



PARLIAMENT OF THE KINGDOM OF LESOTHO

2021/22 MID-TERM BUDGET REVIEW

“Navigating the New Norm towards Transformation and Economic Recovery”

BY

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MINISTER OF FINANCE

MASERU, LESOTHO

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MR SPEAKER,

Allow Me to Pay My Respects to:

His Majesty King Letsie III and Head of State

The Right Honourable the Prime Minister and Head of Government

The Honourable President of The Senate

The Chief Justice and Judges of The High Court

The Honourable Deputy Prime Minister and Leader of The House

My Colleagues, Honourable Ministers of His Majesty's Government

Honourable Members of Both Houses of Parliament

Their Excellencies, Heads of Diplomatic Missions and International

Organisations here Present

Distinguished Members of The Media

The Entire Basotho Nation in Lesotho and Abroad

Ladies and Gentlemen

1. **Mr. Speaker**, it is my honour to present before this august House the Mid-Year Budget Review for 2021/22. This is usually the time to assess the budget performance and its economic implications for the remaining months of this fiscal year. Allow me to turn to the contents of this review starting with a brief on global, regional, and domestic economic developments and outlook.

WORLD ECONOMIC SITUATION AND PROSPECTS

2. Following a sharp contraction of 3.2 percent in 2020, global growth projections have shown signs of recovery against the backdrop of rapid vaccination rollouts in a few large economies. The global economy is now projected to expand by 6.0 percent in 2021, before moderating to 4.9 percent in 2022. This means that we can expect a rebound in the demand of our major exports in the developed economies. The strong growth outlook is largely attributed to growth outlook for China and the United States of America. However, growth outlook for many countries in Africa remain bleak.
3. Sub-Saharan Africa's economy is set to expand by 3.7 percent in 2021 and 3.8 percent in 2022. This follows the sharp contraction in 2020 and is much welcome, but still represents the slowest recovery relative to other regions.
4. To be specific, the regional economic outlook points to deviations at three levels: between sub-Saharan Africa and other regions, within sub-Saharan Africa, and within countries. These discrepancies reflect the region's slower vaccines rollout, more limited fiscal space, and regional disparities in resilience. The outlook remains extremely uncertain, and risks are tilted to the downside. In particular, the recovery depends on the path of the COVID-19 pandemic and the regional

vaccination efforts. It also depends on food price inflation, as well as developments in global activity and financial markets.

5. **Mr. Speaker**, Growth in South Africa is projected to rebound by end of 2021 even though protracted waves of COVID-19 in the first half of the year has held back the economic activity. Growth is projected at 5.1 percent in 2021 before moderating at 1.8 percent in 2022. However, in the second half of the 2021, growth is projected to pick up, driven by domestic demand and commodity exports. Household consumption is expected to contribute significantly to growth as the economy opens.
6. Inflation related in part to food prices is expected to remain elevated regionally and domestically during the second half of the year but is expected to return to its pre-pandemic ranges in 2022 once the pandemic turbulences ease, however, uncertainty still remains high. This is mirrored by high food prices in international markets.

DOMESTIC ECONOMIC DEVELOPMENTS

7. **Mr. Speaker**, the domestic economic growth is projected to recover to 0.1 percent in 2021/22, following a contraction of 6.7 percent in 2020/21. The projected recovery draws from anticipated construction activities related to LHWP-II, which are expected to impact positively on economic activity. However, competitive pressures in textiles, poor climatic conditions, and a sluggish regional environment are likely to contribute to the current volatile conditions.
8. While the economy is expected to recover in 2021/22, the impact of COVID-19 third wave on GDP growth in the first quarter of 2021 is recorded to have contracted by 10.6 percent. However, second quarter was marked by strong

recovery as lockdown regulations were relaxed and business and consumer confidence improved. The second quarter is reported to have expanded by 12.7 percent relative to a contraction of 21.7 percent observed in the same quarter of 2020.

9. Growth in 2022/23 is expected to moderate to 2.6 percent and 2.9 percent in 2023/24. Diamond production and LHWP-II investment remain the key drivers of growth over the medium term.

ANNUAL INFLATION RATE

10. **Mr. Speaker**, the rate of annual inflation in 2021/22 is estimated at 5.5 percent. The divisions which displayed a substantial annual increase in the inflation rates were Food and Non-Alcoholic Beverages at 8.5 percent, Clothing and Footwear at 3.1 percent, Housing, Water, Electricity, Gas and Other Fuels at 7.9 percent, including Furnishings, Household Equipment and Routine Maintenance of the Houses, Transport and miscellaneous goods and services.

FISCAL SECTOR DEVELOPMENTS

11. The 2021/22 budget was set to reach M23.8 billion, a decline of 0.1 percent from the 2020/21 budget. Nevertheless, this year's budget was premised on projected capital budget estimate of M5.7 billion equivalent to 24.1 percent of the total national budget, while recurrent spending accounts for a staggering 75.9 percent.
12. **Mr. Speaker**, total revenue including Grants and SACU is estimated at M17.3 billion which is 4.4 percent lower than the prior year's estimates. This lower total revenue estimates is associated with a lesser share of SACU revenue of M6.0 billion against M8.9 billion recorded in 2020/21.

13.The projections in the 2021/22 budget speech were expected to result into a drastic deterioration of the overall fiscal deficit from an observed surplus of 0.5 percent of GDP in 2020/21 to a stunning 13.1 percent of GDP, which is roughly M4.8 billion this year. However, we employed efforts to curb expenditure in the first half of the year which have reduced that fiscal deficit expectation to 4.3 percent of GDP.

REVENUE PERFORMANCE AND OUTLOOK

14.**Mr. Speaker**, cumulative revenue collections for the period April to September 2021 amounted to M8.4 billion against a budget estimate of M17.3 billion, resulting in a variance of 48.7 percent against the budget. This performance benefitted from SACU receipts, tax revenue, water royalties from LHDA, and grants which are all well on target.

15.Non-tax revenue receipts totaled M954.3 million which is 1.9 percent below the 6 months target. However, this year's collection is M167.4 million higher than prior year's 6 months collection of M786.4 million.

EXPENDITURE PERFORMANCE

16.**Mr. Speaker**, for the remainder of the fiscal year 2021/22, sustained expenditure restraint is required for fiscal sustainability. The hard work to narrow the budget deficit and improve the structure of spending remains on course. At the same time, the Government is faced with a dilemma of balancing the need for support to the economy post-pandemic with ongoing efforts to maintain the fiscal deficit at sustainable levels.

17.Expenditure on Compensation of Employees is lower at 41.8 percent against the budget. However, Compensation of Employees for the first half of this year is

higher by M36.3 million relative to prior half year outturn in 2020/21. On average, the Government spends approximately M450.9 million a month on Compensation of Employees.

18. Expenditures for the acquisition of Goods and Services in comparison with last year's six months outturn increased by M112.5 million to M961.6 million, driven by an increase in operating cost. Nonetheless, the performance of this expenditure item is recorded well below 50 percent of the budget estimates. Student Grants to National Manpower Development Secretariat rose by M92.4 million to 544.6 million compared with the same period of 2020/21.

19. **Mr. Speaker**, the donor funding of M3.6 billion was tabled before this Honorable House. Thus far, an additional M2.4 billion has been signed with Development Partners to support capital projects. M1.7 billion is earmarked for water developments projects in Butha-Buthe and Mohale's Hoek, M62.5 million for Tax Modernization project, M313.0 million for Nutrition and Health System project and M346.5 million for COVID-19 activities.

IMPLEMENTATION OF EXPENDITURE CONTROLS AND REVENUE MANAGEMENT

20. **Mr. Speaker**, a highly unstable SACU revenues and high expenditures make fiscal discipline hard to maintain; this condition called for improvements in the expenditure controls and revenue management. A better and improved revenue management is key to reducing Lesotho's dependence on volatile SACU revenues.

21. With an estimated general government spending of 65.0 percent of GDP and total revenue of 47.2 percent of GDP, it is evident that most of the adjustments ought

to be made from the recurrent expenditure side. However, with public administration contributing 21 percent to GDP growth, fiscal consolidation outcomes are likely to result into lower growth of GDP in the medium term, but the longer-term benefits are more plausible considering that the current macroeconomic situation requires long term solutions to achieve NSDP II goals and SDGs benchmarks.

22.To ensure appropriate and transparent application of the required fiscal consolidation, the Government has sought IMF support under Extended Credit Facility (ECF) and Extended Financing Facility (EFF) arrangements which are consistent with the objectives of the NSDP II. The Government commits to address the long-standing structural problem of a government led growth model, while focusing on targeted reform actions to maintain macroeconomic stability and strengthening the inclusive growth agenda.

23.The Government still commits to control recurrent expenditure in order to preserve fiscal space, while at the same time mobilizing domestic revenues. Public service delivery will be at the heart of this endeavor. The adequate level of Net International Reserves will be maintained to safeguard the Rand/Loti peg.

REVISIONS TO MAIN BUDGET SPENDING PLANS

24.**Mr. Speaker**, subsequent to the budget approval by the Parliament, M214.0 million was released from the Treasury Bills and Bond Account to supplement the approved budget to finance Intensive Crop Production and the Ramarothole Solar Power Generation Project to cater for the power sub-station at Koro-Koro. M221.0 million was reallocated to finance African Union Sports Council Region 5 (AUSC Region 5) games to be held from the 3rd-12th December 2021.

Furthermore, advances from the Contingency Fund were made for procurement of COVID-19 Vaccines and for payment of funds owed to Wool and Mohair farmers.

25. Other cost pressures which were funded through advances from the Contingency Fund were 'Muela Hydropower Station maintenance and insurance, debt settlement towards Belo and Tikoe Industrial Infrastructure Parks; payment of different sectors that were affected by January and February 2021 heavy rains; and support to people in need of humanitarian assistance as identified by Lesotho Vulnerability Assessment Committee Result of 2019.

26. **Mr. Speaker**, funding was also allocated to facilitate payment of Aviation Insurance and Deployment of Lesotho Defence Force to SADC Mission in Mozambique as well as procurement of hardware for Human Resource Management Information Systems Phase II and its Interface with IFMIS EPICOR-10 and the Central Budget Management System.

SECTORAL PERFORMANCE

INVESTMENT PROMOTION

27. **Mr. Speaker**, in ensuring sustainable production and productivity of agricultural output and nutrition security across the country, Government continues to support farmers through Intensive Crop Production Programme. The agricultural inputs have been procured and sold to farmers across the country through 193 traders for ease of access, at 60 percent subsidy.

28. To mitigate the effects of COVID-19 to farmers, Wool and Mohair Promotion Project continues to assist farmers with subsidised feeds and drugs for animals

sold at 50 percent of the cost. 20 new shearing sheds have been constructed across the country while some are being rehabilitated.

29.**Mr. Speaker**, the Government recognises the importance of improving the legal frameworks to unlock potential growth of the mining sector, increase local participation as well as beneficiation.

30.Over the last six months and beyond, the Government was able to collect illegal diamonds and sold them locally. A study focusing on the feasibility of Artisanal and Small-scale Mining (ASM) on localisation of diamond trading was undertaken and completed. I am proud to report that ten (10) mining sites for ASM have been identified and nine of them are found to have potential. Therefore, it important to ensure compliance with international best practices for sustainable growth and protect mineral resource wealth for the future generations as well.

ECONOMIC GROWTH AND JOB CREATION

31.**Mr. Speaker**, the Government continues to facilitate the development and growth of small businesses and cooperatives to contribute to an inclusive and shared economic growth and job creation through public and private sector procurement. To this end, the Government has developed the Micro, Small and Medium Enterprises (MSME) and Marketing draft Policies and they are both pending stakeholders' validation.

32.The MSME data-system has been developed to enable direct self-registration into the system as well as manual filling of forms for those who are technologically constrained. The system will allow attainment of accurate information about

MSMEs in Lesotho for planning and development purposes. It has further launched Sethala platform where investors, MSMEs and cooperatives were mobilised on present investment opportunities.

33.The MSME Roundtable was held to discuss issues affecting MSMEs and Cooperatives including access to finance and markets. The linkages between retail outlets and the water bottling industry have been developed, where the outlets showed willingness and interest to purchase the locally produced water.

34.To develop a partnership between the Government and the Private Sector, a concept of Buy-Lesotho Program was developed to ensure cooperation that will benefit small businesses and cooperatives. This program will facilitate locally produced products and services to penetrate local and international markets.

35.**Mr. Speaker**, trade and industry is one of the great contributors to the achievement of government's goal of job creation, economic growth, and poverty reduction. The construction of sixteen factory shells at Belo has been completed. Works on the bulk electricity supply to the estate has begun. Seven factory shells and associated infrastructure at Ha Tikoe is also estimated at 50 percent completion.

36.An ongoing and greatly progressing online business licensing and registration continues to reduce time and cost of doing business in the country. Online issuance of manufacturing and traders' licenses, as well as renewals of licenses now takes 3-5 days instead of 3 months taken before. The Lesotho Trade Information Portal hosted by LNDC provides a detailed information on applicable processes, procedures, measures and Government Ministries and Agencies and their related services.

37.**Mr. Speaker**, despite the challenges that were brought by the COVID-19, Government has continued to implement several key programmes and attained notable achievements during the midterm. The Maseru Tourist Information and Crafts Centre has been completed. The center has a production workshop which will provide a space for crafters to work from and display their arts and crafts. It will also be a hub where Lesotho tourism information will be easily accessible and thus promote tourism in the country. This facility has been leased out to a private operator.

INFRASTRUCTURE

38.**Mr. Speaker**, to increase electricity generation in the country, construction of the two power stations at Ha Ramarothole is in progress. The approval of a detailed design of Photovoltaics (PV) area, specification of equipment, detailed design of Ramarothole substation and demarcation of transmission line route from Ramarothole to Mofoka have been completed.

39.**Mr. Speaker**, finally, the construction of New Senate Chamber and Offices has commenced, access road has been completed. The bulk earthworks and foundations excavation are nearing completion.

HUMAN AND SOCIAL DEVELOPMENT SECTOR

40.**Mr. Speaker**, support to vulnerable groups of the society still remains a priority to the Government. To date more than 9,000 CGP households and around 1,200 Public Assistance beneficiaries have been enrolled, about 23,800 Orphaned and Vulnerable Children (OVCs) have been awarded bursaries.

41. In line with social development policy, of promoting graduation of able-bodied persons from living below the poverty line, the Government has initiated the programme to start livelihood projects for recipients of social grants. These livelihoods projects include Dairy farming, sheep rearing, hatchery, Broiler, bee keeping, and keyhole gardening.
42. **Mr. Speaker**, the Government is still committed on improving the health system capacity and specifically enhance the capacity to respond to COVID-19 and other similar pandemics. It further resolved to adequately equip the health sector with the requisite work force and improve the health sector infrastructure such as intensive care units and supply of medical equipment. In a continual fight against COVID-19, more than 8,500 Community Health Workers have been trained on surveillance, monitoring of quarantined and home isolated COVID-19 patients. The Ministry of Health has developed guidelines and Standard Operating Procedures for the COVID-19 vaccines and conducted training of trainers on management of vaccines.
43. The Government has intensified the prevention and control strategy by reviewing the country's COVID-19 Risk Determination and Mitigation Framework. This is an improvement from reliance on surveillance of a simple Basic Reproductive Number to a combination of epidemiological status.
44. The spread of the virus and its resurgence continue to be surveyed through intensified testing and applied control measures that sustained the third-wave resurgence in the country. Construction of three oxygen plants in Berea, Mafeteng and Motebang Isolation Centres have been completed to improve health system capacity.

45. Global Alliance for Vaccines and Immunisation (GAVI) donated 338,400 COVID-19 vaccines and further assisted on the distribution of these vaccines in all health centers. South Africa also donated 100,000 doses of Johnson and Johnson (J&J) while additional 1,382,000 doses of J&J vaccine have been donated under African Vaccine Acquisition Task Team (AVATT). To date, more than 35 percent of the total population has been vaccinated putting Lesotho among the best vaccinating countries in Africa.

46. For safety and storage, Ultra Cold Chain Equipment for Pfizer vaccine, generator and air conditioners for the National Vaccine Store were procured to maintain cold chain equipment in all health facilities in the country.

47. **Mr. Speaker**, on COVID-19 mitigation measures, more than 2,000 public schools were provided with soap, sanitizers, disinfectants, masks, Operational Guidelines on the Management of COVID-19 in Schools, and posters for all classrooms and offices. Hand-washing facilities were established in 800 schools. Processes are under-way to provide water tankers to selected 172 disadvantaged schools.

48. **Mr. Speaker**, the Government considers sports development as a national investment, supplementing education to prevent youth from resorting to illegal activities by expanding their participation. This Honourable House may recall that during the 2021/22 budget speech, I stated that the Government had to suspend hosting of AUSC Region 5 Youth Games due to COVID-19 conditions. However, Government had revised the decision and concluded that the games should continue under the COVID-19 restrictions. Gravel road to Ha Rapokolana is nearing completion and refurbishment at athletes' village at National University of Lesotho, Lesotho College of Education and Rapokolana are

underway. All Basotho are invited to make the hosting of the AUSC games a success.

GENDER BASED VIOLENCE

49. Lesotho happens to be a country that has one of the highest incidences of Gender-Based Violence (GBV) in the world. Even before the COVID-19 outbreak, violence against women and girls had reached rampant proportions. The Government has developed a Gender Based Violence training manual for Health Care Workers and finalized a Gender Based Violence Register.

50. The gender mainstreaming exercise was completed with all the deliverables: gender tagging, gender-based violence assessment and risk analysis for the Lesotho Nutrition and Health System Strengthening Project, Sexual Exploitation and Assessment Report and mitigation measures. The Gender Based Violence and gender mainstreaming final report was also disseminated to a larger group of stakeholders and partners. In an effort to advocate against Gender Based Violence, Ministry of Education and Training has developed School Related Gender Based Violence Manual and the Adolescent Information Handbook. In an endeavor to support the survivors of Gender Based Violence, the Ministry of Gender and Youth, Sports and Recreation has accommodated 55 Gender Based Violence survivors at Lapeng Care Centre and provided them with psychosocial support.

GOVERNANCE, RULE OF LAW AND SECURITY

51. **Mr. Speaker**, effective law and order, security and justice are essential preconditions for political stability and for local and foreign investment. Lesotho along with other SADC member countries deployed troops in Mozambique from August this year. The original plan was to deploy the stabilization force for a

period of three months but due to security situation in the area of deployment, the period has been extended to January 2022.

52. **Mr. Speaker**, in July this year, National Reform Authority developed a tiered approach of addressing the reforms agenda, with a particular emphasis on addressing constitutional amendments first as the leading thread for legislative, policy and regulatory reform decisions. An omnibus Constitutional Bill requiring simple majority and two thirds majority parliamentary vote has been developed.

53. To deliver free and fair elections, the Independent Electoral Commission is harmonising the laws, which will facilitate completion of demarcation of electoral divisions and review of constituencies. To improve the quality of voter register, the preparatory work for re-registration of eligible voters has started and the actual re-registration will commence in February 2022.

54. The Government continues to record the vital events (births, marriages, and deaths) of its citizens and residents. These vital events are carried out through procurement of registration equipment and operating consumables. To improve childbirth registration activities, two workstations have been procured for its automation at community councils. Registration equipment have been installed in Maluti and Scott Hospitals and about 48,000 children under five have been registered.

55. Livestock Registration, Marking and Information System that identify livestock through branding and tattooing and use of other new technologies has intensified its activities to ensure that no livestock remain unmarked. To date, over 18,000

livestock has been successfully marked and over 2,000 Livestock Owners registered.

56.**Mr. Speaker**, on human trafficking, the African Union Project for Internally Displaced Persons assisted the Government in enhancing the protection and support of Internally Displaced, Returnees and the Refugees population in Lesotho, as well as the host community in different districts. Meeting with Principal Chiefs was held to identify hotspot areas on internal displacement. Community gatherings have been conducted in all districts and at the Lesotho's ports of entry to sensitize people on internal displacement and trafficking issues.

CONCLUSION

57.**Mr. Speaker**, with this progress, we are revitalizing the economy and resuming the transformation drive that was disrupted by COVID-19. As I indicated earlier, implementing the vision we have set requires that we mobilise every resource, use them efficiently and work harder to increase our productivity. The outlook for the remaining months include the following:

- Expenditure must be contained in line with expected revenue.
- Move fast on business environment reforms to ensure that investments such as those made at Belo and other industrial infrastructure remain attractive to investors and attract new ones.
- Complete and get all the relevant tax bills through Parliament to pave the way for mobilizing additional revenue.
- Accelerate implementation of projects to improve access to basic services and set a firm foundation for sustainable growth.

58.**Mr Speaker**, we must accept that our citizens' standard of living will improve over time only if we stay focus on increasing productivity. This can only be accomplished through a visionary and competent political leadership, support from this Honorable House, and support and understanding of every Mosotho.

KHOTSO, PULA, NALA

Mid-Term Budget Review Macroeconomic Framework April to September 2021/22

	Year to Date			Annual Budget 21/22	21/22 Budget (% GDP)	21/22 Actual to date (% of GDP)
	Actual to Sept. 21/22	6 Months projected outturn	Variance			
Revenue	8,233	8,626.9	(393.7)	17,253.8	47.2%	22.5%
Tax revenue	3,747	3,670.1	77	7,340.1	20.1%	10.2%
Taxes on income, profits, and capital gains	2,075	1,797.5	278	3,595.0	9.8%	5.7%
Payable by individuals	1,190.8	1,099.7	91.1	2,199.3	6.0%	3.3%
Payable by corporations and other enterprises	473.5	368.8	104.7	737.6	2.0%	1.3%
Unallocable (Payable by Both Individuals and Corporations)	411.1	329.1	82.0	658.1	1.8%	1.1%
Taxes on goods and services	1,672.0	1,871.2	(199.2)	3,742.4	10.2%	4.6%
Value-added tax	1,418.4	1,523.0	(104.6)	3,046.0	8.3%	3.9%
Excise taxes	245.1	334.0	(88.8)	667.9	1.8%	0.7%
Other taxes	0.0	1.4	(1.3)	2.7	0.0%	0.0%
Grants	515.0	12.8	502.2	25.5	4.3%	1.4%
Other revenue	857.7	1,157.9	(300.2)	2,315.8	6.3%	2.3%
Property income	337.0	456.4	(119.4)	912.8	2.5%	0.9%
Dividends	172.1	159.6	12.5	319.2	0.9%	0.5%
Rent	161.1	261.2	(100.1)	522.4	1.4%	0.4%
Sales of goods and services	520.0	699.4	(179.4)	1,398.8	3.8%	1.4%
Electricity 'Muela	28.2	29.0	(0.8)	58.0	0.2%	0.1%
Water Royalties - LHDA	456.1	587.1	(131.0)	1,174.1	3.2%	1.2%
Administrative fees	4.8	22.8	(17.9)	45.5	0.1%	0.0%
Incidental sales by nonmarket establishments	30.9	60.6	(29.7)	121.2	0.3%	0.1%
Fines, penalties, and forfeits	0.7	1.7	(1.0)	3.3	0.0%	0.0%
SACU receipts	3,113.1	3,003.9	109.2	6,007.8	16.4%	8.5%
Expense (Statutory + Non Statutory)	6,551.5	8,150.5	1,599.0	16,301.0	44.6%	17.9%
 Compensation of Employees	3,131.7	3,557.5	425.7	7,114.9	19.5%	8.6%
Wages and salaries	2,891.0	3,206.4	315.4	6,412.8	17.5%	7.9%
Use of goods and services	1,222.3	1,561.1	338.7	3,122.1	8.5%	3.3%
Interest Payments	220.5	405.4	184.9	810.8	2.2%	0.6%
To nonresidents	116.1	220.3	104.2	440.5	1.2%	0.3%
To residents other than general government	104.4	185.2	80.8	370.4	1.0%	0.3%
Subsidies	127.0	425.2	298.2	850.4	2.3%	0.3%
Grants to international organisations	505.3	19.4	(485.9)	38.8	0.1%	1.4%
Grants other general government units	470.9	427.7	(43.2)	855.3	2.3%	1.3%
Social benefits	901.7	1,230.4	328.7	2,460.7	6.7%	2.5%
Other expense	443.0	523.9	81.0	1,047.8	2.9%	1.2%
Student Grants - NMDS	391.2	475.5	84.3	951.0	2.6%	1.1%