



2022/2023 Lesotho National Budget Analysis

“Inter-ministerial collaboration, multi-disciplinary approaches and subsidiarity to tackle poverty, malnutrition, and joblessness focusing on service delivery at the local level”

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Overview

- Introduction and Macroeconomic Context
- Government Proposals
 - Growth Strategy
 - Fiscal Strategy
 - Revenue Strategy
 - Expenditure Strategy
- Sectoral Allocations
- Budget Credibility - Effectiveness
- Conclusion



Introduction

- To foster inclusive and sustainable long-term growth and poverty alleviation
 - Arrest the accumulation of arrears
 - Streamline price distortions/controls and consider targeted safety nets
 - Address fiscal slippages and other institutional weaknesses
 - long-term fiscal targets
 - fiscal rules, and
 - fiscal institutions,
 - budget procedures



Lesotho Macroeconomic Situation

- Lesotho's per capita GDP has declined from M16,888 in 2020 to M16,885 in 2021 in current prices
 - For the past five years spanning 2017/18 – 2021/22, experienced economic contractions of about 1.7% on average.
 - In 2022/23, growth is estimated at 1.8% and is projected to accelerate to 2.3 % in 2023/24.
 - At below 5%, our rate of economic growth is far below that, which is consistent with the desired NSDP target.
- One of the most unequal countries in the world, with a Gini index of 44.9%.
- The government of Lesotho is the largest economic player in Lesotho, and government expenditure as a percentage of GDP stood at 38.3% in 2019.
- A public system embattled with bad habits of wasteful spending, misappropriation, fiscal slippages



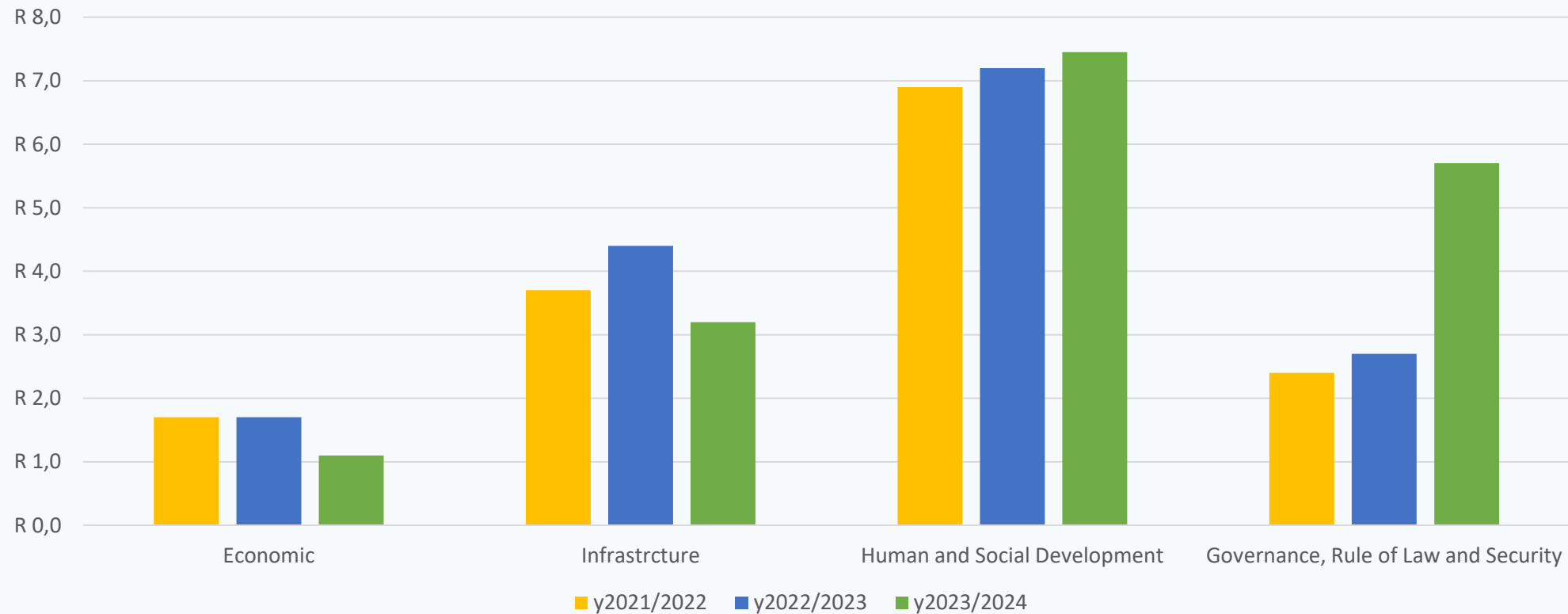
Overview of 2023 Budget

- Overall direction of the budget outline in Page 17, Paragraph 92:
- This government's aim is not so much to reduce expenditures given the prevailing global and domestic economic conditions. Rather, the aim is to direct resources to productive ventures that stimulate investment by the private sector and away from recurrent spending, save for recurrent spending that strictly supports productive spending directly. It is this manner of expenditure control that will secure us growth.



Overview of 2023/2024 Budget

- In nominal terms, the 2023/2024 Budget takes an expansionary fiscal stance across the four key sectors.
- *NB: Economic only includes Agric allocations, and all sectoral allocations are to be confirmed.*



Government Proposals

- **Economic Strategy for FY23/24**
 - **Agriculture**, industries that build valued chains to produce jobs
 - The **extractive sector** with the aim to enhance the beneficiation of Basotho in the exploitation of our natural resources,
 - Reconstruction of **infrastructure** and building of new infrastructure (soft and hard) that facilitates active participation of the private sector,
 - Strengthening **governance and accountability** in private and public institutions and leveraging on innovative technology for efficiency.



Government Proposals

- **Economic Strategy - Proposals**

- build systems and enhance the capacity of relevant institutions to fight economic crimes
- enhancing productivity, promoting diversification and value chain development
- adopt appropriate technology and advanced mechanization, including appropriate seed and fertilizers inputs as well as climate-smart technologies
- facilitate increased production of meats (poultry, beef and pork) as well as eggs, fish and milk
- up-scale its production of green and renewable energy
- upscale efforts to ensure access to clean water and sanitation for Basotho
- forge alliances with countries in the region to build infrastructure that facilitates the transfer and distribution of water to the SADC region.
- invest in water conservation and catchment management, and management of pollution and the environment at large.
- improve institutional arrangements for participation in the extractive industry (particularly the mining sector) to ensure better beneficiation
- conserve biodiversity for now and for future generations.
- ICT infrastructure development shall be aligned with e-government priorities, opportunities in e-commerce and the provision of efficient services
- investment in high-quality education and relevant skills development programmes



Government Proposals

- **Medium Term Fiscal Strategy for FY23/24 – FY24/25**
 - Maintain NIR of not less than 4.5 months of import cover
 - Need to stimulate investment in sectors with potential for export earnings by, for example, establishing Special Economic Zones (SEZ)
 - Domestic imports are among the largest threat to NIR, thus need to boost domestic production (import substitution policy)
 - Reduce dependence on volatile SACU receipts by working towards a state where recurrent expenditures can be covered by tax and non-tax revenues.
 - No clarity on strategies for Domestic Resource Mobilisation?
 - Efficiency gains?
 - Development and Stabilization fund (*to finance infrastructure and capital budgets*)
 - Development component of SACU revenue – Why not start now with this budget?
 - Donor funding
 - Earnings from natural resources
 - Review some of the fees and charges for services to reflect the cost of such services.
 - Need to review Govt policy on price controls (e.g., higher education fees, energy, transport, and so on) and consider targeted safety nets to protect the marginalised groups.
 - Tighter controls over recurrent expenditure budgets and targeting no real increases in recurrent spending over the next three years (excluding maintenance of assets).
 - Culture of incremental Budgeting in Govt
 - Implement MTEF with requisite legal instruments.



Government Proposals

- **Revenue Strategy for FY23/24 – FY24/25** – very weak relative to other strategies and poorly articulated plans. RSL needs to improve submission to MoF.
 - **Modernisation of tax collection**
 - **Has impact on the achievement of fiscal strategy**
 - Improve tax revenue as a share of the total budget
 - Increase share of domestic resources (revenue and financing)
 - Consider informal sector taxation as an option for broadening the tax base
 - **Can aid Govt to crowd-in and stimulate private investment**
 - Tax concessions and breaks
 - reforming the corporate tax structure to lessen potential distortions and attract FDI
 - **Can stimulate domestic demand consumption**
 - Income tax credit



Government Proposals

- **Expenditure Strategies for FY23/24 –**
 - **Implementation plans and management accounts will be reviewed regularly to ensure accountability, transparency and efficiency**
 - Need requisite skills to draft and review MDAs implementation plans or need to re-tool relevant officers for this task.
 - No budget allocation proposed.
 - **Constant reconciliation of public accounts, tracking of audit findings and rendering audit findings binding and mandatory are key and will be pursued earnestly.**
- **Actions include**
 - Personnel database and payroll records be linked, regularly updated, and reconciled.
 - Temporary employees must be enrolled in the HRIMS system linked to the National ID System, Budget system and IFMIS.
 - Periodic Payroll audits
 - Verification of the goods and/or services, including consulting services
 - Introduce e-procurement and centralised procurement
 - Set up an independent procurement institution
 - All domestic payments will be made through Electronic Funds Transfer in FY23/24



Sectoral Issues and Allocations for 2023/2024

- **Economic Sector**
 - Agric – M1,1 billion
 - Trade - ?
 - Mining - ?
 - Tourism sector
 - Resuscitation and enhancement of programmes such as the Basotho Diaspora Homecoming Event
 - Availability of financial products and business support services for MSMEs
 - Need clear Govt policy to harness and coordinate support by Dev. Partners (such as AfDB, UN, World Bank, IMF, and so on) on private sector development
- **Human and Social Development** – *very small multipliers thus need to review outputs and outcomes*
 - **Health** - M3,2 billion
 - **Education** – M2,8 billion
 - Not clear how to close the funding gap at secondary
 - Notable on recognition of ECCD and scaling it up to country level, but raises issues of access
 - **Social** - M1,4 billion –
 - Child Grants – from M120 to M200
 - Disability Grants – from M400 to M600
 - OVCs from 26 400 to 36 000



Sectoral Issues and Allocations for 2023/2024

- **Infrastructure Development – M3.2 billion**
 - Energy – M462,1 Million
 - Roads – M1,4 billion
 - Transport –
 - M150 million for bus terminals
 - Urgent need to improve Maseru Bus Stops and transport in the CBA given its 50% contribution to national GDP.
 - **Water – M1,2 billion**
- **Governance and Accountability – M5,7 billion**
 - National Assembly
 - Local Govt
 - Public Safety
 - DCEO



Budget Execution

Item	Percentage Unrealised
Total Revenue	6,1%
Recurrent	3,1%
Capital	19,1%

- Reasons for not fiscal slippages on recurrent and capital
 - How are they being addressed going forward?
 - Fiscal reforms to improve the execution of the Govt Budget.

Budget Credibility

- the *degree of deviation* between planned and actual spending over a 12-month period
- Different dimensions of Budget Credibility
 - measure how close the government got to its estimated overall expenditure envelope
 - how well it performed against its revenue predictions.
 - measures the credibility of the composition of expenditure and the size of the contingency budget
 - Considers whether or not recorded expenditures are an accurate reflection of actual spending commitments
- Three drivers of budget non-credibility are identified
 - inevitable lack of knowledge as to how the future will unfold (**uncertainty**)
 - the inability of the PM to fully control his Ministers (**unruly agents**)
 - the desire to gain the support of external stakeholders by publishing a budget that one does not truly intend to undertake (**signalling**).



Conclusions

- **Tax Bills (outstanding since 2020)**

- Tax Administration Bill
- VAT Bill
- Income Tax Bill
- Customs Bill
- PFMA Bill.



- **Private Consumption Stimulus Package**

- Income tax credit increased M5,620 to M5,760 per month.
- Old Age Pension be raised by M50 to M900 per month
- Salaries and wages be adjusted by 2,5 percent across board

- **Investment Stimulus Package**

- **Domestic Resource Mobilisation**



Thank you
