEC) for one and half years with effect from February 2001. This move is aimed at increasing efficiency of the LEC. Consequently, a long-standing backlog of applications for connections is now being addressed vigorously, and a system of pre-payment metres is being expanded. The numbers of connections and associated revenue collections have increased, enabling the Corporation to meet its long outstanding obligations, thus rendering it viable in preparation for privatisation. This Honourable House passed the Electricity Act that will facilitate establishment of a Regulatory Authority for the sector. A Sales Advisory Team has been appointed and mandated to advertise the Corporation and carry out other preparatory activities aimed at identifying a strategic partner to take on majority share-holding of the enterprise.

33. Efforts to commercialise operations of the 'Muela Hydro-Power Plant were confronted with many obstacles, including delayed agreement between Lesotho and South Africa to apportion costs of the plant, and those of the water transfer component of the Lesotho Highlands Water Project. Prior to the start of fiscal year 2001/2002, Government settled 'Muela loans with the Domestic Banking System, and took over the Plant's external debts, thus preparing the enterprise for eventual commercialisation, but in the main, to reduce its costs with the aim of facilitating the provision of electricity to the majority of the population at affordable prices, and above all, to enhance cost-effectiveness of investing in Lesotho in comparison with other countries in the region. With the support of our development partners, 'Muela Options Study is on-going. It is expected that the study report will be ready by the end of March 2002. There is high optimism that the study will provide Government with additional and more elaborate policy options.

34. Government has been more cautious in its approach to reforms in the Water Sector, considering that water is a much more strategic asset in comparison with communication and power. That is why Water and Sewerage Authority (WASA) is the last in the list of the utilities to be privatised. In the past year, however, several non-core activities of WASA were either out-sourced or privatised. The process will continue in the year ahead, with the ultimate aim to also privatise WASA or identify a strategic partner for the Water Sector.

35. In addition to the above, Government managed to complete privatisation of Marakabei and Orange River Lodges, which were transferred to Basotho investors who took one hundred per cent shareholding. Moreover there are about One Hundred Government-owned (100) enterprises in the Agricultural Sector already in the pipeline for privatisation in the fiscal year ahead. Such enterprises

include nurseries, hatcheries, woolsheds and veterinary services. Packaging them for privatisation is very much advanced.

36. Two strategic partners in the Lesotho Insurance Group of Companies (LNIG) have expressed their intentions to withdraw. They are the African Life (Pty) Ltd and St. Paul, which is based in the United States of America. In accordance with the agreement between contracting parties, an outgoing partner should offer other partners the first option to buy its share-holding. Since Government has no intention to continue to engage in business activities, African Life and St. Paul will be encouraged to sell their share-holding to Basotho investors. Insurance business is very lucrative and there is evidence that there are willing and able Basotho who are ready to take on share holding in the Company. In addition arrangements are afoot to ensure that employees of the Company are also afforded share holding.

Madam Speaker  
Honourable Members

37. His Majesty's Government recognises that maintenance of macroeconomic stability is key in ensuring prevalence of peace and prosperity in the country. Government therefore, remains committed to fiscal prudence and has continued with efforts to implement reforms in revenue collection and expenditure control. As many taxpayers will attest, Government maintained tax compliance measures throughout the past fiscal year. By the end of November 2001, arrears amounting to M108 million had been collected. This accounts for nearly 4 per cent of budgeted revenue for 2001/2002. In addition to tax compliance measures, Government took steps to establish the Lesotho Revenue Authority, which as you know is intended to increase efficiency in tax collection. In this respect, legislation was passed by this Parliament recently and the Board of Directors has been appointed. It is expected that the Authority will be operational by end of March 2002. It is also planned that within six months of the launch of the Revenue Authority, Value Added Tax (VAT) will be introduced. Preparatory arrangements to introduce VAT are very advanced. VAT is a simpler and more embracing tax than sales tax. One tax rate will be applied across the board.

38. On the expenditure side Government implemented several measures to control local transport costs. In this respect various committees were deployed in order to maximise benefits and minimise costs associated with vehicle lease with Imperial Fleet Services (IFS). A Task Force was established to prevent unauthorised use of vehicles and petrol fraud. In addition, a study to assess compliance with the Lease Contract with IFS is on-going. The study report will be ready before the end of March 2002.

39. In line with the aim of ensuring macro-economic stability, the Central Bank of Lesotho has maintained a sound banking system by enhancing its supervisory capabilities and promoting financial stability. New in this area has been the introduction of open-market operations through which the Central Bank can effectively control domestic liquidity and indirectly influence the flow of foreign financial assets. In this respect, Government issued authority to the Central Bank to auction, upon need, up to M500 Million worth of treasury bills. The first auction took place on 5 September 2001. This has been followed by monthly auctions. The results have been encouraging-- first, there are indications that commercial banks have begun to invest their excess reserves in Lesotho thus strengthening the country's net foreign assets position. This in turn, will serve to underwrite the fixed exchange rate system and thus ensure price stability. Secondly, the interest rate earned on treasury bills is now determined by the market, rather than the Central Bank. This rate has tended to be slightly higher than that offered in South African financial markets for similar instruments. It is expected that in the near future, the earnings by commercial banks will be passed on to the depositors.

Madam Speaker  
Honourable Members

40. Let me wind up my report by sharing with you progress on the Government Economic Reform Programme. Most of us will recall that in March 2001, Government entered into a three-year agreement with the International Monetary Fund (IMF), covering the period 1 October 2000 up to 30 September 2003. The Programme was necessitated by recession experienced by the Lesotho economy following the 1998 political riots. The agreement commits Government to adopt prudent economic policies, aimed at ameliorating problems associated with recession that contributed to large fiscal and external pressures. It also guarantees the IMF and other development partners' support to Lesotho's efforts to improve the social and economic welfare of her citizens. Technical and financial support has since been steadily pouring into Lesotho from various sources. Over M70 Million concessional loan from the IMF was disbursed in the course of the fiscal year 2001/2002 as balance of payments support. IMF was invited to assist at the time of need. The policies contained in the Macroeconomic Programme are there because of our choice and belief that in the medium-term they will restore macroeconomic stability. Government is fully committed to the Programme that will earnestly lay the basis for poverty reduction and a better life for all.

#### **CHALLENGES FACING THE ECONOMY**

Madam Speaker  
Honourable Members

### **Peace and Stability**

41. It is common knowledge that nations of the world enjoy socio-economic progress as long as the environment is right. That environment is peace and stability. Nations that have been able to develop a culture of enduring peace and stability have flourishing economies and they have made visible strides in achieving better lives for all citizens. Conversely, nations, which have civil conflicts, wars and instability, remain stunted and never enjoy the potential benefits of development.

42. The greatest challenge that faces Lesotho therefore, is to build a culture of peace and stability. Such a culture will enable the country and her people to concentrate on things that matter such as creating jobs; producing saleable goods; engaging in agriculture, educating children, youth and adults; developing tourism; building roads; and generally improving the quality of life for all.

43. With peace and stability, the energies of Basotho can be channeled towards achieving developmental goals for Lesotho and, her fledgling democracy would be given a chance to deepen.

### **Corruption**

44. Lesotho's economic development depends on honesty and transparent delivery of service to the people. And so does a successful fight against the scourge of poverty.

45. A debilitating phenomenon that deprives the bulk of the nation of its legitimate right to service, growth and wealth is corruption, the impairment of integrity, virtue or moral principle, as defined by Webster's Third New International Dictionary. Lesotho is littered with living examples of corruption ranging from misappropriation of public funds and public property, to the now rampant stock theft and armed robbery, bribery, accumulating money through false and illegal means, smuggling, manipulating systems for personal financial gains, and others.

46. For the benefit of this Honourable House, let me clarify the nature of one of the deadliest form of corruption amongst those I have listed. Money laundering is a process through which "criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activities. It involves the conversion or transfer of property, knowing that such property is derived from criminal activity or from participation in that activity. The ability of criminals to have large sums of money which they wish to launder, allows them to invest without the usual concern for credit and fiscal constraints which operate in the economy. It is clear that money laundering does not only have an insidious corrupting influence which stimulates the growth of a secondary "underground" economy, it also affects adversely the operations of the legitimate financial sector of a country. It is for these reasons that we should do our utmost to combat this evil.

47. As Lesotho grapples with the scourge of money laundering, there are encouraging signs that the United Nations, the Commonwealth and SADC, all have a growing commitment to combat this evil that impoverishes nations and enriches a few criminals. But more has got to be done with greater determination through collective effort. Even more importantly, local, regional and international financial institutions must be more vigilant to identify and report transactions that smack of money laundering.

48. The bitter pill born of corruption is that it deprives the State and its citizens of their legitimate wealth. In effect, corruption is one of the major causes of poverty as it results in an inequitable distribution of wealth. Corruption kills people and topples governments. The challenge facing Lesotho and her people is—identify corruption, report corruption, develop strategies to fight corruption and remove the scourge

### **Poverty**

49. Poverty remains the greatest challenge facing the Lesotho economy. It is not only an economic problem of deprivation, but also a very debilitating social problem that marginalizes a large proportion of the society. The Sixth National Development Plan outlines the main developmental objective as the need to attain sustainable human development for all Basotho. Human development carries with it the ability to live a longer, knowledgeable, tranquil and dignified life. This is not possible with the prevailing poverty levels afflicting the majority of Basotho. Poverty is also a political problem that continues to threaten the fabric of the society.

### **HIV/AIDS**

50. HIV/AIDS is another sinister monster that is ravaging through the very fabric of our society. Many Basotho are being condemned to death by a disease for which there is no known cure. The elderly and children are being forced to take care and raise the orphans left behind by deceased

AIDS patients, yet they are themselves dependents. Lesotho's extended family system, which has for centuries functioned as a bedrock for family support, a natural social security system, and a mechanism for equitable distribution of wealth, is now facing a serious threat of fragmentation and degeneration. The impact goes beyond the family unit into the very belly of Government. Not only will the Government face increasing costs associated with HIV/AIDS, but will also experience declining revenues as major contributors to economic activity fall by the wayside from the scourge.

### **Unemployment**

51. Unemployment is yet another challenge facing the economy. Unemployment in Lesotho is estimated at 40-45 per cent of the labour force. Lesotho depends heavily on factor income from abroad, particularly labour remittances from South Africa and on the Highlands Water Project. Transient job creation mechanisms such as LHWP construction works are useful, but not sustainable. Migrant employment is also not sustainable. Jobs must be created domestically and in a sustainable way. On the fiscal side, the Government wage bill is high relative to the budget and economic activity. Interest repayments are also likely to rise sharply in the near future in response to developments in the exchange rates. Projected low revenues and large share of non-discretionary expenditure (wages and interest) demand adoption of a tight fiscal policy.

### **Job Creation**

52. Efforts to address challenges facing the economy meet with formidable constraints. In the medium to long term, revenues are threatened by a number of factors including trade liberalisation. The resulting fiscal pressures could also lead to balance of payments problems and external indebtedness. The business sector is small, rudimentary and faces shortage of entrepreneurial skills and finance, yet it is Government's policy to create jobs by stimulating this sector and its export capacity. The financial sector continues to pursue conservative lending policies with very small proportion of commercial lending availed private sector borrowers. The Government is also experiencing skill shortages at managerial and technical levels, since the National Human Resources Policy is not yet targeted at regional job markets.

53. Despite the gravity of the challenges and constraints to Government's effective response to them, much has been achieved following the 1998 downturn in the economy. Statistical reports indicate signs that the economy is on the way to recovery. Inflation is under control; formal employment is rising although not as rapidly as desirable. On the fiscal side, the deficit has begun to stabilise and is small relative to GDP. Monetary policy was recently enhanced by the use of indirect instruments and the external sector is relatively stable.

### **THE FOCUS OF THE 2002/2003 BUDGET**

Madam Speaker  
Honourable Members

54. I now wish to elaborate on strategies that the Government has adopted in order to address the challenges outlined above. The 2002/2003 budget focuses more sharply on Government priority objectives as outlined below. The scourge of poverty afflicts a large percentage of the Basotho. Lack of food, shelter, decent clothing, access to basic services such as health and education characterise painful levels of and deprive men, women and children of the dignity which is their birthright. Within the context of poverty reduction and within the constraints of Lesotho's economy the priority objectives are to:

- ♣ Create employment;
- ♣ Develop the economic and social infrastructure;
- ♣ Sustain the management and preservation of the natural resources base;
- ♣ Develop Human Resources;
- ♣ Maintain a sustainable culture of good governance;
- ♣ Continue the fight against HIV/AIDS scourge; and
- ♣ Collect revenue efficiently.

55. Employment creation:- In an attempt to reduce poverty, Government is in the process of developing a Poverty Reduction and Growth strategy, aimed at addressing all poverty related problems. With the support of the International Community, a local team of experts representing all segments of the society is engaged in the process to formulate a Poverty Reduction Strategy Paper (PRSP). The first phase of the process has been concluded. The aim is to reach completion stage by June, 2002. The process needs time as it is fully consultative. An internationally accepted Poverty Reduction and Growth Strategy involving all stakeholders is assured of financial support from the Poverty Reduction and Growth Facility, earmarked for developing poor countries, particularly the Least Developed ones facing high levels of poverty. Poverty will be confronted from many angles through employment of labour-based methods to build infrastructure, create an enabling environment for self-employment, attracting foreign investment, supporting and encouraging local

enterprises; all in the name of generating employment, raising the purchasing power of the population, as well as improving the living conditions and standards of the majority of Basotho. Private Sector Development Strategy supported by the Venture Capital Fund sourced from proceeds of privatisation, is one of the many ways aimed at generating economic activity intended to have several backward and forward linkages including employment, capital generation and formation, more investment and growth.

56. Economic and Social Infrastructure:- Investment in industrial infrastructure has proved very productive in terms of job creation. Efforts to provide industrial infrastructure will be continued in the year ahead in order to promote investment. Implementation of the Road Rehabilitation and Maintenance Programme supported by the World Bank will be continued. This will ensure building of new roads, rehabilitation, and maintenance of the existing road network. The existing Radio and Television network will be extended with the technical and financial support of Lesotho's development partners. Reforms in the developing institutions serving the tourism sector will continue throughout 2002/2003 with policy formulation and essential legislation. The thrust of our tourism policy will be directed towards attracting investment by offering investment incentives including tax concessions. The Lesotho Tourism Development Corporation will be established. Mineral prospecting and the development of water (Lesotho white gold) resources will continue with the assistance of our development partners.

57. Management and Preservation of Natural Resource Base:- In the Agricultural Sector, efficiency will be enhanced through privatisation of some 100 enterprises and introducing reforms focused at core activities. Improved services to the public will also be one major area of focus. Extension services will be improved to support conservation and management of natural resources such as land, water and the environment. Programme of support to farmers will also be sustained. The flora and fauna of the country will be protected and developed.

58. Human Resources Development:- During the financial year, the Government will maintain its policy of devoting a substantial proportion of the budget to education. The Free Primary Education (FPE) Programme will be maintained. In the coming year classes 1 to 3 will benefit from the programme. The programme satisfies the objective of human resources development by making it possible for people to attain literacy, numeracy and a knowledgeable life. Because education is free to parents, it addresses poverty by relieving parents of the outlays needed for school fees and books. Savings can then be applied to purchases of nutritious foods and clothing. It reduces poverty by increasing the chances of people participating in economic activity later in life. Provision of infrastructure and services associated with FPE plays a role in economic growth and employment generation. The programme also supports private sector development in the construction and catering sectors.

59. Good Governance:- Lesotho's general election will be held in the next fiscal year to usher in a new mixed-member Parliament via the first past the post and proportional representation. While it is impossible to predict the outcome, it is expected that the coming general election will bring with it greater inclusiveness and representation. It is further hoped that inclusiveness and representation will enhance political stability necessary for economic development. Efforts towards expediting local government, improving justice dispensation, ensuring the rule of law and fight against corruption will be stepped up. The Anti-corruption Directorate will be fully set up with the assistance of our developing partners. In the next budget year, efforts directed at enhancing the financial sector will be continued. Commercial banks shall be encouraged to take their default cases to the commercial court. It is expected that the settlement of default cases will facilitate financial intermediation by convincing borrowers that it is wise to repay loans, and banks that it is less risky to lend. Competition in the sector will be encouraged by licensing new businesses. In the rural sector, financial intermediation will be encouraged through two initiatives, namely the Rural Savings and Credit Group Scheme and the reestablishment of the Post Office Savings Bank. As part of modernising monetary policy, the use of indirect monetary instruments to control domestic credit shall be consolidated during 2002/2003 fiscal year. Strengthening the Directorate of Dispute Prevention and Resolution established this budget year, will enhance industrial harmony and improved labour relations.

60. Fight Against HIV/AIDS:- The Lesotho AIDS Programme Co-coordinating Authority (LAPCA) will continue to be a Government arm to co-ordinate and address squarely the HIV/AIDS problems and related diseases. LAPCA has been established under the office of the Prime Minister in order to provide it with the clout and political commitment required to carry out the task of co-ordination. Government policy on HIV/AIDS emphasises involvement of all members of our society to fight the scourge. Health education is an important element of the strategy aimed at addressing the problem. Every sector of the economy is mandated to include the fight against HIV/AIDS as an integral part of their programmes. They have also been mandated to allocate and devote at least 2 per cent of their budget towards declaring war on the scourge.

61. Efficient Revenue Collection:- The thrust of fiscal policy shall continue to ensure that Government operations do not lead to an unsustainable situation and to inflation. To this extent, efforts to collect all revenues due to Government shall be maintained and enhanced. The Lesotho

Revenue Authority will be established. The operations of the Authority will be guided by business principles. Incentives will be granted for improved performance in order to enhance efficiency.

62. Collection of Income Tax improved in the past year with increased yield boosted by effectiveness of collection and compliance initiatives put in place. The largest portion comes from employment income. Collection of other two important categories of non-employment income namely property income and income from self-employment are not contributing their fair share. There is substantial evasion of tax resulting from failure of taxpayers to report income. There is potential for greater revenue collection from these source. The Government is currently pursuing all aspects of evasion arising from rampant non-compliance especially by the informal sector. Efforts to improve compliance of existing taxpayers are having some effects. Government is in the process of articulating a coherent strategy towards taxation of the informal sector with a view to expanding the tax net through a simplified schedule with lower compliance costs. The Income Tax Law was reviewed more than eight years ago. A comprehensive review is now overdue. Given geographical location of Lesotho, there is need to attract foreign direct investment and to promote local investment initiatives. It is necessary to review the law and the network of double taxation agreements with other countries. It is the desire of Government to put in place tax rates that are conducive to capital formation.

63. Maintenance of Macroeconomic Stability:- Efforts directed at the collective development of the long-term vision for Lesotho is yet another strategy to address many problems facing the economy, including the listed priority objectives. Government will also consolidate gains achieved since the start of the implementation of the Macroeconomic Reform Programme supported by IMF. Macroeconomic stability is essential for economic growth. A stable economic environment can be sustained through adoption of prudent fiscal and monetary policies capable of maintaining inflation and exchange rates at acceptable levels; thus creating a climate conducive to political stability, increased investment and job creation. In terms of exchange rate policies, the Government shall continue pegging Lesotho's currency at par with the South African Rand despite the rapid depreciation in the Rand in recent years. The cost and benefits of de-pegging the Loti from the Rand have been considered. It seems costs of leaving the Common Monetary Area are likely to be higher than the benefits derived from remaining within the arrangement. More than 90 per cent of Lesotho's imports come from South Africa. Thus remaining in the Common Monetary Area requires maintenance of healthy stock of foreign reserves to support the parity of Loti to the Rand. Madam Speaker, a sustainable fiscal stance requires that expenditure be tailored to revenues. Since 1997, Government expenditures have been rising more rapidly than revenues, creating conditions for unsustainable deficits, which will in turn derail plans to create a stable climate for investment. It is within this context, that many important proposals have not been included in this budget. It is for the same reason that we must be vigilant to reduce wasteful expenditures including abuse of Government property. Related to expenditure controls are public sector reforms aimed at improving financial management, public service delivery and rationalisation of the civil service.

#### **THE 2002/2003 BUDGET PROPOSALS**

64. Madam Speaker, I now turn to the budget proposals for 2002/2003. As usual, the budget will address only a fraction of the many activities that Government wishes to carry out in the year ahead. Because of shortage of resources, many a priority areas will be left out. The proposals submitted in this budget reflect in large measure, the priorities of government outlined earlier. In broad terms they contribute differently, but significantly to Government's primary objective to reduce poverty. They also highlight the prevailing economic environment in Lesotho as well as constraints facing the economy.

65. Honourable Members, the budget I present before this House today is M280.1 million higher than the one presented in April 2001. It proposes a total expenditure and net lending of M3.5 billion against projected revenue of M3.1 billion, giving a before-grants budget deficit of M423.5 million or 5.5 percent of GDP. Many of Lesotho's development partners play an important role in financing part of the capital expenditure and after their grants are taken into account, total resources available rise to M3.5 billion. The after grants budget deficit is M28.1 million or 0.3 percent of GDP. Total grant resources will rise by M69.4 million or 21.3 percent over the past year's budget to M395 million. Of this amount, M295 million will be earmarked for capital projects, while the balance will be used to reduce the deficit and augment our gross reserves of international currencies. It is projected that the after-grants budget deficit will be financed by net external borrowing of M23.5 million and domestic financing amounting to M4.6 million. Principal repayments will be up by 17.7 percent from M233 million to M273 million, while disbursements of loans will fall by 3.5 percent from M307.6 million to M296.4 million.

66. Of the revenue projection of M3.1 billion, SACU receipts account for 47.3 percent. At M1.5 billion this source has increased by 2.2 percent. In real terms these receipts have eroded by some 5 percent since inflation is presently hovering around 7.3 percent. In relation to GDP, SACU revenue accounts for about 19.2 percent against 21 percent in 2001/2002. This is an indication that this source is steadily declining and that counter and mitigating measures need to be taken to identify new sources of revenue, improve collection from existing ones and implement a tighter budget.

67. Income Tax and Sales Tax/Value Added Tax (VAT) will together account for 34.2 percent of projected revenues, with income tax taking the larger share of 23 percent. It is projected that collection from income tax will amount to M711 million, while M353 million will be derived from sales tax/VAT. In relation to GDP, these sources will account for a combined ratio of 14 percent. In the course of 2002/2003, Income Tax is projected to increase by 34 percent while Sales Tax will fall by 3 percent. The sharp increase in income tax reflects successes in collecting tax arrears. It is expected that, in time, these revenues will bridge the gap created by declining customs revenue. Petrol levy is expected to generate M75 million, an equivalent of one percent of GDP. Non-tax revenues consist of water royalties, dividends from privatised companies and public enterprises, administrative fees, fines and forfeits. At M482.5 million these sources are predicted to account for 15.8 percent of projected revenue and 6.4 percent of GDP.

68. On the expenditure side, the proposals for recurrent budget amount to M2.7 billion against M2.5 billion in 2001/2002, an increase of 11.3 percent. The main elements are other goods and services (M1.4 billion), wages and salaries (M1.1 billion) and interest payments (M214 million). Other goods and services are up by 15 percent, wages and salaries by about 10 percent, and transfers and subsidies by 15.8 percent. Interest payments have remained constant reflecting prudent debt plan. Given that overall revenues are expected to increase by only 7.8 percent, expenditure control needs to focus on the recurrent budget.

69. Capital expenditure will be kept in nominal terms at the same level as that for 2001/2002 fiscal year. The amount proposed is M805 million against M803 million during the past year. The component of the capital budget financed from Government resources is expected to rise by only 4.4 percent to reach M310 million against M297 million in the past year. Grant-funded element will rise by 11.1 percent to M295.4 million against M266 million in the past year, while loan funded capital expenditure will decline by 17 percent from M239.6 million to M200 million. The allocation is based on performance in the two preceding years.

70. In line with Government policy on human resources development, the largest allocation in the 2002/2003 budget will go to the Education sector. The sector will receive M777.2 million or 22.0 percent of the total budget. The allocation is higher than that for 2001/2002 fiscal year by M135.6 million or 21.1 percent in line with Government policy to increase resources for education by at least 5 percent above inflation every year. Of the increase, M47.5 million or 35 percent will be directly related to free primary education. The National University of Lesotho is allocated a subvention of M111.6 million, equivalent to 15 percent of Education's budget. M115 million is targeted at loan bursaries administered by the National Manpower Development Secretariat (NMDS). This increases intended Government spending on the education sector to M892.4 million or 25.3 percent of the budget.

71. The next largest share in the amount of M324.9 million will be allocated to Public Works, representing 9.2 percent of the budget. This significant allocation is consistent with the Government policy to build and maintain economic infrastructure and to create employment in order to enhance success in the fight against poverty and in creating a better life for all. Labour intensive methods will largely be employed to maintain and build infrastructural facilities.

72. Health will receive M289.7 million making up 8.2 percent of the total budget. The Primary Health Care Programme covering immunisation, mother and child health care, environmental health and health education will be sustained. The allocation to Health includes a subsidy of M18.4 million for the Christian Health Association of Lesotho.

73. Finance will be allocated M275.1 million or 7.8 percent of the overall budget. This amount includes M73 million which makes up 26.5 percent of Finance's budget for Pensions and Gratuities; M65.7 million (23.9 percent) for the Utilities Reform Project, M30 million (10.9 percent) for Lesotho Revenue Authority and M23 Million (8.4 percent) for the Road fund.

74. Defence will receive M178 million or 5.0 percent of the budget. There is a reason for this relatively high allocation. Defence costs are largely inflated by aircraft insurance and purchase of spare parts. Insurance and spare parts costs rose sharply following the events of September 11, 2001 in the United States. It is Government policy to restructure defence in accordance with realities in the Lesotho context.

75. The agricultural sector is next in line at M168.6 million, accounting for 4.8 percent of the budget, 30.1 percent (M50.7 million) of which will be directed at financing capital expenditure. The allocation is aimed at supporting extensive reforms in the sector including privatisation of agricultural enterprises and reforms aimed at improving the quality of service to the Basotho. Of the allocated amount, M15 million will be set aside to assist farmers for winter and summer cropping.

76. Natural Resources will receive M166.3 million, about 4.7 percent of the budget. M65.4 million or 28 percent allocated to this sector is in support of the Lesotho Highlands Water Project.

77. Development Planning will receive M157.2 million or 4.4 percent of the total budget. Of this amount, M30 million or 19.6 percent is support to Lesotho Fund for Community Development.

78. Home Affairs will receive M138 million or 3.9 percent of the budget.

79. Foreign Affairs will receive M130 million (3.7 percent of the budget). The budget for Foreign Affairs is up by 44 percent on account of plans to open two new foreign missions in Libya and the Republic of Ireland. More than 40 percent depreciation in the Rand/Loti contributed significantly to the increased costs.

80. Local Government is allocated M101.8 million (2.9 percent of the budget), with M12.8 million going to the Decentralisation Project and M12.5 (12.3 percent) being subvention to Maseru City Council.

81. Industry, Trade and Marketing will be allocated M77.6 million (2.2 percent of the budget), of which BEDCO and LOIC are allocated M4.8 million (9.7 percent) and M1.4 million (2.8 percent) respectively.

82. Justice and Human Rights will receive M69.1 million (2.0 percent).

83. The Prime Minister's office will receive M65.6 million (1.9 percent).

84. Gender, Youth and Environment will receive M49.9 million (1.9 percent).

85. Communications will receive M32 million (0.9 percent), of which Postal Services will take M6.1 million (19 percent).

86. Tourism, Sports and Culture will receive M36.4 million (1 percent), M6 million (16.5 percent) of which is intended to support the establishment of the proposed Lesotho Tourism development Corporation.

87. Employment is allocated M17.3 million (0.4 percent), M4 million (23 percent) of which is intended for the new Directorate of Dispute Prevention and Resolution.

88. The proposed allocation of M67.5 million to the Independent Electoral Commission (IEC) includes provision for elections that are expected to take place during the first quarter of 2002/2003.

89. Statutory expenditure for financing the enlarged parliament and other statutory bodies is estimated at M84 million, while the administration account is allocated M63.3 million.

90. Madam Speaker, Government proposes to increase public servants' salaries by 8 percent across the board during 2002/2003. In the future, all salary increases other than those related to inflation adjustments, will be performance related. Plans to implement a performance based appraisal system have already started with training as part of the overall Public Sector Improvement and Reform Programme. Thus, during the next financial year, the onus will be on the servants of the Nation to pull their socks or reap the consequences of a sloppy performance.

91. Let me conclude my presentation by expressing a deep sense of gratitude to Prime Minister Mosisili for the leadership in governance and in the search for answers to the formidable challenges that face Lesotho, for his sense of mission and commitment to mould a solid team from difficult and slippery characters such as myself, and for granting me the opportunity, which I relish every moment, to be part of his team. Lest I forget, I must thank my colleagues, Cabinet Ministers, for their support always and even as we prepared this budget. On behalf of Government and the people of Lesotho, I thank most heartily our development partners particularly the United Nations Development Programme, the World Bank, International Monetary Fund, African Development Bank, European Union, the British, Irish, German, and Chinese Governments and many others for their support. Senior Government Officials, particularly the Government Secretary and his team of Principal Secretaries, and in particular my own team in the Ministries of Finance and Development Planning as well as the Central Bank. All deserve litres of thanks for their contributions and hard work during the preparation of this budget. Of course, tons of thanks go to my wife and family without whose support I would not be 100 percent fit to tackle the challenges of my call.

**LIKHOMO BASOTHO BA HESO! - MAY PEACE BE WITH US ALL!**