



MINISTRY OF FINANCE

"Navigating the New Norm towards Transformation and Economic Recovery"

CITIZEN'S GUIDE TO THE 2021/2022 BUDGET

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THE GOVERNMENT OF LESOTHO

THROUGH

THE MINISTRY OF FINANCE

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FOREWORD BY THE HONOURABLE MINISTER OF FINANCE

As the Government continues along the path of job creation through the hard-hitting times of COVID-19 pandemic, the Government of Lesotho seeks to ensure that Basotho citizens are informed and aware of the objectives of their Government and the tools being utilised to achieve those objectives. The National Budget expresses the Government's priorities and programmes as well as its economic and social policies. The resources used to finance the expenditures in the National Budget comes from you, the people of Lesotho. For this reason, the Ministry of Finance has prepared, a Citizen's Guide to the Government's Budget for Financial Year 2021/2022.

We believe that knowledge empowers, and the Government is interested in empowering all Basotho. As such, we want the fundamentals of the National Budget to be understood by all. Furthermore, we seek to ensure that all segments of the Basotho population understand the expenditure programme that will be undertaken during the financial year beginning on April 1, 2021 to further advance the country's job creation along with persistence in addressing the Covid-19 and its effects. It is hoped that with this Citizen's Guide, each citizen of Lesotho will be able to identify with the efforts to improve the lives of all Basotho through its Programmes.

The structure of the crisis Lesotho faces is diverse, but the following statements characterise succinctly what the Government of Lesotho has to face:

- Poverty, hunger, and joblessness are high and even higher amongst the youth.
- Ill-health is pervasive and there is persistent mismatch between skills needed and that are produced.
- Hundreds of our young people looking for jobs dropped out of school at the end of primary school when they were 12 years old or at Form E when they were only 17 years of age.
- The fiscal resources required to redress the situation are scarce and limit any meaningful participation by Government.

Hon. Thabo Sophonea

Minister of Finance

INTRODUCTION

This is the first budget for the current administration. The country is confronted with dire circumstances; unemployment and COVID-19 being at top. Notwithstanding the afore-mentioned conditions, this budget is expected to leave a mark that will change the economic history of Lesotho, where Lesotho will be free from poverty, inequality, and joblessness particularly among the youth.

Though prepared at the challenging times, this budget presents an opportunity to



introduce fundamental reforms to reorganize our economy. COVID-19 will be with us for some time hence, we need to navigate the New Norm towards Transformation and Economic Recovery.

Over 109 million people globally have contracted the coronavirus of which over two million sadly succumbed to the disease. This has strained health systems in many countries across the world, resulting in an unplanned and an escalation in health-related expenditure. Lesotho has not been spared from the pandemic; thus far, more than 9,000 people have contracted the virus and over 200 deaths have been recorded. It is with greatest respect that I would like to offer my condolences to families that have lost their loved ones to this disease.

The COVID-19 pandemic has not only been a health crisis but has also adversely impacted the economy. Global business activity has deteriorated as supply and value chain disruptions dampened the demand for goods in general and commodities. The consequence has been loss of jobs and livelihoods for millions of people as countries implemented containment and mitigation measures.

WHAT IS COVERED BY THE NATIONAL BUDGET?

The National Budget covers all of Government spending and revenues. It includes Ministries, Departments and Agencies of the Government. There are also State-Owned Enterprises which are financed

by the Government which in turn are expected to generate revenue for the Government. All these sectors are financed through the Budget of the Government to deliver goods and services to the public.

WHERE DOES THE MONEY COME FROM?

The 2021/22 Budget is financed through Government revenues, grants from development partners and external borrowing.

GOVERNMENT REVENUES

The overall target for Government revenues is **M15.5**. This is made up of tax and non-tax revenue collected by the Government of Lesotho

DONOR GRANTS

These are monies given by development partners with no obligation to be repaid. For the 2021/22 fiscal year they are projected at M1.3 billion.

EXTERNAL LOANS

These are monies coming from development partners with obligation to pay back with minimal interest. They are projected at M2.3 for the 2021/22 fiscal year.



HOW IS THE MONEY GOING TO BE USED?

The 2021/22 Budget is divided into two categories of expenditure: Recurrent and Capital Expenditure

RECURRENT EXPENDITURE

These are expenditures for day to day running of the Government like paying salaries and other expenditures. For 2021/22 fiscal year, the recurrent expenditure amount to M18 billion.

CAPITAL EXPENDITURE

These are expenditures for investments component of the budget such as construction of roads, and erections of structures such as buildings. For 2021/22 fiscal year, the capital expenditure amount to **M2.1 billion**.

COVID-19 SOCIO-ECONOMIC RESPONSE:

Lesotho is going through bereavement as a result of the havoc wreaked by the COVID-19 pandemic. The economic and social disruption being caused by this pandemic is distressing. The Government has been working tirelessly to mitigate the impact of this pandemic on Basotho and their livelihoods while laying a path to recovery.

The Government set priorities on the health sector needs, particularly on the requirements

of the health sector personnel and funding was allocated for procurement of adequate personal protective equipment. In acknowledging the risk exposure of the frontline health worker's, the Government further approved as an incentive, provision of allowances to supplement salaries across the entire health sector.

The Government in collaboration with Development Partners, Non-Governmental Organisations and the Private Sector provided investment and technical assistance in the fight against this pandemic. Priority was also put-on procurement of medical supplies together with diagnostic and biomedical equipment.

The Government launched a new initiative for contact tracing and reporting by village workers known as "Bophelo Ka Mosebeletsi" in Quthing and Mokhotlong. In Maseru, an oxygen plant which is imperative for uninterrupted supply of oxygen was launched. The Government procured ambulances to service the Linakeng Health Centre in Butha-Buthe, Semonkong Health Facility, Mokhotlong and Motebang Hospitals. Furthermore 90 hand washing facilities were installed in the ten districts.

The Government introduced fiscal support measures to assist business and household during the difficult times. Measures includes:



- A disbursement of M1.3 million as a tax relief measure for registered and compliant Micro, Small and Medium Enterprises.
- A M350 million Partial Credit Guarantee Scheme, has been signed with LNDC to partially off-set the impact of the lockdown on the medium and large enterprises

To stimulate the economic activity, the Central Bank of Lesotho (CBL) implemented the following policies:

- lowered its policy rate from 6.5 percent per annum to 3.5 percent per annum.
- temporarily relaxed the prudential requirements that the financial institutions should comply with, so as to increase the scope of lending and to offer lenient credit limit exposure requirements by banks in concurrence with CBL.
- lightened the burden on financial consumers who were affected financially by the pandemic

The Government secured external funding in a form of loans and grants for the COVID-19 pandemic response. They include:

- USD7.5 million from World Bank
- USD49.1 million from IMF
- EUR5.5 million from the European Union and

- USD36.9 million from the Government of the United States of America.

There is a minimal supply of the COVID-19 vaccine globally hence its shipment is expected in phases. Efforts to exceed the 20 percent coverage of our population requires cost sharing with the COVAX Facility for supplementary doses as opposed to that fully subsidised by the COVAX AMC donors. The Government is developing a strategic introduction of the vaccine, guided by the vaccine introduction standards and guidelines together with the technical expertise of the global partners. Technical groups to work on smooth accessibility of the vaccine have been established through the Ministry of Health, which will embark in the Planning and Coordination, and Service Delivery, Vaccine Supply and Cold Chain Logistics, Data Management and Surveillance, and Demand Generation and Promotion working groups





PERFORMANCE OF THE 2020/21 BUDGET

The 2020/21 budget implementation was undertaken during the pandemic whose impact has been shattering on human health and our economy. The performance, therefore, deviated significantly from what was initially planned in the previous budget speech as priorities had to change.

The initial signal for the inevitable deviations was flagged by the downward revision of the targeted revenue collection. The estimated collection for 2020/21, dropped by M2.2 billion based on the then projected effects of COVID-19 on taxes and royalties.

On the expenditure side, the appropriated annual budget for 2020/21 was M23.8 billion, constituting the recurrent budget of M18.1 billion and the capital budget of M5.6 billion. Thus, the expenditure was held constant as the revenue target declined, leading to an uptick in deficit. M1.2 billion was reallocated towards COVID-19 mitigations measures.

Most projects funded entirely by the Government, which were at the initial stage, were deferred. Given the tightness of the fiscal space, it was also befitting to temporarily cease feasibility studies, designs, and environmental impact assessments for

new projects as the Government works on the economic reconstruction and recovery plan.



ECONOMIC RECOVERY

The recovery plan is still under preparation, but our drive towards a sustainable economic recovery path is encored on the following three (3) pillars:

- Dealing effectively and decisively with COVID-19 to limit the rate of infections and deaths, in order to protect and preserve the country's human capital base.
- The need to secure macroeconomic stability to support sustainable and inclusive growth.
- A sound but agile economic policy framework that is forward looking, allocates most of the scarce resources towards investment and capital formation that has high rate of return.

The Government will increase economic productivity, develop private sector, and



increase jobs. The Government aims to achieve sustainable growth through a private sector led employment creation by empowering indigenous Basotho entrepreneurs and continuous improvement of the investment climate.

As the NSDP II indicates, we will continue to focus our efforts and investments in the following sectors to lead us to recovery namely agriculture, manufacturing, tourism, and mining.



SECTORAL ISSUES AND ALLOCATIONS FOR 2021/22

The Government of Lesotho's total expenditure is proposed at M23.8 billion of which recurrent budget is M18 billion and capital budget is M5.7 billion. The recurrent expenditure has decreased by 1 percent while capital expenditure has increased by 2 percent. The increase in capital budget is attributed to the increase in donor financing.

INVESTMENT PROMOTION

The Mining Sector is improving and there are 8 companies holding mining leases for diamonds, even though due to impact of COVID-19, only 4 are operational. There are also 22 companies with mining leases for dolerite quarries, eight for sandstone quarries and one mining clay. As much as the restrictions in movement in the world's largest diamond trading centres resulted in fewer diamond buyers being able to engage in trade and some of our mines suspending operations, diamond mining is still viewed as the mainstay and an enabler of Lesotho's economic development.



The Government through Small-Holder Agriculture Development Project II is implementing a Contingency Emergency Response Component, where Food and Agriculture Organization (FAO) has been contracted to undertake the responsive intervention by providing agricultural inputs to small-scale farmers.



Inputs include grains and vegetable seeds, shade nets, small-scale irrigation system and water tank. Funds amounting to M80 million have been disbursed to FAO as an implementing agency. Cereal crop seeds have been distributed in the three mountain districts of Thaba-Tseka, Mokhotlong and Qacha's Nek targeting 5,000 farming households. Majority of beneficiaries have already planted maize. Additional 200 metric tons (MT) of beans and 26.6 MT of fertilizer (2:3:2) already distributed to 15,000 lowlands beneficiaries in the four districts of Quthing, Mohale's Hoek, Leribe and Butha-Buthe. In 2021/22, Wool and Mohair Promotion Project (WAMPP) set aside M25 million to subsidise feeds at 50 percent.



In order to continue with economic growth through trade during the COVID-19 era, the Ministry of Trade and Industry established an online licensing system that renders a fully-fledged online service linked with online payments. These services are issuance of traders and manufacturing licenses, and their

renewals. Furthermore, the Ministry launched the Lesotho Trade Information Portal in December 2020. This portal is hosted by LNDC and provides a single platform to access all trade related information in Lesotho, detailed information on applicable processes, procedures, measures and Government Ministries and Agencies providing related services. This is part of trade facilitation and improvement of business climate in Lesotho.

To increase the number of jobs generated in the manufacturing sector, nine (9) new large-scale manufacturing licenses were granted. Lesotho has ratified the SACU plus Mozambique and the United Kingdom Economic Partnership Agreement (SACUM-UK EPA). The SACUM-UK EPA seeks to avoid any disruption in trade as a result of Brexit. The Agreement came into force in January 2021. The Financing Agreement between Lesotho and the EU has been signed by the Ministry of Finance and the EU Delegation. The signing of the Financing Agreement allows for the implementation of the EPA Action Document with the 6-million-euro funding. This will be used to develop value chains that will participate in the regional space and ultimately internationally. The focus is to assist Basotho to set up businesses and participate in the value chains and this will aid in creating employment. Lesotho has ratified the African



Continental Free Trade Area (AfCFTA) which brings together countries on the African Continent. The AfCFTA provides a large market of M1.4 billion for Lesotho's goods and services. The trade in goods under this Agreement began trading from January 2021.



Ministry of Communications, Science and Technology through the implementation of E-Government Infrastructure Project will increase broadband coverage in rural and unserved areas through construction of 48 mobile sites. This construction will be undertaken over the medium-term. The project will further construct 96 km fiber network from Roma to Thaba-Tseka in order to improve the quality of E services. The Government digital services will be strengthened through the development of Government Electronic Payment Gateway and the Rural Community Payment Network. Under this project 40 common digital services centers will be established. The ministry will also review and develop a legal

regulatory, policy and institutional frameworks to lay the ground for the private sector-led economic growth and job creation. The ICT policy Review and Cyber Security Bill are at an advanced stage.



INFRASTRUCTURE SERVICES

As part of regional collaboration to enhance tourism opportunities, the Government will continue with the construction of the two major roads of Marakabei-Monontša and Mpiti-Sehlabathebe which are both progressing satisfactorily with over 500 Basotho employed under the two projects. Construction of Thaba-Tseka-Katse road has commenced amidst the COVID-19 challenges facing the global community. The Government through partnership with World Bank under Transport Infrastructure and Connectivity Project (TICP) has completed construction of 22 footbridges while construction of additional 8 footbridges is underway. In the 2021/22 fiscal year the Government will construct more additional footbridges at Lenyakoane Pelele, 'Mamaebana, Ramotjalotjalo in Leribe. In



Mafeteng, constructions will be in Mahaneng-Malimong, Motlokoa-Ntsie and Mphamo-Malaleng. Lastly in Quthing, the construction will be in Makobobong-Lithakong, Lithakong and Mokae-Mapheelle.



Moshoeshoe I International Airport will be rehabilitated with the objective of meeting International Civil Aviation Organisation standards. To guard against fire outbreak the Government intends to procure a Fire Truck for provision of reliable cover service to retain international standard of service.

Construction of One-Stop-Shop Business Facilitation Centre at Ha Foso has been completed and is fully operational since November 2020. The Facilitation Centre will offer services offered by Department of Traffic, LRA, INTERPOL and CID. The Facility will reduce the waiting time taken to register motor vehicles and acquire licenses to maximum of 15 minutes. For efficient and

timely production of number plates, three independent service providers have been engaged for provision of service at Northern, Central and Southern Regions. To date, a total of 10,000 new number plates have been produced to cover the backlog.

In February 2020, a newly and locally registered airline called Mohahlaula was introduced to relief the provision of transport services especially in the mountainous areas where access to socio-economic services is normally a challenge. The airline will offer charter and scheduled domestic and international operations for both passengers and cargo which in turn will boost tourism activities.



The Lesotho Lowlands Water Development Project (Phase II) is in its second year of implementation. It is being financed in Zones 2 and 3 (Hlotse and Maputsoe) by the World Bank to the tune of 68.4 million Euros: and in Zones 6 and 7 (Mafeteng and Mohale's Hoek) by the European Investment Bank and the European Union to the tune of 82 million Euros and 41 million Euros, respectively.



The project will develop bulk water infrastructure, which includes a water treatment facility, transmission networks and reservoirs in each project region. The project will generate about 1,938 jobs during its implementation.

the second phase of the Lesotho Highlands Water Project (LHWP II) has commenced, and the advance infrastructure programme is at an advanced stage. To date more than 1200 job opportunities, of which 950 (80 percent) are Basotho have been created. It is expected that expenditure under the LHWP II activities will be in the order of M4 billion in the fiscal year 2021/22. The tender for the construction of the main works, water transfer works (dam and tunnel) and for the consultancy services for the design and construction supervision of the hydropower component will be advertised in the first and second quarter of 2021/22 fiscal year.



The Lesotho Electricity Generation Company (LEGCO) has been established to oversee the construction and the commencement of phase I and phase II of

Ramarothole Solar Electricity Generation Facility in Mafeteng which will generate 30MW solar electricity. Furthermore, the implementation agreement was finalised with an Independent Power Producer to start the construction of 20MW solar generation. The Lesotho Renewable Energy and Energy Access Project for off-grid electrification and grid extension to 6 industrial zones (Butha-Buthe Ha-Belo, Maseru Tikoe I and II, Mokhotlong, Berea and Qacha's Nek) was launched in the third quarter of 2020/21 fiscal year.

In 2021/22 fiscal year about 1,100 households and 2 schools will be electrified at Belo Industrial Zone in Butha-Buthe district, and 16 mini grids will be launched in rural areas.



HUMAN AND SOCIAL DEVELOPMENT

The health system has been strengthened through the installation of teleconferencing infrastructure in 30 health facilities, which include 18 hospitals. This infrastructure has



enabled continuation of training, mentorship, and supervision of health care workers virtually for HIV/TB and COVID-19 interventions. In addition, this teleconferencing infrastructure supported the largest healthcare worker training on Advanced HIV Disease (AHD) management in which a total of 278 healthcare workers were trained on AHD management virtually over a 3-day period.



The Ministry of Social Development has increased National Information System for Social Assistance (NISSA) coverage to all 64 community councils and is expected to cover all Urban Councils by March 2021. The number of Child Grants Program beneficiaries have been increased to 50,457 from 41,091 households and this translates to 151,371 children benefiting from the program.

Going forward, the plan is to increase the number of households receiving child grant by 14,000 to bring the total to 64,457 and to further cover vulnerable urban households.

The Ministry of Education and Training faced significant challenges during the 2020/21 fiscal years due to COVID-19 pandemic, however, the Ministry was able to construct 2 additional classrooms in 18 primary schools and 2 science laboratories in two schools. The Ministry also developed the Education Sector COVID-19 Response Plan and has so far managed to secure a total funding of approximately M61.5 million from Global Partnership for Education and the World Bank.



GOVERNANCE, RULE OF LAW AND SECURITY AGENCIES

Deployment of troops by the Lesotho Defense Force along the borders and within the country in strategic areas with high prevalence of crime such as Maputsoe, Masianokeng bypass, Mafeteng, Matsieng and other areas helped reduce crime in such areas. The LDF played a leading role in assisting the Lesotho Mounted Police Services with curbing of stock theft as well as assisting in the Country's efforts in



preventing the spread of COVID-19 pandemic.

the focus of the 2021/22 will be to enhance the operational effectiveness of the Military and NSS and to further promote peace and stability within and outside Lesotho. The intelligence will be provided for strategic and operational decision making. Participation of Bilateral and Multilateral relations in order to be able to identify, monitor and neutralise emerging threats that have potential to undermine the country's national security. The Ministry will further assist in the fight against COVID-19 pandemic by deploying more troops to ensure adherence to COVID-19 regulations.



The Ministry of Police and Public Safety recorded tremendous success in detention and investigation of serious crimes which for a long time troubled the nation. Cases have been investigated and suspects brought before the courts of laws with others being sentenced. Through the office of the Prime Minister, the Ministry launched Operation Restore Hope in collaboration with other

security agencies, The Community Policing Committees were resuscitated and given training. Actions were taken against officers who were engaged in police brutality and the Lesotho Mounted Police Services contributed a lot in upholding COVID-19 regulations.



In collaboration with the High Court of Lesotho, the DCEO is in the process of establishing a specialised Anti-Corruption Court, in the light of backlog of cases in the courts of laws. The fight against corruption requires a good investment at the beginning while corruption is rife as is the case in Lesotho and once it is effectively put under control, we no longer must spend much but only to maintain.

A well-functioning judicial system is one of the key prerequisites for creation of a conducive environment for economic growth. The Judiciary has therefore prioritised access to courts services and timely disposal of cases. To improve efficiency and access to justice, the Judiciary has already started preparing for construction



of the Southern Region Court Complex project that will be based in Mohale's Hoek. Furthermore, the preparations for appointing 2 Judges together with the complementary staff who will provide High Court services in the northern region at the newly built Tšifali-Mali Court Complex is already underway.

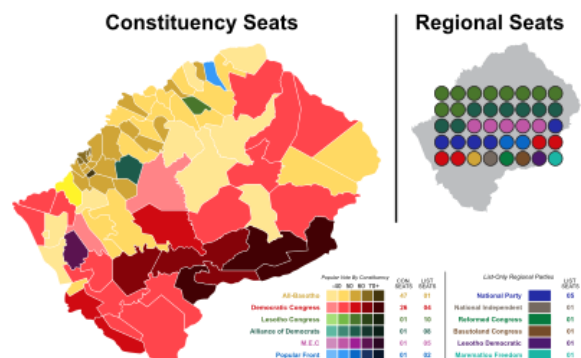
During the difficult lockdown periods, the Judiciary was able to implement Court of Appeal Amendment Rules which allowed the Court to hold sessions virtually, thereby successfully holding 2 sessions so far. The High Court is also contemplating issuing the Rules on the utilisation of virtual hearings in order to minimise the spread of the deadly COVID-19 pandemic during the first term session.



The Anti-Trafficking in Persons Act, 2011 has been amended and passed in both houses of Parliament. Verification of documents at

borders towards combating human trafficking and deportation of non-citizens with fraudulently acquired Lesotho legal documents such as, residence permits, passports and identity cards has been a success. The Ministry of Home Affairs will establish detention center for foreigners awaiting trials or deportation.

The Government through Independent Electoral Commission (IEC) is finalising the review of constituency boundaries which started two years ago but could not be completed due to the absence of IEC Commissioners. The Commission will harmonise the electoral laws with the aim of holding the Local Government and National Assembly elections concurrently. Subsequently it will re-register voters with the aim of improving quality of voter register and develop civic voter education curriculum so as to improve participation of stakeholders in electoral process. An amount of M136 million is set aside for the initial preparation of the 2022 National Elections.





To date the Youth Apprenticeship Programme has placed 1,210 graduates across different companies. 64 have resigned going into formal employment, whilst 13 have been absorbed into permanent employment by the companies they were placed with. 1,452 undergraduate youth have been placed in community development projects which include maintenance of public assets such as roads and dams. While mostly these are maintenance projects, Qacha's Neck district has embarked on initiating new roads from scratch and Rothe youth have resuscitated the old orchard which had collapsed.



NEW POLICY PROPOSALS FOR 2021/22 BUDGET

During 2021/22 fiscal year, the Government intends to introduce the following policy measures and legislation that are proposed in order to make this budget a reality:

- ✓ Increased VAT rate on electricity by 1 percent from 9 to 10 percent.

- ✓ Curbing of Perpetual VAT refunds due to zero-rating of mining exports.
- ✓ Royalties (Export sales tax on diamonds at 15% mine rate): The proposal is to treat royalties as a deductible expense for tax purposes.
- ✓ Excise taxes
- ✓ Introduction of alcohol and tobacco levy at 15 and 30 percent, respectively.

The following expenditure policy measures will be implemented to curb waste and control expenditure:

- ✓ Project Implementing Units will face-out as employment contracts come to an end.
- ✓ The secondment regulations will be revisited and amended accordingly.
- ✓ Parastals' salaries will be reviewed with a purpose of standardising them.
- ✓ Government Employment Policy will be revised amongst others, to reduce the high wage bill.
- ✓ Rationalisation of foreign missions will be finalised in 2021/22 fiscal year.
- ✓ Means testing will be finalised for implementation in 2022/23 fiscal year.
- ✓ Performance based increment will be implemented in 2022/23 fiscal year to replace automatic notching.
- ✓ The Government will engage in the review of on-going projects and projects on the pipeline with a view to create fiscal space for new investment projects that



will boost economic growth and reduce unemployment.

- ✓ Sectoral planning and budgeting will be instituted in preparation of 2022/23 budget to enhance economic development.
- ✓ Ministry of Finance will start negotiations for a medium-term IMF program to address the long existing structural problems that will help to restore macroeconomic stability.
- ✓ Government will gradually adopt a cashless system for both revenue collection and retail trading.





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