2019/2020 BUDGET STRATEGY PAPER

MINISTRY OF FINANCE AND MINISTRY OF DEVELOPMENT PLANNING

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LIST OF ABBREVIATIONS AND ACRONYMS

1. AfDB – African Development Bank
2. ART – Antiretroviral Therapy
3. ECCD – Early Care and Childhood Development
4. ETL – Econet Telecom Lesotho
5. BADEA – Banque Arabe de Développement Economique en Afrique
6. BSP – Budget Strategy Paper
7. CBL – Central Bank of Lesotho
8. CRP – Common Revenue Pool
9. FY – Financial Year
10. GDP – Gross Domestic Product
11. GoL – Government of Lesotho
12. HIV/AIDS – Human Immunodeficiency Virus and Acquired Immune Deficiency Syndrome
13. ICT – Information Communications Technology
14. IDA – International Development Association
15. LHDA – Lesotho Highlands Development Authority
16. LHWP – Lesotho Highlands Water Project
17. LSL – Lesotho Loti
18. MCC – Millennium Challenge Corporation
19. MDAs – Ministries, Departments and Agencies
20. MDP – Ministry of Development Planning
21. MF – Ministry of Finance
22. MTDS – Medium Term Debt Strategy
23. MTEF – Medium-Term Expenditure Framework
24. MTFF – Medium-Term Fiscal Framework
25. NIR – Net International Reserves
26. NSDP – National Strategic Development Plan
27. PFM – Public Financial Management
28. PFMR – Public Financial Management Reform
29. SA – South Africa
30. SACU – Southern African Customs Union
31. SADC – South African Development Community
32. SMMEs – Small, Medium and Micro Enterprises
33. TVET – Technical and Vocational Education and Training
34. UNAIDS – Joint United Nations Programme on HIV/AIDS
35. VAT – Value Added Tax
36. VDP – Voluntary Disclosure Program
37. VMNOs – virtual Mobile Network Operators
38. ZAR – Zuid-Afrikaanse Rand (South African Rand)

ACKNOWLEDGEMENT

Government of Lesotho is fully committed to strengthening Public Financial Management and Public-Sector reforms programmes currently with assistance of European Union, African Development Bank and World Bank to address systematic weaknesses and missing links in the Public Financial Management (PFM) such as credibility of the budget, budget predictability and policy-based budgeting, transparency and reporting.

The Government of Lesotho has prepared 2019/20 – 2020/21 Budget Strategy Paper which is a three-year rolling plan that sets policies and priorities of the government. The paper offers insight into the fiscal performance of the government over the past two years and the current fiscal year. It further projects revenues and expenditures over the next three years and sets out strategic resource allocations and lays down macroeconomic assumption.

The Budget Strategy Paper is formulated to make the budgetary process more transparent and participative, where the elected public representative in the budget formulation process is engaged well ahead of the final budget proposals. This paper is tabled before the Cabinet every year for its approval. Once approved this paper becomes the guiding policy for consolidation of budgetary proposals.

I must appreciate the hard work and dedication of the Ministry of Finance team that carried out in depth research, compilation of data, formulation of proposals and drafting of this paper. I also take this opportunity to acknowledge the support extended by Ministry of Development Planning in the whole process.

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I. INTRODUCTION

1. The Ministry of Finance has consistently produced the Budget Strategy Paper (BSP) every year, for the past six (6) years, as part of the national budget process. The BSP aims at giving an outline of the available resource envelope compared to the required government expenditure for the year, as well as the medium-term budget projections based on the economic conditions. The budget provides an opportunity for Ministries, Departments and Agencies (MDAs) and their stakeholders to review the: proposed national policies; priority areas; implementing strategies; as well as proposed programmes, projects and budget allocations for the year. BSP will be used to inform the Budget Speech for the next financial year. Hence, for the 2019/20 budget formulation, MDAs will be requested to provide a review in the implementation of their programmes and projects during 2018/19 Financial Year (FY), in terms of challenges encountered as well as strategies going forward into 2019/20.

2. In preparing the 2019/20 BSP, it is worth noting that, the 2019/20 will be the second year of implementation of National Strategic Development Plan (NSDP) II and the last year of the Vision 2020. The theme for NSDP II is "Inclusive growth, private sector – led jobs and reduced unemployment" while emphasis for Vision 2020 is on, "Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well-developed human resource base, a strong economy, a well-managed environment and an established technological base". Hence, the strategic thrust for 2019/20 should be to enhance inclusive and sustainable economic growth and private sector-led job creation and contribute towards making all Basotho better off.

3. Such a strategic push will be pursued within the backdrop of a mild recession in 2017/18 in the domestic economy with a shortfall in cash and foreign reserves, while SACU revenues continue to drop and most tax revenue categories miss their annual targets. Future growth in the domestic economy, will however be supported by the prospects of strong positive global growth in 2018 through to 2020.

4. This document consists of seven (7) sections, including this introduction. Section II the development context, macroeconomic trends and outlook is reviewed in Section III, while Section IV looks at Risks to the Economic and Fiscal Outlook. Section V contains the strategic priorities for 2019/2020 budget. Translating policies into resource allocation is discussed in section VI, while Section VII provides the summary conclusion.

Budgetary Principles

5. The Government has continued the fiscal expansion to support the NSDP II enablers. However, in response to consistent shortfall in cash and foreign reserves as well as drop in SACU revenues, the impact of South Africa Rand depreciation against the US Dollar on external debt stock and taking into consideration strong recurrent expenditure growth in recent budgets which have allowed for significant budget deficits. To achieve this outcome, the following principles will continue to underpin and guide the 2019/20 Budget:

   i. Achieve consistency of the MTFF and MTEF to the national priorities; and efficiency, effectiveness and value for money in public expenditure;
   ii. Adopt a Budget that is affordable, sustainable and yet responsive to the needs of the country over the medium term;
   iii. Achieve sufficiency in domestic revenue mobilisation to finance Government programmes while gradually limiting the dependence on external financing;
   iv. Consistently constraining the Government's recurrent expenditure not to grow more than the development expenditure;
   v. The Government's expenditure on wage bill should not be seen growing as a percentage of GDP;
   vi. Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
   vii. Management of fiscal risks in a prudent manner;
   viii. A realistic degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any future tax reforms;
   ix. Improve monitoring, transparency and accountability mechanisms to ensure expenditure efficiency; and
   x. Expand the sources of public debt financing to enable the Government to restructure its public debt portfolio and to better facilitate the financing of deficit.

II. DEVELOPMENT CONTEXT

Persistent Poverty and Inequality

6. Poverty and inequality remain significant challenges for Lesotho despite huge investments in social sectors by the government and its development partners. The country is still classified under least developed countries with GDP per capita of $1300 and 57.1 percent of its population living below poverty line. Rural areas, households headed by females (64 percent) and people with low levels of education are the hardest hit by poverty.

7. Inequality on the other hand, as measured by the Gini coefficient, increased slightly from 0.51 in 2002/03 to 0.53 in 2010/11 Household Budget Survey. The urban-rural income gap remains large, with 76 percent of the people in rural areas earning significantly less than those in urban areas. In order to reverse these persistent problems, the country is embarking on the new growth path that is meant to create jobs and achieve inclusive economic growth. This new development model has proposed integrated measures that deepens the inclusiveness of growth and improves the targeting and efficiency of the social safety net.

Rising Unemployment

8. The 2016 Population and Housing Census estimate unemployment at 32.8 percent – a jump from the 25.3 percent estimated in 2008 Labour Force Survey. Females and youth continue experience high spells of unemployment. As a result, the economic dependency ratio has increased from 1.38 percent in 2011 to 1.41 percent in 2016. The majority of the working class (38.4 percent) is engaged in elementary occupations with no social security. The limited private sector job opportunities have resulted in public sector being the main employer which has bloated the size of the public-sector wage bill making it unsustainable.

Human Development

9. Lesotho continues to experience high levels of communicable and non-communicable diseases. HIV/AIDS estimated at 25 percent (1 in 4 people is HIV infected) of the sexually active population. Lesotho is ranked high in Tuberculosis burden with annual incidence of 724 TB cases per every 100,000 population. TB/HIV incidence of 566/100,000 as WHO Global TB report of 2017. It is listed among the 30 high burden countries globally due this very high incidence and high HIV Co-infection at 75% for 2017. The mortality rate in TB/HIV co-infected TB patients is 223 per 100,000 populations. The Sustainable Development Goal (SDG) 3 target to end both TB and HIV ambitious targets of 90/90/90 were set necessitating a strengthened and resilient health system.

Harsh climatic conditions and increasing environmental degradation

10. Lesotho has extreme climatic conditions characterized by droughts, floods, strong winds, early/late frosts, hail, and snow storms. Increasingly warmer temperatures and lower levels of rainfall have significant implications for agriculture, food security, poverty and vulnerability, as the agriculture accounts for livelihoods of 70 per cent of the of population, and most of the population live in rural areas. This exacerbates vulnerability among the poor and rural

communities who tend to have lower coping capacities.

11. Increased use of natural resources for farming, grazing, and fuel has resulted in high environmental degradation, presenting both economic and governance challenges. Access to grazing land fuels communal conflicts, particularly during periods of drought. Arable land suitable for agriculture is below 10 per cent (270,000 hectares) of total land area (3 million hectares). Annual depletion of natural resources is estimated at 4.6 per cent of gross national income and the country loses at least 2 per cent of its topsoil annually due to erosion. About 66 per cent of households live on degraded land which represent a direct challenge to agricultural production and food security.

Persistent Political Challenges

12. Politically, Lesotho's 51 years of independence has been marked by cyclic instability, insecurity and fractious politics. While the Ibrahim Index of African Governance (2017) ranks the country 15 out of 54 countries with a score of 58.2, the collapse of two successive coalition governments and three national elections between 2012 and 2017, demonstrate the extent of Lesotho's political volatility. Lesotho slipped in the ranking on the Corruption Perceptions Index, from 55 (2014) to 74 out of 180 countries (2017).

13. This cyclic political instability has placed the country on the agenda of the Southern African Development Community (SADC) over the years. The current Government came to power in June 2017, with a mandate to implement various SADC recommendations, including reforming the constitution, parliament, security and justice sectors, public sector and the economic reforms. These reforms are key for Lesotho's long-term stability and economic transformation.

III. MACROECONOMIC TRENDS AND OUTLOOK

Background

14. The 2018/19 budget was framed against worsening fiscal position, with shortfalls in cash and foreign reserves, while SACU revenues continued with its downward trajectory and most tax revenue instruments likely to miss their annual targets. At the same time, slower growth in South Africa had disproportionate impact on Lesotho's economic performance which decelerated in 2017/18. South Africa remained subdued in 2017/18 with anticipation of improvement in 2018/19 through 2019/20 owing to better business and consumer confidence

However, global output strengthened in 2017 with the expectation that growth in out-put will continue to follow a steady growth in 2018 through to 2020.

ECONOMIC AND FISCAL TRENDS AND ISSUES

15. The 2017/18 real GDP projection showed signs of distress with growth projected to slightly recover to 1.9 percent from 1.8 percent in 2016/17. However, the 2017 preliminary GDP estimates turned out to be worse than expected with economy now plunged into technical rescission. Real GDP growth recorded -1.5 percent in 2017/18 reflecting poor performance in all sectors. Baseline real GDP growth is expected to remain subdued in 2018/19 through the medium term. Growth is expected to remain in the range of 1.3 percent per year over the projection period. This is a conservative set of projections and excludes all potential major resource projects like LHWP II, possible MCC projects and Moshoeshoe I international airport improvement. Inflation, on a year average basis is anticipated to increase to 5.7 percent in 2018/19 and average 5.1 percent over the medium term. Table 1 presents the economic parameters that underpin the 2018/19 – 2020/21 medium term fiscal projections.

Table 1: Economic Parameters

	2016/17	2017/18	2018/19	2019/20	2020/21
	Act	Est		Proj	
Total Nominal GDP (Million LSL)	36,408.1	37,728.9	38,520.5	40,480.5	37,945.1
GDP Growth (Real)	1.8%	-1.5%	1.3%	1.4%	1.3%
Inflation (%Δ)	6.5%	5.4%	5.3%	5.1%	5.5%
NIR (Months of Imports)	4.9	4.1	3.6	3.3	2.9

16. Following signs of distress in the economy in 2017/18, government is still faced with revenue gap of approximately M128.70 million which feeds through 2019/20 and probably medium term. Furthermore, the 2017 preliminary GDP estimates reveal that the economy has plunged into recession, therefore, this gap could expand even further. In addition, SACU revenue declined by about M616.1 million relative to the 2017/18 share. This decline in SACU revenue share poses yet another challenge to the country's fiscal outlook. Following the expected revenue gap and SACU revenue shortfall, the government projects a further widening of fiscal deficit in 2019/20.

Revenue

17. **The 2018/19 revenue collection is expected to average M15, 738.1 million which will be 2.4 percent higher relative to 2017/18.** This growth in total revenue reflects a positive response towards Voluntary Disclosure Program (VDP) coupled with efforts to improve taxpayers' compliance proposed in the 2018/19 budget speech. At the same time, total revenue-to-GDP ratio is projected to slowdown from 43.7 percent in 2017/18 to 42.2 percent in 2018/19 as SACU revenue decline by 10.0 percent.

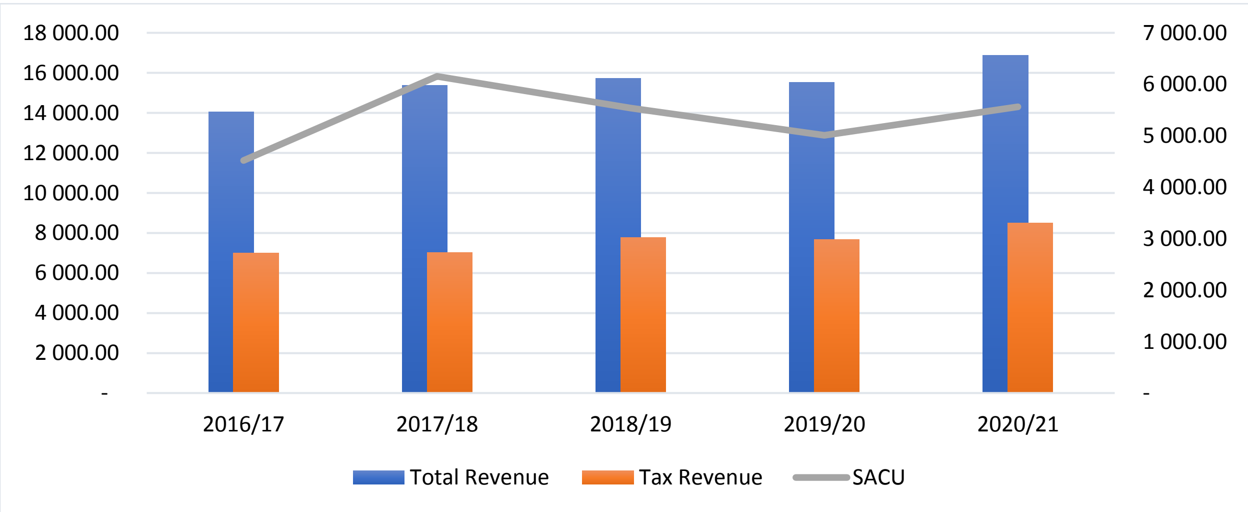
18. The 2019/20 total government revenue is projected to drop as South Africa's National Treasury expects that Common Revenue Pool (CRP) will decline in line with poor performance of South African economy as recorded in 2016[i]. For this reason, Lesotho's share of SACU CRP is projected to fall by 9.6 percent and record M5, 006.20 against M5, 538 realised this fiscal year.

Table 2: Revenue Performance for 2016/17-2017/18 and Indicative Medium-Term Projections

Million LSL	2016/17 Act.	2017/18 Est.	2018/19	2019/20 Proj.	2020/21
Total Revenue	14,050.00	15,367.10	15,738.10	15,519.70	16,884.20
Tax Revenue	7,008.60	7,011.90	7,762.00	7,684.60	8,487.70
Income Tax	*3,726.50*	*3,568.70*	*4,160.90*	*4,076.50*	*4,358.20*
VAT	*2,254.00*	*2,414.00*	*2,697.90*	*2,857.70*	*3,145.00*
Grants	866.50	793.40	829.10	857.80	895.60
Non Tax Revenue	1,656.00	1,407.60	1,608.80	1,761.10	1,940.00
SACU	4,519.00	6,154.20	5,538.10	5,006.20	5,560.90

Source: Ministry of Finance – Macroeconomic Policy & Management

Figure 1: Revenue Performance in 2016/2017 - 2020/2021



19. As part of the budget bill for 2018/19 fiscal year, the government sketched some measures which it intends to implement to mobilise domestic revenue and maintain macroeconomic stability and fiscal sustainability. These measures included;

- Aligning VAT with South Africa at 15 percent.
- Introducing Voluntary Disclosure Program (VDP) which is expected to yield an addition revenue of M225.0 million
- Enhancing tax administrative measures to improve compliance by tax payers. This is expected to return another M350.00 million in tax revenue.
- Reviewing Mining regime to cater for windfall taxation
- Increasing VAT rates for telecommunications and electricity by 4 percent and 3 percent respectively to align them to a unitary 15 percent rate.
- Revision and setting of new rates for all non-tax revenue across the board by all government ministries, agencies and departments.

Expenditure

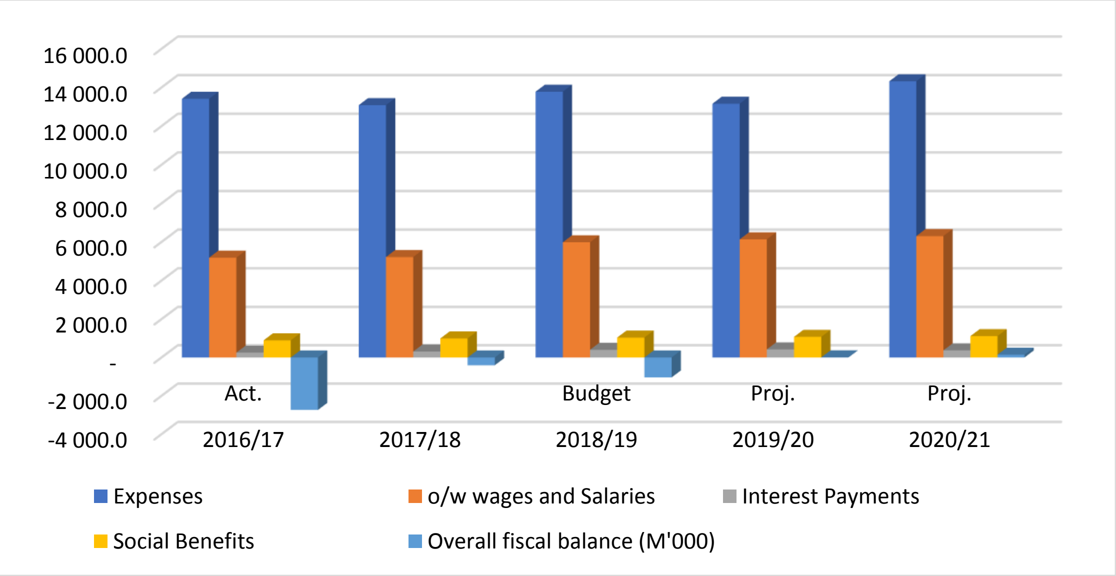
20. Government expenditure has gradually decreased as percent of GDP from 36.6 percent in 2016/17 to 33.7 percent in 2017/18 and expected to average 33.4 percent in 2018/19 throughout the medium term. However, slower growth of expenditure with respect to GDP has not meaningfully translated into fiscal space. Considering expenditure on recurrent budget which is growing faster than planned expenditure on large infrastructural projects (capital Budget) as well as high wage bill, it is likely that expenditure will continue with its growth trajectory in 2019/20 but decline over the medium term.

Table 3: Summary Medium Term Fiscal Framework

	2016/17 Act.	2017/18	2018/19 Budget	2019/20 Proj.	2020/21 Proj.
Revenue	**14,050.0**	**15,367.1**	**15,738.1**	**15,519.1**	**16,884.0**
Tax Revenue	7,008.6	7,011.9	7,762.0	7,894.6	8,487.7
Grants	866.5	793.4	829.1	857.8	895.6
Non-Tax Revenue	1,656.0	1,407.6	1,608.8	1,761.1	1,940.0
SACU	4,519.0	6,154.2	5,538.8	1,761.1	1,940.0
As % of GDP	*13.5%*	*17.5%*	*14.9%*	*12.6%*	*14.8%*
Expenses	**13,413.4**	**13,085.8**	**13,781.1**	**13,160.6**	**14,320.3**
Compensation of employees	6,111.5	6,310.2	7,005.5	7,138.9	7,355.9
o/w wages and Salaries	5,187.1	5,219.2	5,982.8	6,134.3	6,303.9
Wages and salaries as % of GDP	*0.2*	*0.1*	*0.2*	*0.2*	*0.2*
Interest Payments	254.6	312.2	401.4	421.9	372.7
Social Benefits	893.1	992.6	1,038.1	1,078.0	1,114.6
Overall fiscal balance (M'000)	-2,732.1	-405.5	-1,039.1	5.7	145.2
As % of GDP	-8.2%	-1.2%	-2.8%	0.0%	0.4%
Import Coverage (Monthly)	4.9	4.1	3.6	3.3	2.9
Government deposits	4,317.7	3,551.5	3,518.9	4,318.0	4,824.8
Financing					
Net Worth and its Changes	-661.2	-2,563.1	-1,957.0	-2,359.0	-2,563.9
Non Financial assets	-3,368.7	-2,686.8	-2,996.0	-2,353.3	-2,419.8
Financial assets	2,470.6	-171.7	32.6	-799.1	-506.8
Liabilities	236.9	295.4	1,006.5	793.4	362.6

Source: Ministry of Finance – Macroeconomic Policy & Management

Figure 2: Major Expenditure Items



21. Some expenditure categories have shown increasing trends and are hard to reverse. In particular, wage bill as proportion of total revenue has reached 41.1 percent in 2017/18 and is

expected to be at around 44.5 percent in 2018/19. This means that 44.5 percent of total revenue in 2018/19 will be used to finance government wage bill.

Overall Fiscal Balance

22. The 2018/19 budget speech was composed against a projected fiscal deficit of 5.2 percent following poor domestic output coupled with pro-cyclical government spending which increased alongside better SACU revenue shares in 2017/18. However, the end year outcome turned out better than expected, with overall fiscal balance settling at a deficit of 2.8 percent (M1, 040.8 Million). Although SACU revenue estimate for 2018/19 is on the downside, the government is forced to allow expenditure to grow only at the rate of inflation (5.3%) relative to the previous year.

23. It is against this background that fiscal consolidation efforts may take time in 2019/20, particularly in raising additional revenue and in slowing the rate of certain categories of recurrent expenditure which tend to be quite rigid over the short term. The challenge is to achieve this consolidation whilst, at the same time, reversing the decline in capital expenditures.

Financing

24. The 2019/20 fiscal balance is projected to record a surplus of M5.7 million or 0.0 percent of GDP. The stabilization of the deficit at this level in 2019/20 reflects the drastic measures that the government intends to put in place to significantly reduce spending while at the same time dealing with the declining and volatile SACU revenue by putting in place measures to mobilise domestic taxes as proposed in the 2018/19 budget speech. Maintenance of the deficit at this level in 2019/20 will result in a modest increase in government deposits from M3, 518.9 million in 2018/19 to M4, 318.0 million in 2019/20.

Medium Term Debt Strategy

25. Total Lesotho debt stands at LSL12.9 million, of which LSL10.7 million is from external creditors while the remaining LSL2.2 million is from domestic sources. LSL9.3 million is from multilateral sources, with IDA being the largest creditor while bilateral creditors contributed 8 per cent. The MTDS report of January 2018 has established that with 88 percent of total Lesotho debt obtained from external creditors, exchange rate risk is certainly the major risk associated with the existing debt portfolio. Although funds from the domestic market have no such risk, the average time to maturity associated with this debt is relatively low at 3 years

compared with over 10 years associated with external debt. 42.5 percent of the total domestic debt stock (1.9 percent of GDP) was due to mature in one year, owing to a high appetite in short tenor instruments led by the commercial banks. Interest payments as a percentage of GDP were lower than 1 percent for both external debt and domestic debt combined.

26. Going forward, it is expected that Lesotho will continue borrowing heavily from traditional multilateral creditors such as the IDA of the World Bank; the African Development Fund of the AfDB; and BADEA, with some borrowing from bilateral sources. However, it had been proposed that the Debt Department find an Optimal Borrowing mix that would minimize the borrowing cost to Government. In response, the Debt Department proposes to increase the share of domestic borrowing and extend the maturity profile of the domestic securities. This will help lower the refinancing risk; lower the exchange rate risk and deepen the Lesotho domestic capital market, which is one of the overarching objectives of debt management and capital market development in Lesotho.

IV. RISKS TO THE ECONOMIC AND FISCAL OUTLOOK

27. The risks to Lesotho's Economic and Fiscal Outlook include:

Macroeconomic Risks

28. Growth forecasts are sloped to the downside and there is no clear coordination between fiscal and monetary policies, as well as a preparedness to attract the required foreign direct investment to inject and boost foreign reserves into the system to ease market demands.

Fiscal Risks

29. A number of fiscal risks continue to be present and have become more critical over recent years including:
    - Failure to address and control the level of arrears, particularly at year end tend to add to fiscal risk which undermines budget execution and debt management;
    - Failure to control rigid expenditure categories such as personnel emoluments will prevent fiscal space from being created to support more efficient public investment levels;
    - Reserve coverage sinking dangerously to nearly 3 months of imports by the end of the current fiscal year, compared to a desired reserve level of around 5 months.

V. STRATEGIC PRIORITIES FOR 2019/2020 BUDGET

Key Policy Targets

30. NSDP II proposes that in developing the government budgetary plans for 2018/19 to 2021/22, the focus should remain on job creation and promotion of inclusive economic growth. All public spending must address the most binding constraints faced by the private sector in a coordinated and clustered manner. The budget priorities for this period are derived from NSDP II and the Coalition Agreement. Therefore, the 2018/19-2021/22 key policy targets are:

- Creation of private sector jobs over the medium term
- Increasing economic growth to at least 1.3 percent under the baseline scenario that excludes major projects such as LHWP II, possible MCC projects and Moshoeshoe I international airport improvement whose implementation period remains uncertain. If these projects take off, it is targeted that growth will increase by 3.5 percent in the benign scenario and 4.3 percent in the overly optimistic scenario driven by efficiency in capital spending over the medium-term period.
- Restoring macroeconomic stability to sustainable levels by reducing fiscal deficit to less than 5 percent of GDP.
- Enhancing democratic governance, political stability and accountability
- Reducing the country's ranking on the ease of doing business from position 102 to at least position 80 in the medium-term trough implementation of Investment Climate Reforms.
- Reduce TB incidence by finding all the missing TB cases, both susceptible TB and Multi-Drug resistant (MDR-TB) in the general population and vulnerable groups.
- Reduce incidence of HIV and increase coverage for anti-retroviral treatment (ART) to 80%.
- Reducing incidences of HIV/AIDS and increasing coverage of Anti-Retroviral Treatment (ART) to 80 percent.
- Reduce Malnutrition especially for under 5 children by at least 5 percent and, food insecurity by 5 percent in the medium term.
- Increasing efficiency in the public service delivery to support the private sector
- Increasing infrastructure to support productive sectors.

Budget Priorities for 2018/19-2020/21

31. The 2018/19-2020/21 Budget Priorities will remain:

- Promoting Inclusive and Sustainable Economic Growth and Private Sector-Led Job Creation

- Improving the Country's Productivity and Innovation Capacity by Strengthening Human Capital through Investments in Health and Skills Development
- Building Enabling Infrastructure to support the private sector
- Strengthening Governance and Accountability Systems.

Key Priority Area I: Promoting Inclusive and Sustainable Economic Growth and Private Sector-Led Job Creation

32. At the back of the challenges of rising unemployment, poverty and declining government buffers, Lesotho will embark on a new growth model to create jobs and inclusive economic growth. The current growth model, driven by government consumption, is inadequate, non-inclusive, and unsustainable. To create private sector jobs and eradicate extreme poverty, the model will shift: (a) from a state-led to a private sector/export-led growth; (b) from public consumption-driven growth to investment-driven growth (public and private); (c) from macro-imbalances to pro-growth macro/fiscal stability; and (d) from the inefficiency and ineffectiveness of state interventions to a more effective public-sector management.

33. This new model is anchored on four productive Sectors-Agriculture, Manufacturing, Tourism and Creative Industries, and Technology and Innovation. Therefore, as part of the strategy to promote private sector led job-creation and inclusive economic growth, Lesotho will implement the remaining Business Investment Climate Reforms to enable the private sector successfully play its role. It will address both the supply-side and demand challenges that constrain private sector growth in the productive sectors. The GoL will pursue the Business Incubation Strategy to build productive capabilities of domestic SMMEs, Economic Diversification and Deepening Trade Integration Strategy; Export and Investment Promotion Strategy; and Research and Innovation Strategy. This set of broad strategies will be implemented in a consolidated fashion and will be supported by specific sector strategies articulated underneath.

Business Investment Climate

Strategic Objective 1: Create an Enabling Investment Climate and supportive Regulatory Framework:

Agriculture

34. In agriculture, NSDP II proposes that the country promote sustainable commercialization and diversification in climate proof agriculture through:

- Scaling up commercial fruit and vegetable production by 100 ha per year.
- Promoting private investment in developing integrated value-chains of existing agriculture commodities (vegetables, fruits, potato, poultry, piggery, mushrooms, wool and mohair and others).
- Introduce and/or Modernise short and long-term agricultural programs offered by the local training institutions.

35. NSDP II further proposes that in the medium-term technology and infrastructure for agriculture be improved. In this context, suitable land for different crops and or products should be identified and declared as selected agriculture areas for irrigation purposes, and the country should Leverage on planned and existing water supply dams to make water accessible for irrigation purposes in a cost-effective manner and develop irrigation policy including the development of strategies to increase the efficient use of irrigable land. The Budget should promote the development of private sector-led post-harvest and storage facilities as well developing feeder roads and other transport infrastructures to enable access to farming lands. Priority should also be given to rehabilitation of the woolsheds, and construction of wool and mohair sales yards as well as establishment of artificial insemination centre and gene bank. It further proposed that slaughter slabs, processing plant for poultry, dairy and pig industries, and food safety laboratory be developed.

36. In order to support small-holder famers, Lesotho will review the subsidy policy to target it to high value crops and livestock, set up the Lesotho Agric-Georeferenced Information System (Lesotho AGIS[1]), aggregate small-holder famers into block farming units and develop market

[1] Timely availability of reliable geo-referenced land, climate, plant nutrients, production and water information, integrated with infrastructural - and socio-economic factors, are essential for stakeholders, policy makers, enterprises and land users to exercise the best choices among options in using these resources to achieve sustainable levels of food production and development. For that purpose, the Government is committed to set-up and operate the Lesotho Agriculture Georeferenced Information System (Lesotho AGIS). In order to enhance public policies and leverage private investments in the agri-food-systems, Lesotho AGIS will be entrusted to perform periodic assessment of current conditions and future prospects of the sector. Such analyses will provide insights on the results of public policies.

responsive breeding programmes (both livestock and crops).

37. Agriculture production and commercialization will not happen unless rangelands are rehabilitated and well managed. In this regard, NSDP II proposes the medium-term budget allocates funding for rehabilitation of rangelands and wetlands which should be done in collaboration with private sector/investors with the objective of stimulating investments; development of incentives and strategies for destocking and promotion of culling, and well as setting up Savoury Hub to reverse desertification and intrusion of shrub species on the rangelands. It would be important to enforce land use policy and Land Act while at the same time exploring the feasibility of introducing grazing levy.

Manufacturing

38. In manufacturing, in addition, investment in quality research and innovation will be made to meet the needs of the economy. Research and innovation leads to improved high-quality products and services that have potential to compete in global markets and create the much-needed employment. The Government will deepen manufacturing capabilities and move into knowledge intensive value chains through development of linkage programmes that includes incentive packages for SMMEs to improve backward and forward linkages, facilitate approval and implementation of Lesotho's industrial policy and facilitate approval and implementation of SMMEs policy.

39. The government will strengthen business & trade facilitation for export promotion and NSDP II proposes rolling out OBFC to all districts and expand its mandate to include registration of intellectual property rights, develop an Industrial and Logistical Infrastructure programmes to promote local investment and upgrade key infrastructure for trade facilitation including the dry port. To improve infrastructure for manufacturing NSDP II proposes development of industrial clusters, develop Standards and Quality Assurance Mechanisms for manufacturing, promote private sector led-expansion of industrial infrastructure (i.e. factory shells & related industrial infrastructure) and upgrade national access roads to production sites. Industrial clustering and integrated supply chain will be improved and the NSDP II strategies include Identification of areas of competitive advantage and priority industries, promote investment in targeted industries including niche targeted products, develop an incentive framework to encourage research and development in manufacturing. There will be an expansion of the textile and

clothing hub to increase exports and to improve regulatory framework to create competitive business environment.

Tourism and Creative Industries

40. In Tourism and Creative Industries, Investment in Tourism and arts will be increased to realise the much-needed growth in the sector. In order to achieve this growth, the NSDP II proposes to strengthen coordination among all stakeholders in the sector, improve exposure to tourism and Arts business and tourism marketing skills. The NSDP II also proposes an increase in protection and preservation of culture and heritage and increase documentation of cultural and heritage sites by establishing a consolidated fund for research and appoint and gazette National Heritage Council & Museum Board.

41. To increase the number of tourists coming to Lesotho, the NSDP II proposes to improve marketability and visibility of Lesotho as a destination of choice and proposes development of a unique brand that will differentiate Lesotho from other tourism destinations, establish a tourist information centres and services at strategic locations and develop a marketing strategy. The NSDP II further proposes improvement of institutional framework and regulations by exploring ways of easing visa application, processing, requirements where necessary and issuance to facilitate access into Lesotho for those eligible and strengthen capacity for event tourism promotion and management. In order to improve the tourism regulatory framework, the Tourism Enterprise Bill will be finalised. Tourism Policy will be developed and the Tourism levy and its implementation will be finalised. The development of skills in the Tourism sector will be further enhanced through the establishment of the Tourism sector school of excellence.

Technology and Innovation

42. In Technology and Innovation, the country will work towards transiting to an information-oriented society by building a culture of innovation and boosting a digital development. It will achieve this initiative, NSDP II proposes to enhance the institutional capacity for research by developing a funding model to increase investment in research and development in niche areas that support the private sector competitiveness and provide appropriate infrastructure for product development and testing where people will conduct research and execute innovation ideas in institutions of higher learning. The NSDP II also proposes collaboration between institutions of higher learning and research, government and industry for improved

implementation of research findings by establish an innovation Eco-system between the three and develop a database of all players in the technology and innovation sector in order to establish clear parameters for how government will interact and support new initiatives.

43. The National Incubation centres will be established to improve on product development, community level incubation and accelerators to enhance ICT industry and provide incubation funding and mentorship. The government will facilitate the establishment of knowledge based industrial parks by establishing funding model for new business start-ups, establishing a strategy for mass production including establishment of factory shells at all levels and establishing a data centres to attract data locally and internationally. The Institute Standards and Quality Assurance will be enhanced through implementing the standards regime for the country to make products more acceptable in international markets and establishing the testing laboratories for quality control and assurance. The government will build capabilities for Technology Adoption, Diffusion and Innovation and strengthen its legal and institutional frameworks.

KEY PRIORTY AREA 2: IMPROVING THE COUNTRY'S PRODUCTIVITY AND INNOVATION CAPACITY BY STRENGTHENING HUMAN CAPITAL THROUGH INVESTMENTS IN HEALTH AND SKILLS DEVELOPMENT

44. To support the productive sectors with greatest potential for job-creation and inclusive economic growth, the Government will build human capabilities through investment in health, education, nutrition and skills development. It will improve quality and access to ECCD, Primary, Secondary and Higher Education; promote inclusive and equitable education system; expand and upgrade TVET institutions and programmes to support growth sectors; improve relevance and applicability of skills to meet labour market demands and solve the problem of skills mismatch. On the health sector, the Government will strengthen resilience of Health Care Systems and build health capabilities to improve productivity of the nation. It will strengthen diseases prevention interventions and increasing access, coverage and effectiveness of quality health care service delivery for all. The Government will also strengthen mental health and rehabilitation services and improve quality and retention of skilled human resource for health.

45. To address the current triple burden of malnutrition- stunting, wasting and micronutrient deficiencies, the government will strengthen and scale up maternal, infant, young children and adolescent nutrition, strengthen micronutrient supplementation, fortification and diet diversification, and will strengthen nutrition governance and capacity. Since not all individuals in society will participate fully in growth process or take advantage of available economic opportunities due to their incapacities and other vulnerabilities and special circumstances (i.e. people living with disabilities, orphans and seniors' citizens), the government will continue to strengthen social protection programmes targeted to such groups. These programmes will continue to be improved at three levels of generality: preventive social protection (i.e. measures to avert poverty and food insecurity), promotional income enhancement social protection measures (i.e. like skills promoting, vocational and agriculture training measures), and transformative social protection measures targeted at addressing inequality and social exclusion. It will consolidate and improve the efficiency of the Social Protection System, and promote income enhancing social protection programmes. It same time, the Government will improve health and work safety, and promote social security for all working class.

46. In order to avoid duplication of efforts and solve coordination problem, the GoL will continue the current arrangement of ministerial clustering and will improve monitoring and evaluation of programme as well as strengthening systems and human resources capabilities.

KEY PRIORITY AREA 3: BUILDING ENABLING INFRASTRUCTURE TO SUPPORT THE PRIVATE SECTOR

47. Lesotho continues to face a wide infrastructure gap to support productive sectors. This has undermined private sector competitiveness and job creation. Therefore, efficient services and infrastructure are needed to support industrial clustering and zoning hence increasing productivity and private sector development. The government will develop key infrastructure that will unlock the private sector investments. NSDP II proposes that funding priority be given to all major infrastructure works done to support economic activities planned under productive sectors by the private sector. In the medium term, those roads that connect productive areas and key border posts and tourism destinations will be constructed in order to provide access to these areas.

48. NSDP II proposes that priority of funding should specifically be given to the following roads projects and upgrades of the main national corridors that link main towns, border posts as well as all international links to border posts to paved standards: The Sehlabathebe-Matebeng-Sehonghong to Taung road-this road traverses the highly populated areas, agriculture land and tourism destinations, and thus it is hoped to unlock agriculture and tourism opportunities. The GoL will construct the primary central corridor that links Maseru, Thaba-Tseka, and Mokhotlong to Sani Pass (SADC regional trunk road) to provide access to tourists' attractions like Thaba-Ntlenyane, and Afriski Mountain Resort, and access to Polihali Dam. It will also construct the Marakabei-Monotša road which strategically will serve as a border access to South Africa at Monotša pass thereby serving significant population since it passes through areas of rich alluvial soils suitable for crop farming. NSDP II further proposes that priority also be given to the rehabilitation of the following main Arterial Roads:
    - Maseru city main arterial roads (A2-Cathederal Traffic Circle to Matala Traffic Circle; A1-Cathederal Traffic circle to Lake-side Traffic lights; B20-Thabong traffic circle to Lake-side junction; A7-Koffi Annan road to Thetsane Traffic circle; A10-Maseru Border-post to Mokorotlong area; A6-Moshoeshoe road to Kingsway junction);
    - The main North 1–A1 Arterial Roads (Maputsoe-Botha-Bothe and Maqhaka-Hleoheng arterial roads.
    - The main South 1-A2 Arterial Roads (Mafeteng-Mohale's Hoek-Quthing-Mount Moorosi road).

49. The Government will also improve Integrated Rural Roads Transportation System, and upgrade earth roads to all weather standards, and construct footbridges, as well as minor drainage structures. It will complete the construction of the planned Major bridges (Tebellong Bridge, and Makhaleng Bridge), and identify other major bridges to be constructed that link rural areas in order to address the rural urban divide and enable rural areas to supply their produce to the fast-growing urban centres. It will increase Transport Infrastructure and Road Safety and enhance efficiency of service delivery in traffic and transport department through computerization of the licencing systems and integration of the system with the national biometric system. It will improve a Cargo handing facility at the railway station and facilitate efficiency of handling Lesotho Cargo in South African ports.

50. In terms of energy, the GoL recognizes that without access to efficient and affordable energy sources, opportunities for economic and social advancement are extremely limited. Therefore, cost effective and efficient energy provision is critical for productive sectors to create jobs. Several job creating activities in these sectors that include: food processing, water piping and irrigation, sawing and knitting, and general manufacturing activities, and other household/productive work, activities in tourism and creative industries and those in technology and innovation will require steady supply of energy. Therefore, NSDP II proposes to change course in terms of energy production and supply. During the next three years, the GoL will promote renewable energy by harnessing energy from wind, solar power, and water. The country has set itself a target of 35 percent of rural electrification from renewable sources to be achieved by 2021.

51. It will develop and implement the Energy Master Plan. It will explore other energy sources such as generators and electricity generation plants and enhance the main grid connections. All new connections under the Energy Master Plan will be based on efficiency in terms of value for money, cost effectiveness and the extent to which such connections will stimulate productive sectors to create jobs. Preference will be given to new connections under industrial clustering, and business facilitating centres. The Government will commence the construction of phase II of LHDA (Polihali Dam) which is expected install Kobong pump that will produce 1200 MW of hydropower electricity which will relief Lesotho from electricity deficit of approximately 48 percent and also provide possible exports for neighbouring countries in the region. Thus, the Kobong hydropower will increase security in electricity supply. The GoL will review the energy investment portfolio to allow private sector participation in energy supply and promote bio-energy resources and renewable energy technology and services.

52. To support the four productive sectors with water and sewage lines during the plan period, the GoL will extend water supply to areas that were not covered under the Metolong Dam Project. These locations are divided into zones. The GoL will build multipurpose dam on Hlotse River to service Hlotse and Maputsoe towns (Zone 6 and 7) and to stimulate further industrialization in these towns. It must be recalled that Maputsoe and Hlotse host a large share of Lesotho textile industry hence will be given priority in providing water facilities to service the established and inspiring manufacturing industries. On the same note, the GoL will undertake feasibility studies for another multi-purpose dam on Makhaleng River to service Mafeteng district and Mohale’s Hoek district (Zone 2 and 3) and to promote light manufacturing

businesses in these areas. Through the Lowlands Water Scheme, the outstanding feasibility studies of five more planned dams that are meant to supplement water transfer to other neighbouring countries such as Botswana will be completed. It is anticipated that by the end of NSDP II implementation, water will start being transferred from Makhaleng dam to Botswana, under the new agreement entered between Lesotho, Botswana and South Africa in which Lesotho has been requested to conduct a feasibility study of the project and agreed to have a Project Management Unit based in Lesotho. This project is aimed to ensure sustainable and reliable water supply for domestic and industrial purposes in the Lowlands of Lesotho as well. It should provide all Basotho with access to water by 2020.

53. In addition, NSDP II proposes that the National Budget should facilitate provision of water and sanitation to support socio-economic development of the country as well as Water Harvesting Infrastructure for Irrigation and Consumption.

54. The world today is driven by technology and innovation. Therefore, Lesotho should leverage on ICT to improve efficiency and productivity. NSDP II proposes that the country specifically improve ICT Infrastructure, Access and Use. The Country should consider moving towards a sender-keeps-all (zero-priced interconnection) arrangement for interconnection in order to reduce asymmetries in the ICT market structure and open up the market to virtual mobile network operators (VMNOs). Within this context, the GoL will ensure open access to the application programming interfaces (APIs) for the mobile money operations of the main operators to further promote the development of mobile money, and consider regulating wholesale data capacity prices, and will set a timetable for a reduction of its stake in ETL and will consider privatizing its shareholding in the EASSY/WACS undersea cable to a local company/consortium of companies in order to enhance efficiency of utilizing EASSY/WACS. The GoL will further improve ICT transmission capacity through acceleration of transition from analogue to digital communication. It will translate the ICT and e-governance strategy into a well-coordinated and executable plan, and develop an appropriate institutional framework to improve coordination, technical and cost-efficiency in procurement of technologies and providing e-governance strategies. It will promote ICT-literacy and lifelong learning of citizens through e-learning and awareness programs and reducing the digital divide and improve Data and Information Protection.

KEY PRIORITY AREA IV: STRENGTHENING GOVERNANCE AND ACCOUNTABILITY SYSTEMS

55. Good Governance[2], the Rule of Law and Credible Leadership will remain essential pre-conditions for the achievement of the inspirations of NSDP II. These are also pre-conditions for peace and stability, without which private sector investment will not materialise, and society at large cannot be emancipated from poverty. One of the key challenges besetting Lesotho's efforts to attract investment and grow the economy is weak governance (this includes both political governance, economic and resource governance) and accountability systems. Therefore, to reposition Lesotho as an investment destination, the GoL will fast track the implementation of the national reforms roadmap currently being developed. It will undertake the public-sector modernisation reforms to improve efficiency in the public service and depoliticise the public sector. The GoL will complete the security sector reforms to provide for lasting peace and stability - the hallmark for investment. It will strengthen public financial management, and revenue collection and mobilisation capacity. NSDP II proposes further that the decentralisation policy be implemented to provide districts autonomy in planning, revenue collection and spending. The GoL will enhance Policy, Planning, Statistical Capacity and Monitoring and Evaluation.

56. Over the past years, the judicial system and other institutions of governance have weakened and therefore GoL will promote independence of the Legislature, Oversight Bodies and Institutions. Cooperation with the civil society, media houses and non-governmental organizations will be strengthened in order to promote democracy and rule of law.

VI. TRANSLATING POLICIES INTO RESOURCE ALLOCATION

The NSDP II has identified Agriculture, Manufacturing and Tourism as the Productive sectors for economic growth and development.

Agriculture Sector

57. In order to promote sustainable commercialisation and diversification in the climate proof agriculture, the Government of Lesotho (GOL) will embark on the following projects:
    - **Irrigated Crop Production-** This project is Government initiative aimed at promoting commercial agriculture through developing new community-based irrigation projects. The

[2] Governance can be defined as a set of processes, policies, laws, behaviours, and institutions that affect the manner in which power is exercised in the management of a country's economic, financial and social resources. This includes political governance, economic and resource governance.

project will be implemented in three years, starting from 2018/19 to 2020/21 with the total estimated cost of M33, 000,000.

- **Mushroom Project** - The project is funded by GOL with the total estimated cost of M54, 090,750.00 for three years starting from 2018/19 to 2020/21. The purpose of the project is to enhance food security through diversified crop production.
- **Wool and Mohair Promotion Project -** GOL with the assistance of IFAD, OFID and ASAP the project is on-going and will be implemented till the financial rear 2020/21 with the total estimated cost of M244, 037,967.00 since the beginning of the project. This project is designed to boost resilience to the adverse effects of climate change and economic shocks among poor rural people across the country. The project has three components: (a). Climate-smart rangeland management, (b). Improved livestock production and management and (c). Wool and mohair fibre handling and marketing.
- **Smallholder Agricultural Project** - The project is a GOL initiative with assistance from IFAD and World Bank. The project has been ongoing since 2011 and will be completed in the financial year 2019.The total estimated cost of the project is M269, 073,618 for the next three years. The project will support smallholder farmers to exploit opportunities to increase their productivity and diversify into market-oriented agriculture focusing mainly on; (a) increasing agricultural market opportunities, (b). Increasing market-oriented smallholder production, and (c). Identifying commercially viable activities that can be replicated and successfully scaled up.

Manufacturing Sector

58. In order to deepen manufacturing capabilities and move into knowledge intensive value chains through development of linkages programmes that includes incentive packages for SMMEs to improve backward and forward linkages; the following projects will be implemented:

    - **Private Sector Competitiveness and Economic Diversification Project – Phase Ii –** GOL with the assistance of World Bank has allocated M 210,000,000 for this project. The project is aimed at improving reforms and private sector development through improved business environment, greater access to finance, supporting investment promotion activities in new sectors and enhancing linkages to domestic SMEs and improved economic diversification through targeted support to new growth sectors such as horticulture and tourism.

- **Economic Diversification Support Project –** This is a four-year programme with a total estimated cost of M132, 703,600. The purpose of The Project is to contribute to developing a conducive SMME and private sector development ecosystem by strengthening the business associations and networks to meaningfully participate in national and sectoral dialogue and foster cooperation among Basotho entrepreneurs and with foreign investors.

59. In order to improve manufacturing infrastructure, GOL will embark on developing industrial clusters:

- **Ha Belo Industrial Infrastructure Phase 1** – The GOL will invest a total sum of M549, 499,606.42 to develop an industrial estate at Ha Belo, which will be implemented from 2017/18 to 2020/21. The Project aims at providing industrial infrastructure with the objective of contributing to Government's goal of economic growth and poverty reduction by creating an approximate figure of 75,000 jobs for the unemployed citizens, generate export earnings, tax revenue and increase business activities in the Botha-Bothe district which will ultimately lead to poverty reduction. The project will also attract both domestic and foreign investment which will lead to expansion of the country's productive base and ultimately transfer of technology and skills into Lesotho.
- **Tikoe Industrial Infrastructure Phase 3** - The GOL will invest a total sum of M323, 532,000.00 to develop an industrial estate at Tikoe Maseru. The project will be implemented from 2017/18 to 2020/21. The Project aims at providing industrial infrastructure in the form requisite infrastructure and utilities (water, waste water treatment plant, electricity, telephone, access roads) and construction of factory shells at the Ha Tikoe Industrial Estate for new and expanding investment projects. The estate will house factory shells of different sizes. The project's will create an approximate figure of 6,250 jobs for the unemployed citizens, generate export earnings, tax revenue and increase business activities which will ultimately lead to poverty reduction. The project will also attract both domestic and foreign investment which will lead to **e**xpansion of the country's productive base and ultimately transfer of technology and skills into Lesotho.

60. NSDP proposed Development of standards and Quality Assurance for Manufacturing. In order to achieve this strategic objective, the GOL will embark on the following project:

- **Standards and Quality Assurance Infrastructure** -The project aims at providing appropriate infrastructure development, with an estimated cost of M30, 000, 000. The project will be implemented in a period of three years.

Tourism Sector

61. The tourism sector will Establish tourist centres and services at strategic locations with the aim of Improving marketability and visibility of Lesotho as a destination of choice. The strategic objective will be achieved through the following project;

- **Development of Semonkong Visitor Centre** –The project entails construction of tourist visitor centre, which will also be comprised of tourist information centre, restaurant/ cafeteria, arts and crafts centre, ampi-theatre, including construction of view decks, braai and rest area, horse stable and walkways. The total estimated of the project is M43, 900,000.

62. In order to Enhance Protection and Proactive Preservation and Management of Heritage Resources, the GOL will embark on the following projects:

- **National Museum and Art Gallery** - The GOL have invested in the implementation of this project since 2016- 2020 at Maseru district. The project aims at construction of the National Museum and Art Gallery with the objective of providing space for movable heritage collections of scientific, historical and cultural value and to establish laboratories for conservation and preservation of the said collection. It will also provide ample space for interpretation of the collections to the visiting public through expositions, lectures, publications etc.
- **National Biodiversity Strategy and Action Plan (NBSAP) -** The GOL with the assistance of GEF will implement this project. The project commenced in the financial year 2015/16 and will end 2019. The objectives of the project are (a) to review the national biodiversity strategy and action plan (NBSAP) developed in 2000; a document which outlines measures Lesotho will carry out towards conservation and sustainable use of biodiversity (b) preparation of fifth national biodiversity report on status of biodiversity and (c) integration of biodiversity issues into relevant sectoral and cross-sectoral plans.

63. The following Enabling Sectors will facilitate the achievement of the main goals of the Government of; (a) improving the country's productivity and innovation capacity by strengthening human capital through investments in health and skills development and (b) building enabling infrastructure to support the private sector.

Technology and Innovation Sector

64. To strengthen the capacity of Medium Small Micro Enterprises, the NSDP proposes the development of incubation space for small, micro and medium sized industries and provision of mentorship. The GOL is implementing the following projects:
    - **MSME Capacity Building Project-** The project aims at capacitating the MSMEs and Co-operative Societies through training, mentoring, supervision, regulation, and exposure to local, regional and international market trends and opportunities for networking and promotion. The project is implemented for 6 years from 2016/17 to 2020/21 with the total estimated cost of M116, 603,709.
    - **Refurbishment of BEDCO Estates –** The refurbishment project is aimed at uplifting the BEDCO estates in 6 districts in order to provide incubation space for small, micro and medium sized industries. The project is implemented for 6 years from 2016/17 to 2020/21 with the total estimated cost of M92, 999,907.

Education Sector

65. Improving the country's productivity and innovation capacity by strengthening human capital through investments in health and skills development, the GOL will implement the following programs;
    - **Free Primary Education-** The project is about construction and rehabilitation of primary schools.
    - **Construction of Secondary Schools -** Construction of Classrooms, Science labs and fitting of furniture.
    - **Lesotho Basic Education Improvement Project-** GOL with the assistance Global Partnership for Education-GPE has allocated M 29,400,000 for this project. The project intends to help Lesotho implement its 2016-2025 Education Sector Plan. The GPE grant will help Lesotho improve basic education service delivery and student retention in targeted schools. In particular, the grant will be used to: (a). Improve the quality of learning at the pre-primary, primary, and junior secondary school levels to help children and youth

develop a strong foundation in literacy, numeracy, and cognitive skills. This will be done by training teachers and school administrators and distributing new learning materials. (b). Empower key actors at the school level to retain students, through school grants allocated upon presentation of a school improvement plan. (c). Strengthen the capacity of the Ministry of Education.

- **Eduaids (UNICEF) -** The project's main purpose is: To implement Integrated Early Child Care Development (IECCD) policy, To Enhance capacity of MoET at all levels to coordinate, plan, implement and monitor provision of quality basic education with a special attention to children with disability and to improve access and quality of Non-Formal Education.

Health Sector

66. **Health sector reform** - The Government of Lesotho (GOL) through the support of WHOM and UNICEF provides health care, HIV prevention and treatment services to the population. The focus is on strengthening human resource by capacitating them at all levels. Furthermore, the project strengthens the operational research at national and district level and enhances the functionality of the district health system. Also, is focuses on expanding access to quality PMTCT and Paediatric care and treatment as well as on strengthening partnerships to improve coordination and coverage of HIV prevention interventions for young people, prioritizing hard to reach locations.

Transport Sector

67. **Marakabei Monontša-** The project involves upgrading to bitumen standard of about 60km road from Ha Marakabei to Monontša Border. The road is one of the national corridors that will drive economic growth through tourism and access to social services.

68. **Footbridges Construction**- The project involves construction of footbridges in the remote and rural areas throughout the country where accessibility is difficult during rainy season. Construction is carried out by labour intensive methods; hence temporary employment is created locally. Footbridges assist isolated areas during rainy seasons by provision of primary access to basic services. Construction of footbridges also promotes local construction industries.

VII. SUMMARY CONCLUSION

While the global and domestic economic outlook underpinning the preparation of the 2019/2020 budget has a steady growth, the country proposes to run a balanced budget, due to depleted reserves in CBL, lack of appetite for domestic borrowing, continued slow or no growth in revenues and increased expenditure pressures. With the projected moderate growth in the domestic economy in the coming financial year, it is important that Government continues to focus attention on the implementation of initiatives to support strategies aimed at realising the goals set out for the NSDP II national priority areas. Achieving the goals intended under the national priority areas will promote growth and employment creation.

Furthermore, there is need for continued focus on practical expenditure management, given the projected budget revenue forecasts in the next financial year. In this regard, Government will be closely monitoring expenditure during the financial year to ensure *value-for-money*. Government remains committed to fiscal sustainability in the medium to long term, hence, the fiscal goal of maintaining a balanced budget in 2019/2020 and the medium term as indicated.

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[i] SACU Revenue shares for t_0 are calculated based on t_{-2} intra SACU trade data and SA projections of the CRP in t_{-2}