



LESOTHO

PARLIAMENT OF THE KINGDOM OF LESOTHO

Laying the Foundation for Sustainable Development

Budget speech to Parliament for the 2003/2004 Fiscal Year

By

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Maseru

10 March 2003

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

It gives me great honour to present the 2003/2004 Budget to this Honourable Joint Session of the Senate and the National Assembly of the Kingdom of Lesotho. Budget time provides an opportunity for the Government to report on its stewardship of the resources that Parliament approved and allocated for various programmes. It is also an occasion to report on the state of the national economy – its finances and progressed mode towards the attainment of key national goals, the fight against HIV/AIDS, employment creation, poverty reduction and improving the quality of life for all Basotho.

Because of the importance of the Budget in the life of any nation, debates and reflections on it must not be restricted to Parliament alone or to a select few. They must be extended to men and women and the youth of this country. Arrangements have, therefore, been made to broadcast these proceedings on Radio and Television. Other people who could not be accommodated in our limited Parliamentary Gallery will watch the proceedings at the National Convention Centre. I will go there afterwards to answer questions from the public and the media. In future, we will explore whether or not the same arrangements can be extended to the Districts and other local Government structures.

A NEW DAWN, A NEW BEGINNING

After many years of political instability, intolerance and exclusiveness, a new dawn has arrived. It has now ushered a new era of peace, stability, dialogue and partnership – partnership between Parliament and the electorate; between Government and Parliament; between Government and all the people of Lesotho; and, between public and private sectors. The foundations have been laid for good governance, accountability, transparency and participation of people in the decisions that affect their lives. We are very proud of this

achievement. Let us build on them; deepen and broaden the effectiveness of the institutions that underpins them.

While peace and stability are necessary pre-conditions for development, they are not sufficient to increase our rate of growth, create employment for our people, fight HIV/AIDS and reduce poverty. We need focus and hard work in whatever we do; we need to increase the quantity and quality of human and physical infrastructure, including roads, water, telephones, and technology. These factors are at the core of global competitiveness, development and wealth creation. We must embrace them as well as change the way we have done things until now.

PARTICIPATORY APPROACH TO DEVELOPMENT PRIORITY SETTING

To-day's budget also marks a radical departure from the way Government has always set development priorities. Since independence thirty eight years ago, Government and the civil service have always determined priorities without consulting the people; without involving them in the design and implementation of projects and without establishing citizen oversight or appeal against arbitrary decisions of public servants. It was not uncommon in the old system characterized by "the dictatorship of bureaucracy" that a junior Sales Tax Clerk who did not even understand the law, could hold a VIP up for over 45 minutes. I am witness to this. There were instances when the goods of an important Embassy in Lesotho could not be allowed to pass until the Deputy Ambassador, the Ambassador and the Principal Secretary for Foreign Affairs had all marched to the border to plead with a junior Sales Tax Clerk. This abuse of discretion and authority will not be tolerated and the new Lesotho Revenue Authority is under strict orders to remove all those who do not serve the public with respect or abuse their authority.

The priorities emerging from this consultative process include education and health; building a network of roads to link the country internally and externally, development of tourism; access to clean water, sanitation, electricity, telephones, and credit; development of agro-industries, protection of the environment through controlled grazing, afforestation and construction of gulleys to stop soil erosion. These priorities have been placed by the communities within the context of reducing poverty, ensuring food security and job creation.

One priority issue which kept coming through in the consultations with the villages is one of unequal access to control of property and financial assets by women and also the rights of boys and girls. The Government is committed to addressing these issues as well in the coming year.

Madam Speaker,

Let me confirm here and now that these priorities will guide the Government's future spending proposals. The Government and all its organs will listen to the people rather than tell them what they need or ought to need.

MACRO FINANCIAL FRAMEWORK

The Government's fiscal strategy is formulated to achieve a sustainable budget deficit that will avoid financial crisis in the future. It is based on:

- Real annual economic growth rate of 4.4% in 2003/2004; 4.8% in 2004/2005 and 5% in 2005/2006.
- A sustainable budget deficit of 4.2% in 2003/2004 (after taking into account the introduction of VAT in July this year)
- Future deficits, which are expected to range between 1.6% and 2.4% of GDP.

This budget deficit will be financed through a combination of local borrowing and modest use of reserves.

Honourable members must be aware that the achievement of this medium term deficits depends critically on instituting better revenue collection measures; stringent financial discipline; concerted improvement in financial management and control resulting in substantial savings from Government's current operations.

PUBLIC PRIVATE PARTNERSHIP

Governments throughout the world are facing serious budget constraints with their revenue bases declining while social demands are increasing at a fast rate. Lesotho is no exception in this regard. Our tax base, hence revenue, is limited and so are our savings rates. Our traditional development partners have also been facing budgetary constraints of their own. The question before us is how to finance our long-term development.

The Government has decided to use Public Private Partnerships (PPP) as a policy framework whereby the private sector can finance public infrastructure and services. Honourable Members will recall that the Right Honourable the Prime Minister has for some time been participating in the "Smart Partnerships" annual meetings in Malaysia. This new policy to use PPPs to boost investment, finance and modernize infrastructure is a direct result of those meetings.

The use of Public Private Partnerships will require the Government to put in place a legal and regulatory framework that will ensure transparency from the time feasibility studies and Request for Proposals are issued through negotiations, implementation, monitoring and auditing. The process will involve comprehensive review of our laws to make sure that they are compatible with such partnerships and this is about to get underway.

Projects that are candidates for PPPs in this sector are many. They can be found in housing, rural clinics, modernization of the courts and Police Stations, telecommunications, a referral hospital and government buildings. Municipal and other urban services will, however, be financed from soft loans.

KEY OBJECTIVES FOR 2003/2004

During the coming fiscal year, Government efforts will be directed towards the attainment of the following objectives and priorities:

- To arrest the spread of HIV/AIDS infections through prevention and education campaigns; support to people living with HIV/AIDS; use of anti-retroviral drugs; support to the increasing number of HIV/AIDS orphans.
- To reduce poverty through employment creation in the private sector.
- To expand free primary education and improve quality of education at all levels.
- To increase access to health care; improve access to medicines and to adequately maintain curative facilities.
- To improve efficiency, accountability and transparency in the provision of public services.
- To improve and change the Government's procurement process and to use it as a vehicle for empowerment and development of local private sector.
- To extend provision of public infrastructure including water, roads, electricity and telecommunications to urban and rural areas.
- To improve and broaden revenue collection.

GLOBAL AND REGIONAL DEVELOPMENTS

Madam Speaker,

Globalization is integrating world economies through better communication and transport, transfer and exchange of technology, and trade in goods and services. It has exposed nations and individuals to world events and presents opportunities and risks to which all must respond effectively.

Opportunities offered to Lesotho include duty-free access to markets in the United States, through the Africa Growth and Opportunities Act (AGOA), the European Union through the Lome Convention, the Southern African Development Community (SADC) through the SADC Trade Protocol and the Southern African Customs Union (SACU). Expanded market access in turn promotes foreign and domestic investment, as producers are no longer constrained by domestic demand.

Lesotho cannot afford to stand by and watch other countries take advantage of these opportunities.

Access to the US market has benefited Lesotho by offering duty free Textile market which will expire in 2004. It has also facilitated foreign investment from Asia. Our challenge now is to diversify our exports. The direct benefits of access to global markets, particularly the American market, include creation of jobs estimated at 44,000 at the end of 2002. With the expected opening of the new denim mill and other fabric making companies, employment is expected to increase further in the textile sector.

Madam Speaker,

We have not been able to take full advantage of the opportunities presented to us by globalization. In particular, the European markets in which Lesotho has preferential access, remain untapped just as are the SACU and SADC markets. Our capacity to utilize these opportunities has been hampered by inadequate infrastructure and institutional constraints. Inadequate and often intermittent supply of water to industry and significant delays at both the Maseru rail terminal and ports of export pose substantial challenges. Lack of suitable market information and expertise among the Lesotho business community has undermined efforts to tap niche markets within SACU and SADC as well as further afield. Bureaucratic red tape, and corruption have also hamstrung and frustrated private business efforts and ultimately worn them out. These must change and we alone can change them.

The policy of decentralization of industrial activity has begun with the construction of factory shells in Mafeteng, Qacha's Nek, and Botha-Bothe. For 2003/2004, the budget proposes a further allocation of M34.5 million to continue to respond to infrastructure needs in the sector, including provision of power, water and roads.

The global and regional opportunities and Government responses are expected to generate new investments in denim mill and other textile production of M1.2 billion maloti in the next few years. Of special importance is that the denim and other fabric mills will anchor textile firms employing approximately 20,000 people, as their key raw material will now be found locally.

POLICY PERFORMANCE IN 2003/2004

Madam Speaker,

Government policies and good governance are to be anchored in the application of the principles of accountability, transparency, predictability, and participation and the values surrounding them. The record of financial accountability so far is very poor with no audited books of account since fiscal year 1995/96. Indeed, even though books of accounts have been prepared in the interim, the last time accounts were declared true and fair was in 1978. Honourable Members, it is my determination that this sad history be put behind us. As a start, public accounts for 2001/2002 have been prepared and submitted to the Auditor General for audit and will soon be submitted to Parliament. Future accounts will be prepared within three months after the end of the fiscal year and audited books within six months. In the course of the year I intend to discuss with the Public Accounts Committee ways and means of strengthening the audit function.

Since September last year, there have been some notable success in clearing the long backlog of processing payments to suppliers, pensioners, and others.

It should be noted that these delays constitute fertile ground on which corruption feeds. To get service some people end up paying bribes. Indeed there are now fraud and theft syndicates within Government, comprising several officers performing different functions in fraud and theft chains that involve businesses in Lesotho and South Africa. In recent weeks, I have brought several of these to the attention of the law. What is surprising is that many of these officials had either been suspended or were awaiting trial, but nonetheless been allowed to resume duty, perpetrating the same crimes. Let us resolve as a nation to stamp out these corrupt practices. They will threaten our very existence as a nation.

The turnaround period for payments submitted to the Treasury has been reduced to two to three days. Attention will now turn to line Ministries. Efforts will also be made to stamp out some ghost employees and pensioners. We also plan to publish the names and crimes of those who misuse public funds. If those who commit crimes against the poor cannot be convicted and punished severely, let us resolve to make their actions morally expensive.

ECONOMIC PERFORMANCE

Honourable members, the economy has enjoyed two years of recovery since 1999. It is estimated that growth in 2002/2003 will increase from 3.5 to 4.0%. The manufacturing sector, particularly the textile sector, will provide further impetus during 2003/2004 raising growth to 4.4 percent. Restructuring in the telecommunications and electricity sectors and to some extent in the financial sector is expected to complement manufacturing in contributing to growth. Construction is expected to grow despite reduced activity in the Lesotho Highlands Water Project.

Although manufacturing, construction retail, financial services, and public service sectors are expected to grow in real terms, the primary sectors comprising agriculture and mining are expected to decline by about 1.5 percent reflecting long term depression in the sector. Preliminary observations on the famine relief programme suggest that the agricultural sector suffers structural rather than seasonal constraints. There is also evidence that HIV/AIDS is beginning to adversely affect the sector. Reports of an increasing number of child farmers, or farmers no longer able to muster enough energy to complete cropping successfully are increasing. These new problems occur against a long-term decline in agricultural productivity and rife stock theft. If we are to improve the quality of life of Basotho, these trends must be reversed. Those working in these sectors must be required to come up with action plans soon and be held accountable for their timely implementation and results. The effects of continued decline in agricultural performance are very serious on the well being of our nation.

Honourable Members are aware that Lesotho's economic performance is closely linked with that of South Africa. The improving growth prospects in that country should have positive impact on Lesotho. But even more important is the determination of the South African Government to work with us to address our constraints and enhance our growth performance. We expect that the Joint Bilateral Commission will double its efforts to come

up with concrete results. We hope that the private sectors of both countries can play a leading role in driving development in this area.

We can take advantage of globalization and the advanced South African economy. We can only do these through a highly trained population and efficient infrastructure. That is why government is spending the largest proportion of its budget on education and training and health services.

Nearly 420,000 students attended primary school during 2002. Of these, nearly 250,000 were enrolled under free primary education. Just over 80,000 were enrolled in secondary schools, while 6,700 were enrolled at universities and other tertiary institutions. Government efforts to attain universal primary education were advanced further with enrolment of the 4th cohort in January 2003. It is estimated that the total number of students under free primary education has risen to just over 300,000 students. In support of this programme, 153 new schools were constructed or are being completed, while 873 new classrooms were installed. More than 1 million textbooks and other teaching materials were supplied to 1,300 schools. About 4,000 caterers fed nearly 250,000 students at school. In the last budget, Government set aside M777.2 million, equivalent to 22 percent of the budget, to support education.

Looking ahead, the Government will continue to increase access for all primary school-goers although we must explore how the Government, churches and other private sector institutions can be partners in this important national programme that can change the future of our children and the country. What could be a more noble goal than this?

The Ministry of Education will receive M848.5 million in 2003/2004, up by 9.2%. But there are some critical questions that we must all ask ourselves as leaders, parents, teachers and learners. Are we getting our money's worth from these huge allocations?

- How can we expect to produce the skills that are needed to transform our economy into a competitive world class one if the pass rates, (i.e. 2nd class upwards) in High Schools are hovering in the 20% range?
- How can we train our people in science-based disciplines if our pass rates in maths and science are so dismal?
- How can we provide employment to our youth if they avoid disciplines where job prospects are high?
- Why are we satisfied to watch this unacceptable situation continue?
- What is the use of Government allocating more money to education when the output is so small and quality unacceptable worldwide?
- Why are we content to see our tax monies misused by those in position of leadership of our institutions of education? What message are they giving to our children?

It is with a heavy heart that I address the issues at the National Manpower Development Secretariat (NMDS), which has been charged with responsibility to administer scholarships and collect loan repayments from those who have completed their studies. The amount of money allocated by Parliament in 2002/2003 was M115 million and this had to be increased by a further M40 million due to under-budgeting. In the coming year, the proposal is to increase this figure from M155 million to 195 million.

Madam Speaker,

I regret to say that ever since I took over my portfolio, I have received nothing but painful stories and complaints from parents and students from the four corners of Lesotho. One old man from Thaba Tseka, who knew nobody in Maseru, spent five days waiting for his child to be served and for him to sign loan documents. His story is typical. Some students who were left with two or three subjects to complete their course of training were discontinued. These stories are many.

Discussions with the Director and line staff revealed that:

- Ever since the establishment of the NMDS, successive governments have never bothered to staff it with appropriate high calibre staff; organize its administrative procedures or paid attention as to how people were served; whether or not the programme was achieving its objectives cost-effectively; or loan funds were collected from those who completed their studies.
- Regardless of their level, staff never increased as the students population increased. Instead, they were given unlimited authority to decide the fate of students without appeal.
- Lastly, the Council which was to select the candidates was never appointed.

Madam Speaker,
Honourable Members,

This situation cannot be allowed to continue. I plan to:

- a) soon address all the administrative, staffing and systems issues aggressively;
- b) appoint forensic auditors to look into how the funds have or are being used.
- c) Discuss with the Honourable Deputy Prime Minister and Minister of Education the possibility of appointing a High Level Team to review the whole National Manpower policy and implementation.

I will report to this House later on the High Level Review Team.

Madam Speaker,

I do not have answers to these questions. But I know the situation is unacceptable and will lead to continued youth and adult unemployment, crime and social decay.

The Government's focus on development of people is further enhanced by public health policies and services. Primary health care remains the main health service delivery channel. The focus is on combating the spread of HIV/AIDS and TB, expanding access to medicines and promoting drugs and family health covering maternal, child and infant care services. The attack on HIV/AIDS is top priority and multi-dimensional. It must be pursued on all fronts: prevention, treatment and care of infected people, and support of orphans. Community and various support systems are needed at all levels. Above all, we need to mobilize everybody in this country to be involved. His Majesty and the Right Honourable Prime Minister are already leading the charge. The troops must follow and follow urgently, starting from every village, through the Districts, Government offices, and the Houses of Parliament. The International Community can only support us but not stop the spread of the pandemic for us. The battle is ours to win or lose and the country is ours to let it be destroyed by the HIV/AIDS pandemic. I hope we will resolve to win and protect our country from potential extinction.

The capacity of the Ministry of Health and Social Welfare to deliver health services will be strengthened. More Health centres are under construction and clinics have been completed at Liphiring, Ha Khabo, Likalaneng and Ha Sehlabane.

But the main concern which the Ministry will address this year is the overhaul of its Drug Store management and purchases as well as revenue collection. It will be noted that the Ministry of Health is expected to collect less revenue than last year despite the fact that patients have increased. Drastic management actions are also required in procurement of medicines including a review of the role of Lesotho Pharmaceutical Corporation.

FAMINE AND AGRICULTURAL REHABILITATION

The recovery in macroeconomic and fiscal health that emerged in 2001/02, has been reversed by famine which struck Lesotho and Southern Africa in 2002 due to drought and late rains. The Government appealed to international community for food, which would supplement its own limited resources.

The Government appreciates the response of the international community through the World Food Program, the Red Cross, World Vision and international organizations including as the African Development Bank, The OPEC Fund for International Development as well as the personal efforts of the United Nations Secretary General and his Special Envoys. Preliminary assessment indicates that 70% of the affected population has been reached.

To avoid continued dependence on food aid and to rebuild our food reserves, the Government launched a once off programme of assisting farmers with payment of 50% of the cost of inputs and ploughing. It also placed through commercial channels, a 20% subsidy on unsifted maize meal. We will review the situation at the end of this programme in August.

The famine intervention of 2002/2003 has revealed the unpreparedness of the Ministry of Agriculture and Lesotho in general for disasters and emergencies. Drawing from these lessons, let us develop better planning and emergency preparedness procedures.

Despite its vulnerability, agriculture is an important sector in our economy. Large investments have been and continue to be made in it. But its productivity has been declining. Projects that have enjoyed success in the past such as asparagus have not been sustainable. Major investments have also been made in the National Abattoir and dairy development. Why did all these efforts fail? Who have been held accountable? Why do the returns

not match the investments? Why should people stop doing things for themselves when Government tries to meet them halfway? These are troubling questions that must cause us to think seriously about our future.

Notwithstanding these questions, the allocation of M116.5 million is proposed for the Ministry of Agriculture to provide agricultural services and to complete its restructuring. What will be needed in the coming year is to increase productivity and ensure that Government is getting value for money.

As indicated, the budgetary constraints make it impossible that any further agricultural support can be financed from outside this budget. To do so would be imprudent, resulting in fiscal and macroeconomic instability that will ultimately ruin the economy.

The Ministry must also explore how to maximize the production potential of the poultry subsector, dairy and vegetable production. Construction of livestock slaughter facilities throughout the country must be considered urgently.

Health considerations require that cattle be slaughtered in clean environments. Anti-stock theft imperatives also require facilities throughout the country.

PROVISION OF INFRASTRUCTURE

The provision of infrastructure is central to the establishment of Lesotho as a globally competitive service economy. It is also important to integrating the country, providing service access to the people within Lesotho and to producing and delivering our exports on time to world markets that are now opening to Lesotho. Our small construction industry must therefore learn to partner with large firms from outside in order to develop the skills and discipline of delivering high quality work on time and within budget. Towards this end, Government will use PPPs and other vehicles to ensure that their sector is empowered and learns the international standards of performance.

In terms of programme content, the Ministry of Works will continue with the construction of Mpharane to Bela-Bela Road that is supported by the African Development Bank and Likalaneng to Thaba-tseka. The Ministry will revisit its national trunk routes that open the mountain areas as well as link Lesotho with South Africa. Its allocation has been increased by 16.2% from M324.9 million to M377.4 to support new roads and maintain others.

The opening of the interior of Lesotho is crucial to the development of Tourism whose potential to contribute to job creation and private sector development is very high. The proposed Lesotho Tourism development Cooperation which will be funded from the introduction of Tourism Levy is expected to play a leading role in this sector.

For industrial development, availability of water, reliable power and efficient telecommunications are critical. The Government plans to accord top priority to the development of this infrastructure using PPPs where appropriate.

Lastly, in line with listening to the people, efforts will be made to extend rural water supplies, electrification, and telecommunications services to certain growth points. Such points have been identified along the power lines from Khukhune to Mokhotlong.

LOCAL GOVERNMENT ELECTIONS AND STRUCTURES

In line with Government's policy to bring services closer to the people, provision has been included to conduct local government elections later this year. Following the elections, it will be critical to build the financial and administrative capacity of these structures. The Government plans to consult with the World Bank about financing services to be provided by these structures as part of the decentralization of public administration. Government of Germany is already making vital contribution to this decentralization process.

An important initiative relates to the existing Municipality of Maseru and other urban structures in the District capitals. In Maseru the challenge is to reform the administration, provide services timely and efficiently, develop and implement a coherent plan for providing these services. It is only when people get services that the culture of paying rates can be enhanced.

Finally, there is a major challenge that we face. It is to remove so many vehicle scraps that litter our towns and countryside. These are dangerous to the ground water supplies and other aspects of our environment. Why should we use old cars as "chicken Coops" (Lirobe tsa Likhoho)?

INFORMATION: COMMUNICATION AND TECHNOLOGY (ICT)

The economic transformation of Lesotho into a globally competitive service economy requires embracing and making the development of ICT a central piece of our national strategy. This means that the Government has to invest in extending the ICT infrastructure throughout the country, in particular, to almost all the High Schools in the country. It is a disgrace that all Government Offices are full of computers whereas the schools from which the Government recruits hardly have any for training the students.

Consideration is being given to obtaining used computers, cleaning and making them available to schools at a cost. The training of teachers will have to be an integral part of the programme.

In terms of investment, consideration will be given to developing partnerships with the private sector.

The Ministry of Communications is in the process of building its capacity for promoting and leading ICT in Lesotho.

PUBLIC SERVICE PERFORMANCE

The critical challenge facing the Government is how to make the public service performance oriented and accountable for results on the ground. The Government has agreed with the World Bank to embark on a public service reform programme that will focus on two elements: empowerment in financial management and control, accounting and auditing and decentralization of administration to local structures. Other development partners such as the UK Department for International Development, Irish Aid and German Ministry of Development Cooperation will also participate in the reform programme.

Even more important, however, is to stamp out corruption through strengthening of systems, tight supervision, arrangements for anonymous reporting of fraud and theft cases, and strengthening the cooperation among the law enforcement agencies – Police, prosecutors and Judges. On behalf of the Treasury, I acknowledge the excellent cooperation and assistance we have received from the Police and investigative agencies.

The Government should also make it costly for those interdicted or charged with fraud or theft by announcing their names. People should consider reputational and moral costs when engaging in these corrupt practices.

Let me assure this Honourable House that the successful stock theft raids of the last six months are just a beginning of a long and sustained campaign against corruption by the Government. This will include a review of the Court procedures as recently, expounded by the Chief Justice in his annual report. Effective, enforcement of laws and timely disposition of cases are hallmarks of the rule of law and functioning democracy. Discussions are about to start with the World Bank on Judicial reform and modernization of the Courts. DFID is also assisting the Ministry of Law and Constitutional Affairs.

The Ministry of Home Affairs is in the process of overhauling the processing of Visas and passports. The intention is to make the system effective against criminals but friendly and efficient for tourists and investors. M145.6 million has been allocated to the safety and law enforcement agencies to support their service deliveries to the public. Clearly, this is not enough but this year's budget constraints make it difficult to allocate more.

FINANCIAL SECTOR POLICIES

In the financial sector, the main challenges are the low level of lending extended to the private sector, the inability of monetary policy to influence domestic interest rates in the commercial banking sector, and the lack of rural banking service. The low level of interest paid on deposits encourages a leakage of savings to South Africa. I will ask the Central Bank and Commercial Banks to jointly review this situation.

The services provided to the public in the urban areas also need a review by the banks. The long lines that one sees at month end must be addressed seriously and urgently.

The lack of credit to small and medium companies requires urgent attention. The private sector cannot take advantage of the market opportunities being offered to Lesotho unless financing on reasonable terms is available. During the coming year, the Ministry of Finance and the Central Bank will explore the feasibility of a Development Fund.

Lastly, I wish to observe that the commercial banks in South Africa are engaged in welcome initiatives to achieve empowerment and support to SMEs. Why cannot the same innovativeness and initiative be shown in Lesotho? The issue needs an answer.

PENSIONS AND TRANSFERS

Madam Speaker,

Trends in pensions and recurrent subsidies and transfers are worrying. An increasing number of civil servants are proceeding to retirement every year and this is imposing rapidly rising costs on the fiscus. The review of civil service pensions has been initiated with a draft bill already prepared. Starting from 1 April 2003, pensions to African Pioneer Corps will be increased by 50 percent from M100 to M150 per eligible person.

Subsidies and transfers to autonomous institutions have also been rising rapidly, as a result of a rising number of institutions that become autonomous. There is a new trend of Line Ministries establishing semi-autonomous authorities, with the promise that these are likely to be more effective than the parent Ministry. The immediate consequence is the increase in costs without any performance contracts that ensure that the high funding cost is commensurate with increased productivity. This is another area that we will take a hard look at during the next fiscal year.

REVENUE POLICIES

Madam Speaker

Revenues are at the heart of poor fiscal performance expected in both 2002/2003 and 2003/2004. For the current year, tax revenue is projected to fall short of budget by M93 million. SACU revenue is steadily declining in nominal and real terms. The new formula is also likely to introduce volatility in the estimation of this revenue. Income and sales taxes are too small to make up for the fall in SACU revenue.

Low tax compliance contributes directly to poor revenue performance. To improve tax administration, the Lesotho Revenue Authority (LRA) is now operational and will cooperate with the South African Revenue Service (SARS) to encourage voluntary compliance and investigate tax defaulters on both sides of the border. Attempts will be made to harmonise systems in order to strengthen early detection of cross-border evasion. We also intend to use the close cooperation with SARS to ensure that those business establishments in Lesotho whose principals reside across the border, must pay tax here and then secure offsets through the double taxation agreement between Lesotho and South Africa. I also want businesses operating in Lesotho to bank their proceeds here, so that a proper trail of business transactions can exist.

There are several other concerns regarding tax collection. When South Africa changed its VAT regulations regarding vehicle VAT refunds, this created perverse incentives on the Lesotho side, resulting in an alarming number of motor vehicles registered in South Africa, but owned by Lesotho residents. Because South Africa will not refund VAT until a vehicle has been registered in Lesotho, and because for a vehicle to be registered in Lesotho, sales tax must be paid, the Lesotho buyer must pay both 14 percent VAT and 10 percent sales tax in order to qualify for a VAT refund. A solution is being developed. In the meantime, those who are purchasing new vehicles should request suppliers to deliver vehicles to Lesotho as this approach does away with the 14 percent VAT. The method of valuing used vehicles will also be changed as this is probably contributing to the problem.

Over the years, exemptions from tax have been issued for various reasons, each of which was valid at the time of issue. However, many have not been time limited, nor has any analysis been done on whether the reason for the exemption remains valid. Government has continued to lose revenues in many cases where the exemptions are

no longer necessary. A review of tax incentives will be undertaken during the course of the year to ensure that revenue losses are offset by advantages of investments.

On 1 July 2003, VAT will be introduced. The tax will close the current channels through which tax exemptions certificates are abused and the loophole of suppliers evading tax by reporting that their sales are to Government.

A significant proportion of the decline in SACU revenue is under-declaration or under-valuation of imports at the borders. The LRA will address this problem in the next year. These concerns will not be solved immediately, but will be addressed systematically and comprehensively. I have no doubt that the results will ensure that traders operate on a level playing field and that tax revenue will increase.

PUBLIC DEBT

The high indebtedness of many developing and emerging economies has created keen interest amongst our people for information on Lesotho's indebtedness. The economic failure experienced by Argentina during 2002 was due largely to its failure to service its external debt. It is important for countries to ensure that their debt levels are manageable. I am aware that the debt data published by my predecessor last January attracted immense interest and a sense that Lesotho has high level of debt. At the time of that Speech, external debt stood at M6.4 billion, whereas today debt stock has dropped to 5.1 billion. The sharp rise at the end of 2001 is a result of fluctuations in the exchange rate, which despite weaknesses at the beginning of 2002, firmed significantly during the year.

Since independence, Lesotho has qualified for concessional loans from the World Bank, African Development Bank, International Monetary Fund, and the European Investment Bank. At least 35 percent of each loan is given to Lesotho as a grant, making it easier to service the loan. Concessional loans constitute 80 percent of Government debt. The remaining 20 percent is shared between bilateral lenders – for which France, Kuwait, and South Africa are the main creditors – Commercial Banks, and export credits. This latter group is more expensive to service and must be kept to a minimum.

Nearly all the debt has been contracted to support capital investments rather than to finance recurrent expenditures. Public investments create capacity for economic growth and therefore higher revenues, making it easier for governments to service debts. Thus Government debt strategy has been in line with internationally accepted guidelines for external borrowing.

Several countries in Africa have received debt relief under the Highly-Indebted Poor Country (HIPC) programme. Some members of the 4th Parliament wondered why Lesotho did not qualify for debt relief under the programme. HIPC is meant for those countries that mismanaged their loan portfolios to the extent that significant portions of their budgets went to service external debts. For most of these countries, debt service costs took more than 30 percent of their export earnings. In relation to the budget, debt service costs frequently exceeded a fifth of their budgets. Lesotho has not qualified because it devotes only 7.2 percent of export earnings to servicing external debts and debt service is only 7 percent of the expenditure budget for 2003/2004.

SALARY ADJUSTMENT FOR PUBLIC SERVANTS

Madam Speaker,

We all know that inflation is a tax on the poor. This arises from the fact that the poor spend the largest share of their meagre income on food. That is why the Government as the largest employer in the country, always likes to adjust the salaries of public servants. But this has not always been possible because of tight budget constraints.

This year is not an exception. I have juggled all kinds of figures to see if I could find a decent amount that could be awarded without precipitating a financial crisis. All I could come up with is 4% adjustment which, I hope the public service will distribute with a bias towards lowly paid workers.

CONCLUSION

Madam Speaker,

Before I conclude allow me to express my appreciation to you Madam Speaker, Honourable Members of the National Assembly and Senate, distinguished guests, and the public for granting me an opportunity to present the 2003/2004 estimates. My special thanks go to my Cabinet colleagues, whose guidance and understanding have helped shape the estimates. I also wish to thank Government officials in my Ministry and all other Government institutions and the Central Bank who have worked tirelessly in the last 5 months to develop these estimates.

The budget presented today represents a very tight fiscal situation that calls for strict financial discipline by all and control of expenditures while improving revenue collections. But, I am confident, that we shall all rise to the challenge. We have no other country except this one to develop. We will do all in our power to do so.

KHOTSO! PULA! NALA!