



**CONSOLIDATED REPORT ON THE ANNUAL BUDGET AND ESTIMATES OF
REVENUE AND EXPENDITURE FOR THE FINANCIAL YEAR 2020/21**

PRESENTED
BY THE
PORTFOLIO COMMITTEE ON THE ECONOMIC AND DEVELOPMENT CLUSTER

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1.0. INTRODUCTION

1.1. Mandate

On Wednesday 26th February, 2020, the Honourable Minister of Finance presented the Revenue and Expenditure Estimates for the Financial Year 2020/21 before Parliament as the Constitution and Section 4 (b) of the Public Financial Management and Accountability Act, 2011 so dictate. These Estimates were accordingly introduced in the National Assembly and referred to the respective Portfolio Committees for scrutiny pursuant to Standing Order No. 67. The latest developments on COVID-19 have necessitated budget review by government to propose the revised estimates as it will be noted in the ensuing sections of this report. Following consultations with various stakeholders on the budget estimates, the Portfolio Committee on the Economic and Development Cluster wishes to table this consolidated report pursuant to Standing Order No.68 for consideration and adoption by this august House. This report is the product of the work done by this Committee and four other Portfolio Committees; whose reports are incorporated in the form of Annexes to this main document.

1.2. Acknowledgements

The Committee wishes to acknowledge and recognise the valuable support received from the following groups and individuals:

- 1.2.1.** The various Government Ministries and Departments;
- 1.2.2.** The Chairpersons and Members of the Portfolio Committees;
- 1.2.3.** The Committee Coordinator and his team of Committee Clerks;
- 1.2.4.** Lesotho Council of Non-Governmental Organisations;
- 1.2.5.** Lesotho Revenue Authority;
- 1.2.6.** Private Sector Foundation of Lesotho;

1.2.7. Lesotho Chamber of Commerce & Industry; and

1.2.8. Morena Sales & Merchandising (Proprietary) Limited.

2.0 METHODOLOGY

Among the Ministries that the Portfolio Committee on the Economic and Development Cluster invited are the Ministry of Finance and the Ministry of Development Planning. The two Ministries provided a brief on the Financial Policy as well as the National Budget Planning Process.

Pursuant to Standing Order No. 95 (1)(d) read with No. 68, the various Portfolio Committees invited Ministries and Departments falling within their purview to present their performance for the financial year 2019/20 and the budget plans for the financial year 2020/21. The reports of the said committees are appended as annexes (See **Annexes 1 – 5**).

The Portfolio Committee on the Economic and Development Cluster also received valuable inputs from other Stakeholders listed above (See **Annex 7.1 –7.5**).

3.0 FINDINGS AND COMMENTS ON BUDGET PERFORMANCE

3.0.1 The 2019/2020 Budget Performance

The total approved budget for the 2019/20 fiscal year was **M36.6 billion** with the total revenue target of **M18.1 billion**, while the approved total expenditure was at **M18.5 billion**. It now turns out that the projected revenue collection is at M16.4 billion as against the approved target of **M18.1 billion** leaving a shortfall of **9.4 percent**, while the projection for both expenditure components is at **M14.1 billion reflecting 23.7 percent** under performance of the total expenditure. It is worrying to notice that there is an over-expenditure of about **3 percent** of the approved recurrent budget, while the capital

budget remains under-utilized. The Committee has noted with concern that only M4.7 billion is expected to be expended under capital budget. This performance clearly manifests that the challenge of low absorptive capacity still remains unsolved if the M5.1 billion, which is a meagre allocation for capital projects cannot be fully utilized. This therefore, means that the country will continue to suffer especially the rural communities who are severely stricken by poverty due to lack of basic infrastructure developments.

The Committee is generally satisfied with the progress made on the commitments made by government during the 2019/20 budget (See **Annex 6**). However, there are certain areas which need more attention for acceleration. On the issue of establishing Tourism Development Fund, the Committee is not convinced by the response provided by the Ministry of Finance as it suggests that nothing is being done to-date because on 12th March, 2019, the Minister of Finance informed the House that Cabinet Approval was obtained sometime in February, 2019.

3.0.1.1 Revenue

The Committee has noted that though the revenue target has not been achieved a lot of efforts have been done on the introduction of new revenues and collection efficiency measures which include *inter-alia*: the enactment of Tax Administration Bill, VAT Bill, Income Tax Bill, Customs Bill, and Tobacco and Alcoholic Products Bill. Reconciliation however, still remains a challenge leading to embezzlement of revenue collections. Particular cases have been captured by Committees in their respective reports.

3.0.1.1.1 Comments on the Revenue

The Committee applauds the government for the fully implemented revenue generation efforts including the introduction of new and amended tax legal regimes. On the one hand, the Committee wishes to recommend for speedy action in the implementation of revenue measures within the period in which those measures are pronounced and expected to take effect as that will assist in meeting the projected revenue targets. The Lesotho Revenue Authority also expressed a concern of the slow pace of the country's legislative process, which has resulted in failure to enact the necessary laws to enable the achievement of the above policy intentions (**Annex 7.1**).

3.0.1.2 Recurrent

The recurrent budget was estimated at M13.4 billion with the projected outturn of M13.7 billion reflecting an over-spending on the recurrent budget driven by increase in subsidies, interest payments, grants, social benefits and other expense.

3.0.1.2.1 Comments on the Recurrent

The House will recall that Committees proposed some reductions which were duly effected. Despite these efforts, the recurrent expenditure continues to stretch beyond the approved budget. It is true that the wage bill contributes to a large extent to this unfortunate situation, but the situation does not change despite the government's efforts to implement some public sector reforms and austerity measures including the zero percent adjustment in salaries. The government is therefore advised to exercise some stringent control and management measures. Committees further noted that quite a number of ministries have operated through virements to cover their running costs and this reflects poor budgeting if items such as salaries had to be paid through virements. Delay in the release of funds is yet

another factor that has been observed as an impediment for timely execution of plans.

3.0.1.3 Capital

The capital budget was M5.1 billion with the projected outturn of M4.7 billion and this reflects under-performance on this component. According to the report given by the Ministry of Development Planning, the overall capital budget expenditure percentage for 3rd quarter remains as slow as 51.01% with government contribution being at 65.75%, Grants at 34.91% while Loans constitute only 31.81%. Almost all Ministries have under-performed on Capital projects. The Ministry further indicated that some of the challenges that contribute to this under-performance are: delays in the implementation of projects due to factors such as late recruitment of staff or site acquisition, and lack of coordination between and across implementing ministries.

3.0.1.3.1 Comments on the Capital Budget

The Committee is of the view that the Cabinet Sub-Committee on Finances should ensure that funds are only allocated to projects that are ready to take off and eliminate projects that appear to be occupying fiscal space for more than one year without being implemented. The Committee also feels strongly that most of the delays that hamper projects implementation could be attributed to the release of funds and squabbles over tender awards. The Committee therefore feels comfortable to note that government has attempted to deal decisively with some of the challenges by setting up a tribunal for the settlement of disputes arising from tender process.

3.0.1.4 Debt

The Private Sector Foundation of Lesotho had wished that the Minister of Finance should have at least shed some light on the payment of arrears owed to suppliers in his Budget Speech. During the

Committee's consultations, the Ministry of Finance shared with the Committee that government is making efforts to settle outstanding payments and hopefully by end of March, 2020, M500 million will have been mobilized for partial payment and leaving a balance of M1.1 billion, which will possibly be settled in the first quarter of the 2020/21 financial year.

3.0.1.4.1 Comments on Debt

The Committee commends the government for the endless efforts being taken to address the situation and advises that government considers establishing payment criteria in order to avoid biased or arbitrary payment decisions.

3.1 Instruments Used To Develop The 2020/21 Budget Estimates

The Ministries of Finance and of Development Planning briefed the Portfolio Committee on the Economic and Development Cluster on the various instruments used to develop this year's budget estimates. Among the key instruments used to inform these estimates are the fiscal and the monetary policies of the Government of Lesotho.

3.2 The Fiscal Policy

In his Budget Speech, the Minister of Finance stated that over the past two years the current account deficit has declined due to improved diamond exports and the primary income account. He further indicated that the country's balance of payments remains vulnerable to external shocks. The fiscal policy of the Government of Lesotho remains the same as last year as it is informed primarily by the strategic direction that the government has spelled out in the National Strategy Development Plan (NSDP II). It is about managing and controlling expenditure, mobilizing revenue and creating jobs. In order to ensure that the country realizes the fore-mentioned strategic

objectives the government is determined to undertaking the following measures this year:

3.2.1 Revenue

On the revenue side, the Government had anticipated revenue returns from improved SACU receipts, VAT growth boosted by 7.2 percent collection from additional 3 percent VAT on telecommunications before COVID-19 could be as acute as it is now. According to the Ministry of Finance SACU revenues would be received as agreed since they are normally determined before collection and in this case, they were determined before the prevailing COVID-19 climate. However, it must be stated that with the advent of COVID-19, Lesotho should expect to suffer the impact of the pandemic on SACU receipts in the next two financial years because the country will have to pay part of the shares it received during the fiscal year 2020/21 since the M8.9 billion share was agreed before the actual collection is done. The government had also expected an expansion in water royalties coupled with non-tax revenue generated from sales of goods and services and dividends.

The Government further intends to introduce 15 Lisente increase on Oil Levy.

3.2.2 Expenditure

On the expenditure side, the government is forced to curtail its spending by M1, 500 million in order to contain its deficit to the possible minimal levels. Originally, the government was determined to direct funds towards investment support for job creation; social interventions for education and skills development, health and wellness, sport infrastructure development, and social grants; as well as support to governance agencies for national reforms. Last but not the least; government will support the implementation of the youth apprenticeship and public works programme. Though government has these good intentions, it is also obvious that government

has to prioritize and give COVID-19 the maximum attention that it deserves for the protection of Basotho and their economy. The Ministry of Finance has indicated that it will cost government M2.2 billion to deal with Corona this financial year. This amount includes guarantees that worth **M400 million** which are intended to relieve the private sector and **M1,500 million** of cash required to meet the social and economic relief measures, which the government has committed to undertake in an endeavour to address the impact of lockdown. As part of measures intended to address Corona, the government has also resolved to use **M698, 085, 352.04** (See **Annex 8**). The M698 million budget will be constituted by budget cuts of at least 22% of the budget aimed at supporting the implementation of each capital project (See **Annex 9**). The Committee has noted that though the cuts are capped at 22% there are some variations in cases such as project 0539 under the Ministry of Health named Construction of NDSO Warehouse. The explanation provided for this variation is that NDSO had received some reallocation in 2019/20 from which M58 million had been saved and now to be diverted to COVID-19 budget. Apart from afore-stated amounts, there is also **M16, 753, 242.00** which have already been used for COVID-19 (See **Annex 10**) and the reallocation of **M40 million** savings from the project commonly known as Lihala-hala.

3.3 The Monetary Policy

The monetary policy of Lesotho is managed by the Central Bank of Lesotho. Lesotho is part of the Common Monetary Area (CMA) with South Africa, Swaziland and Namibia. The CMA is a currency area in which the currencies of these countries are pegged to the South African Rand. Lesotho (together with Swaziland and Namibia) is therefore not able to conduct independent monetary policy. Monetary policy conduct of South Africa is for all intents and purposes that of the CMA sub-region. Monetary policy objectives of Lesotho, Namibia and Swaziland (LNS) are therefore not fundamentally different from that of South Africa.

Lesotho's monetary policy objectives of achieving and maintaining price stability are pursued through ensuring that the Loti is pegged to the Rand. This is achieved by maintaining the adequate level of reserves to back its liabilities; particularly the currency in circulation. The level of net international reserves is set by the Central Bank of Lesotho having taken into account the supply and demand of foreign exchange in Lesotho. The supply and demand is influenced by several factors including, government fiscal situation, and external shocks to the economy. **The level of international reserves that have been determined to support this objective is equivalent to 630 million USD.**

The main task of the Central Bank of Lesotho is to maintain confidence in the currency. South Africa manages the inflation rate of the LNS countries. The poor and the vulnerable are hit the hardest by the effects of inflation. In this budget, in collaboration with South Africa, the Central Bank of Lesotho continues to maintain price stability and confidence in the Loti.

For this year, the inflation rate is expected to increase from 5.1 percent in 2019/20 to 5.3 percent in 2020/21. The recurrent budget will be entirely financed from recurrent revenue, while the development budget will be financed through donor loans and grants supplemented by domestic borrowing since Lesotho's risk to external debt distress is said to have been revised to moderate as per Article VI of IMF's 2020/21 Debt Sustainability Analysis.

3.4 National Objectives

For this year, the government has undertaken to pursue the following measures among others in an endeavour to achieving the NSDP II goals:

- 3.4.1** Fighting poverty as one of its key priorities and narrowing down the disparities which have been identified;
- 3.4.2** Intensifying efforts that are geared towards modelling agriculture to be one of the most key economic growth drivers;
- 3.4.3** Promoting domestic investment and exports through operationalization of the Lesotho Standards Institution;
- 3.4.4** Tackling youth unemployment;
- 3.4.5** Continuing to level the ground for doing business in Lesotho; and
- 3.4.6** Facilitating ease access to finances for business development.

3.5 Economic Performance and Outlook

Due to an escalation of trade tensions between United States and China coupled with geopolitical tensions, the global economy is said to have declined from the projected growth of 3 percent to 2.9 percent in 2019 and expected to gain momentum in 2020, rising to 3.3 percent and 3.4 percent in 2021 subject to changes in US-China trade relations and the severity of COVID-19. Emerging market and developing economies are expected to strengthen to 4.4 percent in 2020, while the Sub-Saharan growth is projected to be at 3.5 percent in 2020 compared to 3.1 percent recorded in 2019 with the South African growth expected to weaken in 2020. On the inflation side, the projections point to an average of 5.3 percent in 2020/21, which has slightly increased from 5.1 percent recorded in 2019/20.

Due to Lesotho's close links with the South African economy which is anticipated to weaken in 2020, the country's growth rate was projected at 2.2 % of GDP, but with the advent of COVID-19 it is estimated at negative 1.2% growth rate. The House will recall that the Minister of Finance invited the Nation to note an array of challenges confronting the country's economy which include: alarming poverty levels, malnutrition, the 2018/19 poor performance in all sectors of the economy and the external demand

conditions which remained a bit unfavourable for diamonds exports. It is therefore, understood that with the advent of COVID-19 and the continuing US-China trade war, the economic assumptions made remain vulnerable. The Minister however, reassured the Nation that with the improvements in SACU receipts, the expected gains in medical cannabis industry, the expected modest increase in tax revenue and the international reserves being kept at about 4 months of imports which is about 10 billion Maloti in real terms, the country's economic growth has a potential to improve. But this was before COVID-19 takes the shape and momentum that the world is witnessing today.

While the Committee appreciates the government's efforts to apprise the House of the worrisome food insecurity levels, which have risen by more than 64 percent from last year's recordings and the good policy pronouncements, the Committee is concerned about the mismatch between the allocations and policy intensions read with the serious challenges affecting the rural communities highlighted by the Minister. The same sentiments are also shared by the Civil Society Organisations. Amongst the pronouncements made, the Minister has made mention of the shortage of health clinics and decline in food production. Now, the Committee is surprised to discover that the capital budget allocation for agriculture and food security has declined from M428.5 to M394.3 million yet it has been established that more than 500,000 people in ten districts are severely food insecure. Furthermore, there are no specific interventions that are targeted at the places that the Minister has clearly mentioned in paragraphs 16 and 18 of his Budget Speech. In addition, there is also no mention of any health clinic to be built in rural areas yet the Minister has made a clear allusion at paragraph 17 of his Budget Speech that ***"...to decisively target poverty in the rural areas, government must target delivery of basic road infrastructure, early childhood development, provision of schools and clinics..."***.

4.0 GENERAL FINDINGS ON THE 2020/21 BUDGET ESTIMATES

4.1 The Overall Budget Estimates for 2020/21

The expected total expenditure for the 2020/21 fiscal year was initially M21.9 billion with the recurrent component projected at M15.7 billion, an increase of 19.8% over the 2019/20 budget. The capital budget was M6.3 billion, an increase of 14.5% on the 2019/20 budget. With the latest developments, the government proposes M18, 183, 894, 677 for recurrent budget and M5, 604, 756, 921 for capital component as the Minister of Finance will so move. The Government is committed to growing the capital budget for private sector job creation, promotion of inclusive and sustainable growth, strengthening human capital, etc.

Before COVID-19 could become as rife as it is today, the Government had expected to collect 20.2 billion as opposed to M19, 344, 221, 429 which the Minister will be proposing. It also anticipated a deficit of 4.7% of GDP to be financed by concessional loans, but with the recent developments the deficit is projected at 11.8% of GDP.

5.0 GENERAL OBSERVATIONS AND RECOMMENDATIONS

5.1 General Observations

The Committee wishes to applaud the Minister of Finance and the government for well-crafted budget that is targeted at responding to the multifaceted challenges that continue to confront the nation. The Committee also further commends the government for the cost of living adjustment of 5 percent, which will mitigate the effects of the 4.8 percent inflation rate.

The theme for this year's budget puts much emphasis on *“Inter-ministerial collaboration, multi-disciplinary approaches and subsidiary to tackle poverty, malnutrition, and joblessness focusing on service delivery at the local level”*.

This demonstrates good intentions of the government. But, the Committee has noted from the Minister’s Budget Speech that much of what is covered is work in progress and there is very little on fresh concrete actions that the government intends to undertake in this coming financial year. The Private Sector Foundation of Lesotho (**Annex 7.2**) had this to say “[The] Budget Speech didn’t reflect the performance of previous budget estimates for Financial Year 2019/20. Hence, you will find a repetition of issues which were NOT implemented in the previous budget.” Furthermore, Civil Society Organisations and Business Sector have pleaded with the Committee to appeal to the government to ensure that these sectors are consulted during budget formulation. The Business sector has also expressed their desire and readiness to assist government in raising revenue and proposes that government reconsiders its ownership of public enterprises (**Annex 7.3**).

5.1.1 Revenue

Committees have made an observation that some ministries make revenue projections without any baseline and this is one factor that has led to failure to meet revenue targets in the previous year. It is also noted that government property is one stream that can contribute immensely in revenue collection if proper maintenance is done. Some of the specific observations made by the stakeholders are as follows:

- The Budget Speech didn’t reflect sufficiently on the internal controls with regard to revenue collection;
- The government’s intention to introduce additional charges on tobacco products is likely to affect the anticipated revenue collection due to illicit trade in tobacco products; and
- The disparity in the increment of levy on tobacco products and alcohol is unfair as suggested by Morena Sales & Merchandising (Proprietary) Limited (**Annex 7.4**).

5.1.2 Recurrent

Recurrent expenditure still continues to be larger and to grow more than the capital budget. The question is, will the Government ever be able to redress this situation. Though the recurrent budget is high, some shortfalls have been noted in a number of ministries including the budget for the Ministry of Health to deal with COVID-19 which is considered as little given the massive impact it seems to have in countries where its existence has been confirmed. The Committee therefore proposes some budget cuts from certain Line Items and Heads to be directed at addressing COVID-19 specifically for the purchase or improvement of ambulances to meet the required standard of transporting COVID-19 patient.

5.1.2.1 COVID-19

The Ministry of Finance has indicated that following the new developments of COVID-19, the government found it befitting to have a dedicated structure and budget for fighting COVID-19. As a result, government had to review the 2020/21 budget estimates by cutting a certain portion of the capital budget. This budget will be administered by the Disaster Management Authority (DMA). The Accountant General has authorized and duly opened a bank account with the First National Bank, which will be used for funds intended for COVID-19. For control measures, government has decided that funds from government side be centralized under Head 30 for release to Head 9 depending on the need for expenditure. The government has also gone further to seek assistance from local business people and development partners such as: PEPFAR, PIH, WHO, Global Fund, EU, IMF and World Bank. These development partners and local business people have pledged to assist government in various forms, it be materials and financial assistance which include loans. Some of the pledged assistance is being received. The negotiations have been completed with both IMF and World Bank for loans.

The Committee has noted that COVID-19 requires a lot of funds and therefore appreciates the efforts that the government has taken. However, considering the challenge of liquidity that the country is facing, the Committee is of the view that government ought to have explored other avenues for economic and social relief measures such as credit guarantees which do not require cash. The Committee further feels that since COVID-19 requires the use of running water for minimizing the risk, a large population of Lesotho do not have access to clean running water, therefore government is urged to address this gap decisively and proactively. The House is invited to note specific viewpoints and recommendations made by each Portfolio Committee on this particular budget item. In the light of the above and other considerations the Committee has resolved to propose the following reductions:

1. The total budget of COVID-19 be reduced by M16, 753,242.00 which has already been used under the following Line Items as reflected in **Annex 10**: Dressings; Drugs; Food, Fodder & Beverages; Purchases; and Office Equipment.
2. On page 7 of the COVID-19 Budget, the budget for Lunch be reduced from M250.00 to M100.00, while the budget for Morning Tea and Dinner must be totally cut.
3. On page 7 of the COVID-19 Budget, the budget for WIFI for both the National Emergency Command Centre and District Emergency Command Centre be reduced to M30, 000.00 and M300, 000.00, respectively.
4. The Budget for WIFI for online education be reduced to M30, 000.00.

5.1.3 Capital

In this budget, the capital allocation is still relatively lower than the recurrent budget. This means the budget does not address this imbalance between consumption and an investment economy. It simply perpetuates the situation. The general observation made on capital budget is that a number of ministries have been allocated insufficient funds for capital projects,

despite the good intentions of government of creating jobs and growing the economy through the specified sectors identified as drivers of development.

5.2 Budget Deficit

The Committee understands the abnormal environment within which the budget is formulated, but it wishes to state that the envisaged 11.8 percent budget deficit is way too high than the acceptable international norm and therefore the government and the Ministry of Finance in particular, would have to apply stringent and effective mechanisms to manage the expenditure more especially on the utilization of COVID-19 budget. Based on the Central Bank Monetary Policy Committee Report of January, 2020, the Lesotho Council of Non-Government Organisations has expressed a grave concern about the compounding deficit which continues to deplete the country's reserves (**Annex 7.5**). The Committee also echoes these sentiments.

5.3 Recommendations

The government is urged to consider the following:

- Its position on the construction of sports facilities for the Commonwealth Games vis-à-vis the reallocation of those funds to the financing of COVID-19 interventions;
- That all the reductions proposed by the Committee be directed towards purchasing and/or improving the government fleet of ambulances to the required standard for ferrying Corona patient;
- That the shareholding for the Government of Lesotho in mining sector be increased to majority in order to have a say in decisions that affect this Country's minerals;
- Curb the practice of virements;

- Pay special attention to water sector projects which seem to be consuming a significant amount of funds without fruitful results;
- Explore alternatives that can assist in boosting the capacity and efficiency of the Ministry of Public Works on designs and implementation of government capital projects;
- Amend outdated laws that have a potential of contributing greater revenue generation; and
- Open up budget process to be more participatory.

6.0 Conclusion

Following a thorough scrutiny of the budget performance and proposals, all Committees have resolved that the 2020/21 budget estimates be approved with recommendations highlighted in each of Committee's report including **the decision that the budget for Head 050 be reduced by 30% on both International Travel and Subsistence International.**