

2021/2022

National Budget Brief



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01 KEY MESSAGES

- Government spending is dominated by recurrent expenditure and capital spending only takes up 26 percent of Government spending. Therefore, there is a need for adjustment to create a balance between recurrent and capital spending, which is required for economic development.
- Debt service is high, and it reduces fiscal space.
- The capital budget is predominantly composed of recurrent spending and not the acquisition of assets.
- Implementation of projects that are not included in the budget creates budget overspending and compromises budget credibility.
- Approval of the supplementary budget should be done under strict conditions.
- Donor loans and grants are appropriated as part of budget estimates. However, monitoring their expenditure and reporting is a challenge since expenditure is incurred outside the Integrated Financial Management System (IFMIS).
- Procurement of goods and services not included in the budget has led to the accumulation of domestic arrears. Therefore, the government needs to strengthen its systems not to allow any leakages.

02 INTRODUCTION

The 2021/22 National Budget Brief delves into the adequacy and efficacy of Lesotho's national budget in meeting the diverse needs of its citizens. It intricately examines the size and distribution of budget allocations across sectors critical to the well-being of the Basotho population, such as education, healthcare, infrastructure, and social services. This analysis extends beyond financial figures, assessing historical spending to identify deficiencies and areas for improvement, ultimately striving for a budget that better serves the people.

A central objective of the budget brief is to demystify complex budgetary information, making it easily digestible and comprehensible for a wide range of stakeholders, including policymakers, civil society organizations, and the general public. By rendering budget details in an accessible format, the brief aims to empower stakeholders, enabling them to understand the budget's intricacies and its implications on the lives of the citizens. This enhanced understanding is vital for informed decision-making and effective participation in the budgetary process.

Beyond analysis and simplification, the budget brief is proactive, offering practical recommendations based on insights from budgetary patterns. These recommendations are designed to guide financial decision-making, urging alignment with the genuine needs and priorities of the population. In essence, the budget brief acts as a catalyst for greater transparency, accountability, and citizen engagement in the budgeting process, paving the way for a budget that genuinely mirrors and responds to the requirements of the people it serves.

03 MACROECONOMIC TRENDS AND OUTLOOK

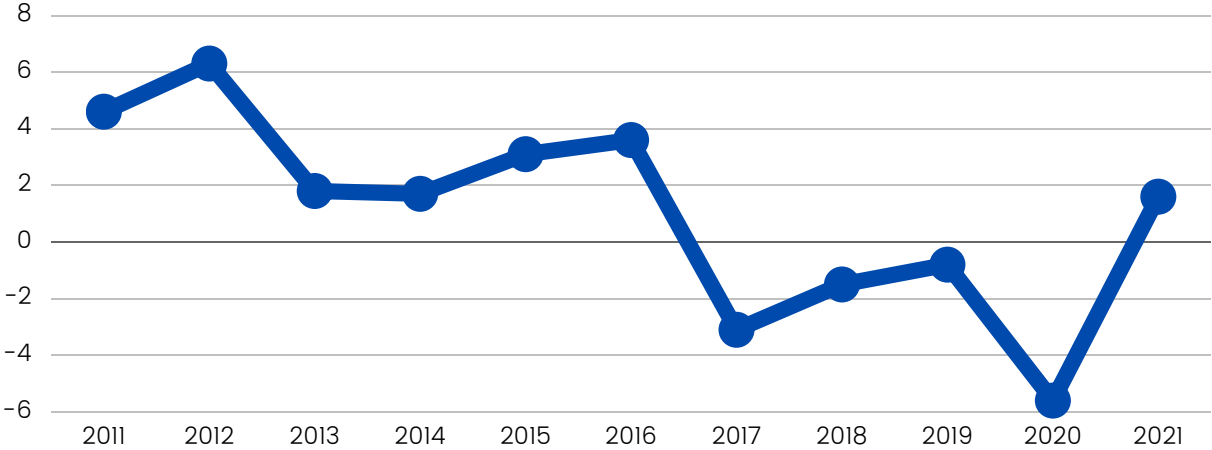
In the recent past, namely from 2019 through 2021, global economic activity was affected by the COVID-19 pandemic effects. Strict lockdown measures were implemented, leading to significant supply and demand disruptions. An economic contraction of 6.5 per cent was registered at national level, with the following sectors most affected:

- Mining: closure of international trading centres, a decline in diamond prices, suspension of operations, and partial capacity operations;
- Manufacturing: retrenchments in the textile sector coupled with reduced orders and work shifts;
- Reduction in construction activities;
- Wholesale and Retail: job losses in South Africa and Lesotho caused a decline in remittances and downward pressure on household income;
- Financial and Insurance: the banking sector experienced credit risk as businesses and households struggled to meet loan repayment obligations;
- Government Sector: reallocating funds from the development budget to curb the spread of the COVID-19 pandemic – even though the development budget is the key driver of economic growth in Lesotho.

During the second half of 2020 and 2021, restrictions were gradually lifted, with economic activity normalizing at global, regional, and local level.

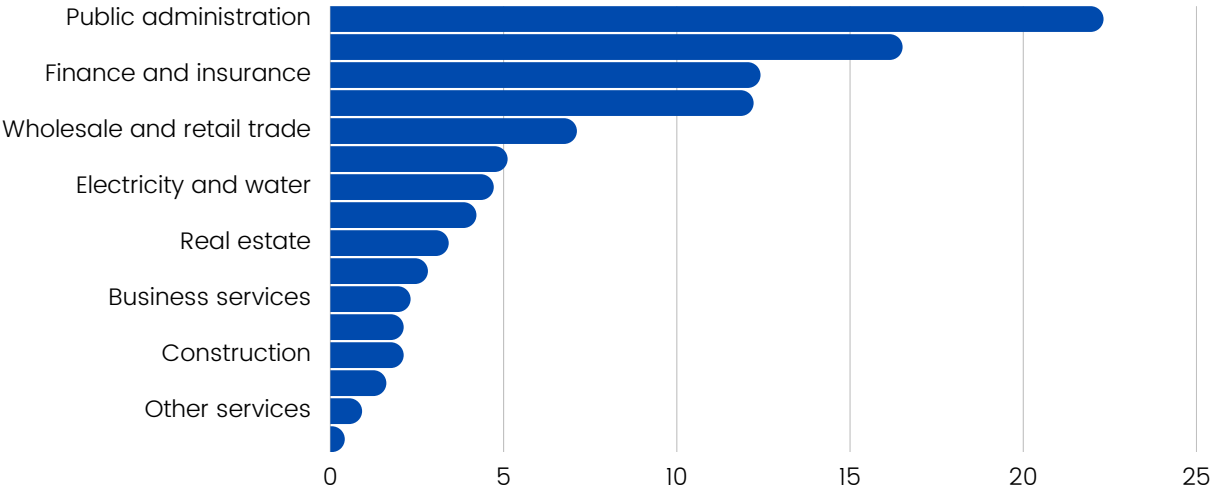
As a result, more robust recovery was experienced, emanating also from improvement in advanced countries' second-quarter GDP outturn, fiscal support, and the pace of the COVID-19 vaccination roll-out. This led to a rebound of 1.6 per cent in 2021 against a -5.6 per cent projection outlined in 2020. Since 2011, the GDP growth rate has been declining steadily from around 6 per cent to about -6 per cent, hovering between 2 per cent and -6 per cent in the previous five years, including 2021.

FIGURE 1: GROSS DOMESTIC PRODUCT 2011 - 2021



SOURCE: BUREAU OF STATISTICS: 2021 PUBLICATION TABLES

FIGURE 2 : 2021 SECTORAL CONTRIBUTION TO GDP GROWTH

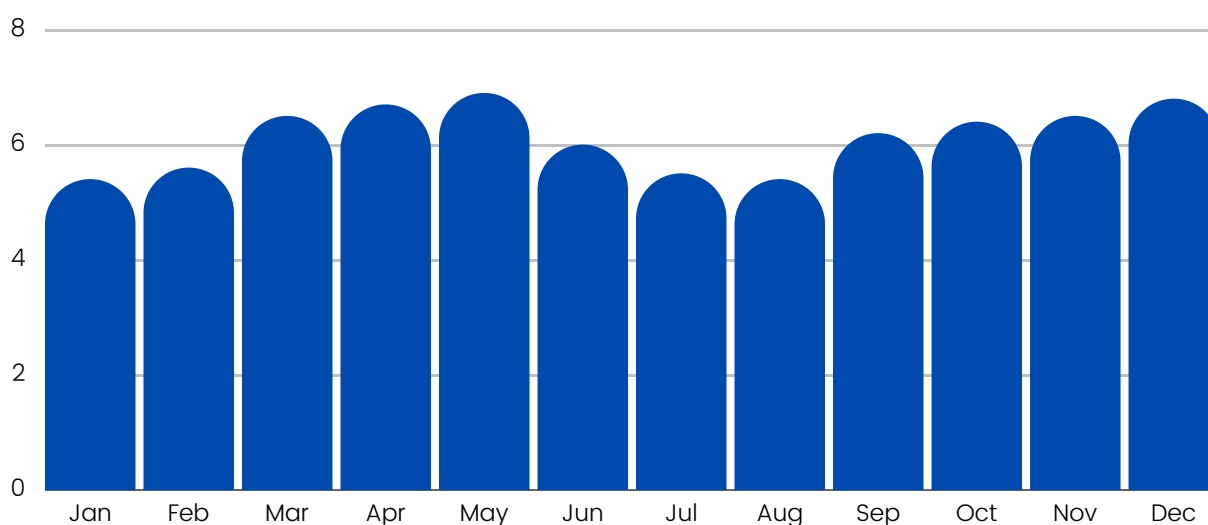


SOURCE: BUREAU OF STATISTICS: 2022 Q2GDP PUBLICATION TABLES

3.1 INFLATION DEVELOPMENTS

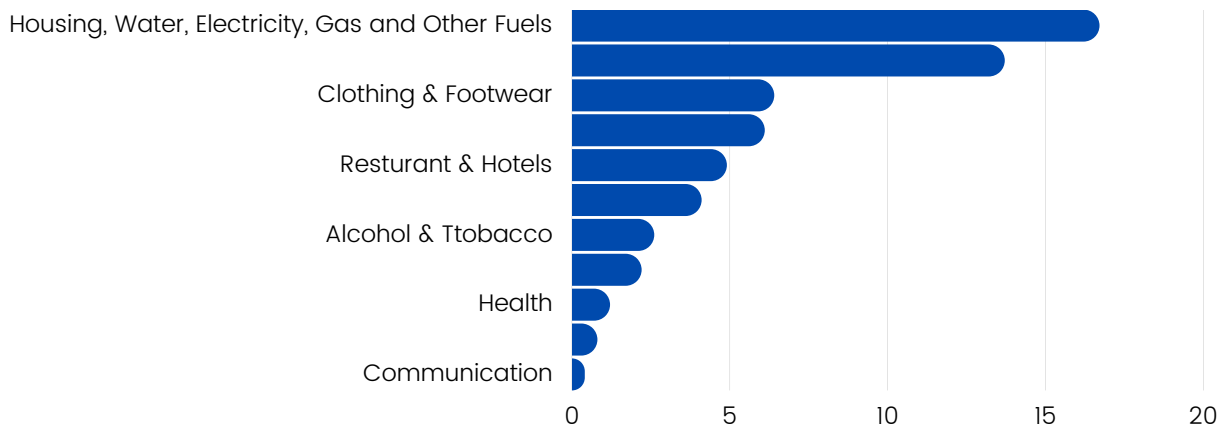
Consumer price inflation (CPI) in Lesotho continues to be driven by price developments in South Africa, which remains the primary source of the country's imports. Imported inflation is estimated at between 60 and 70 percent of Lesotho inflation, while the residual is domestically generated. The annual inflation rate computed by comparing the CPI level of December 2021 to that of December 2020 is estimated at 6.8 percent, which indicates a 0.4 percentage points increase from the rate observed in November 2021. The items that presented high annual price increases were food and non-alcoholic beverages at 6.6 percent, clothing and footwear at 6.4 percent, and housing, water, electricity, gas, and other fuels at 16.7 percent. The increase in transport prices was estimated at 13.7 percent. Most of these commodities constitute basic monthly needs for the populace, including children, and therefore, high inflation negatively impacts their living standards. Uncertainty surrounding the Russia-Ukraine war has also elevated inflation expectations through increased energy and food prices over the medium term.

FIGURE 3: INFLATION STATUS, 2021/22 MONTHLY CPI BY DIVISIONS – DEC 2021



SOURCE: BUREAU OF STATISTICS – STATISTICAL REPORT NO. 01:2022

FIGURE 4: INFLATION STATUS, 2021/22 CPI AND INFLATION RATES



SOURCE: BUREAU OF STATISTICS – STATISTICAL REPORT NO. 01:2022

3.2 SOCIO-ECONOMIC DEVELOPMENTS

Poverty and inequality are key structural problems in Lesotho. Lesotho is one of the poorest countries in sub-Saharan Africa, with over a million people (half the population) living in poverty. Of the poor, about 22 percent are extremely poor, living below the national food poverty line of M138 (about US\$10) per adult per month. Inequality is also one of the highest in the world, with a Gini coefficient of 0.445. Poverty is further exacerbated by the very high prevalence of HIV (25 percent among adults), high unemployment rates (28 percent, with 32 percent among youth), and food insecurity caused by the effects of climate change, including droughts and floods. The fiscal year 2021/22 operated under profound socio-economic difficulties exacerbated by the COVID-19 outbreak. The Lesotho poverty rate was assessed at 49.7 percent since 2017/18; the unemployment rate recorded was at 22.5 percent and is persistently rising. The significant deterioration was attributed to a sustained decline in income, leading to the depletion of savings and food insecurity. Moreover, the government-imposed lockdown measures led to a reduction in employment status. About 70 percent of households were unemployed, while 20 percent suffered loss of wage employment income.

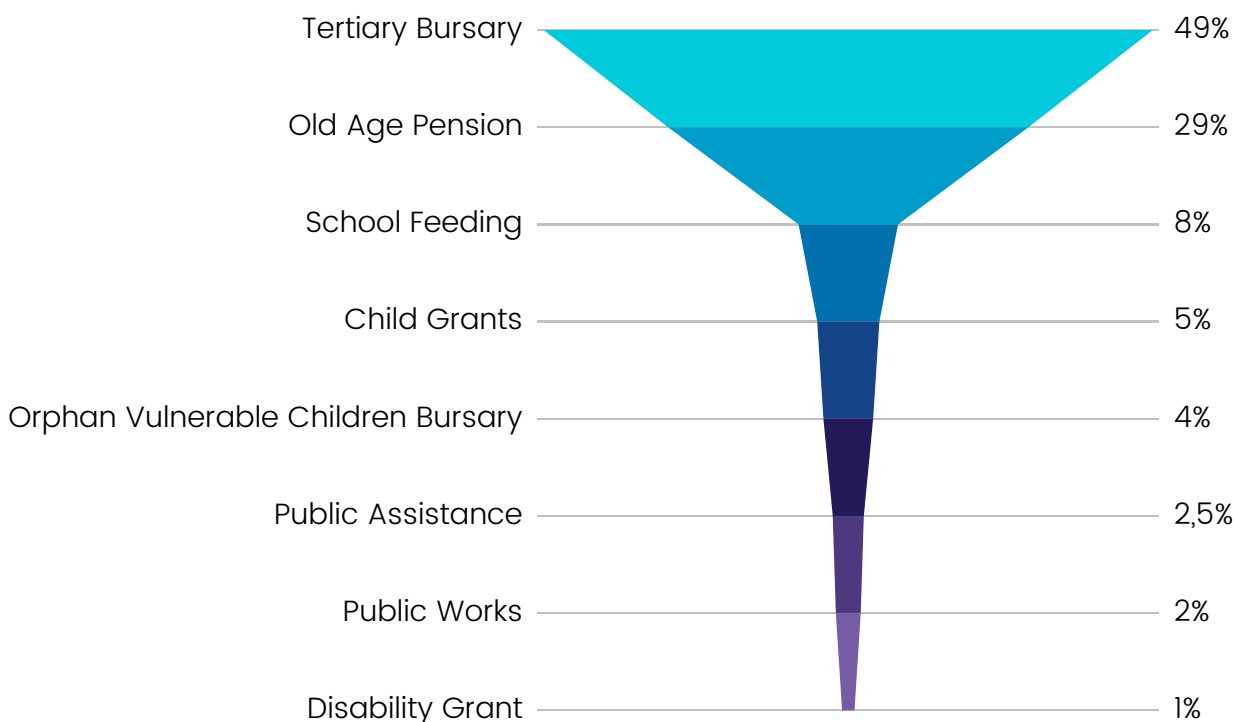
Finally, 2020 World Development Indicators data pointed out that informal employment in Sub-Saharan Africa increased to 86 per cent. The workforce bears the highest vulnerability owing to unfavourable health and safety conditions.

TABLE 1: LESOTHO SOCIO-ECONOMIC INDICATORS

Indicator	Source	Value
Population	Census 2016	2,007,201
Human Development Index	UNDP 2022 Report	0.514 (168/191)
Life Expectancy at birth	UNDP 2022 Report	53.1
Infant Mortality Rate [per 1000 live births]	UNICEF	89.5
Literacy rate, adult total (percent of people ages 15 and above)	World Bank	76.6
Poverty Rate (percent)	Bureau of Statistics Lesotho	49.7
Poverty Gap (percent)	Bureau of Statistics Lesotho	21.9
Prevalence of HIV, total (percent of population ages 15-49)	World Bank	20.9
Children (0-14) living with HIV	World Bank	9,700
Unemployment Rate (percent)	Lesotho Labour Force Survey 2019	22.5
Gini Index	World Bank	44.9 (2017 Figure)

Lesotho's government prioritizes addressing social challenges and providing essential services, with a focus on Health and Education spending in the budget. The social benefits program, comprising 3.7% of the 2021/22 budget, helps alleviate social imbalances through various initiatives like old-age pensions, tertiary bursaries, school feeding, and more. Notably, tertiary bursaries and old-age pensions receive significant allocations. The government remains committed to combating HIV/AIDS and has adapted to the emergence of COVID-19 by increasing the social benefits budget to reduce vulnerability. Future plans involve maintaining current social grant levels and extending coverage to more vulnerable groups.

FIGURE 5. 2021/22 SOCIAL BENEFITS BY CATEGORY AS A PERCENTAGE OF TOTAL SOCIAL SECURITY GRANTS



SOURCE: BUDGET BOOK 2021/2022 AND BUDGET DEPARTMENT CALCULATIONS

3.3 NATIONAL DEVELOPMENT PLAN/POLICY

Lesotho’s National Vision 2020 outlines the government’s development strategy, which is implemented through five-year National Strategic Development Plans. The National Vision for Lesotho states, “Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and neighbours, a healthy and well-developed human resource base, and a strong economy and technological base”.

The government has prepared the second National Strategic Development Plan for 2019–2023 to realise the vision. The NSDP II emphasises private sector development and prioritises pursuing people-centred development. Annual national budgets are a mechanism through which the government implements specific strategies and allocates appropriate resources to the various sectors of the economy to realise these national priorities.

The 2021/22 financial year is the fourth in the implementation of NSDP II. Therefore, the policies and strategies proposed for implementation during the year, as well as the resource allocations should be aligned with the national priorities.

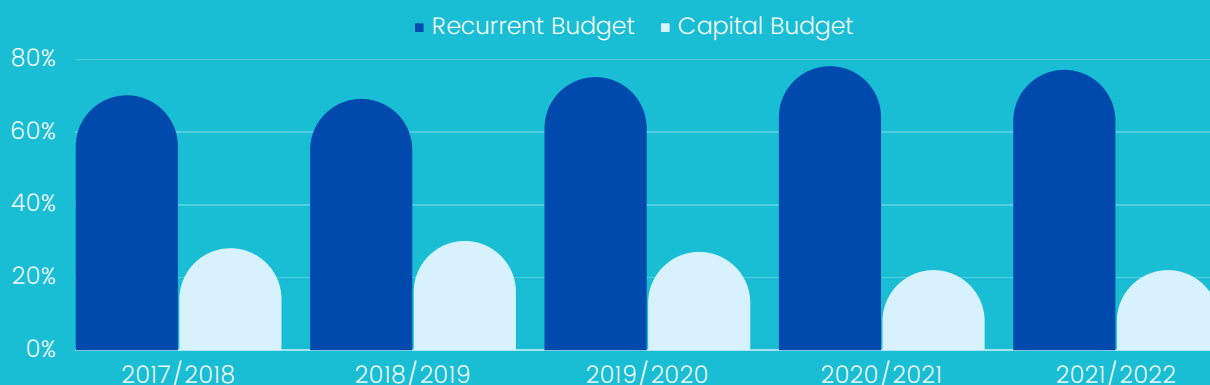
The Strategy prioritizes four key areas:

- Enhancing inclusive and sustainable economic growth and private sector-led job creation;
- Strengthening human capital (health, nutrition, education, social protection, and skills);
- Building enabling infrastructure;
- Strengthening governance and accountability.

03 SIZE OF GOVERNMENT SPENDING

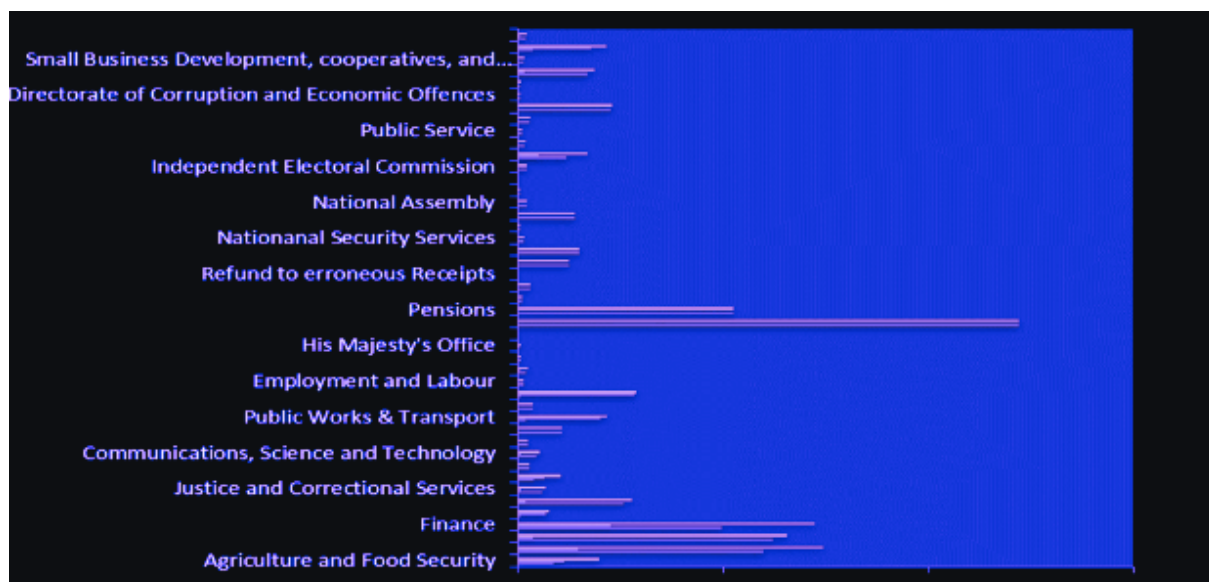
The 2021/22 budget was prepared amidst challenges of declining revenues, high wage bills, and increasing government obligations, growing faster than the development budget, despite this being regarded as the main driver of economic development. The COVID-19 pandemic worsened the situation. Hence, Ministries, Departments, and Agencies (MDAs) were advised to prioritise COVID-19-related mitigation measures to protect the people's livelihoods while allowing economic activities to continue. 2021/22 approved budget totalled M23,769.9 million, consisting of M18,044.1 million for recurrent spending and M5,752.1 million for capital spending. The recurrent funding accounted for 76 per cent of the total approved budget, a decrease of 1 per cent compared to the previous year's recurrent budget. In comparison, the development budget accounted for 24 per cent of the budget, representing a 2 per cent increase on the last year's budget. There is an increasing trend in recurrent budgets, while the capital budget has been declining over the years.

FIGURE 6: RECURRENT AND CAPITAL SPENDING TRENDS, FINANCIAL YEAR 2017/18 - 2021/22



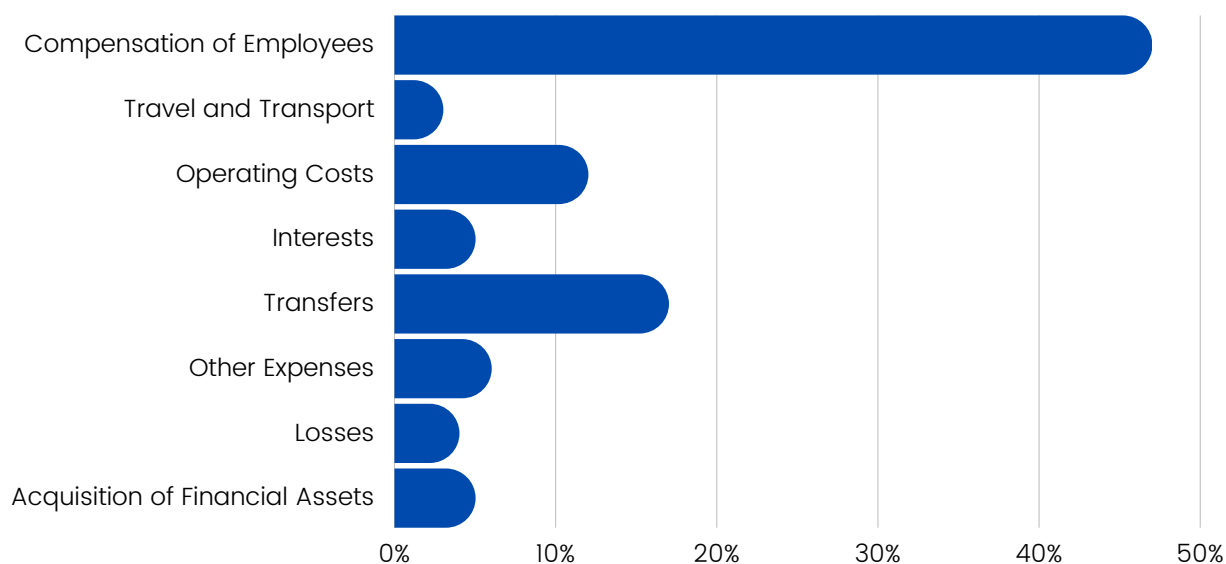
SOURCE: BUDGET BOOK 2021/2022 AND BUDGET DEPARTMENT CALCULATIONS

FIGURE 7: TOTAL SPENDING BY MINISTRY, 2021/22



The recurrent expenditure consisted mainly of compensation of employees, which took 47 percent of the budget, transfers at 17 percent, and operating costs at 12 percent.

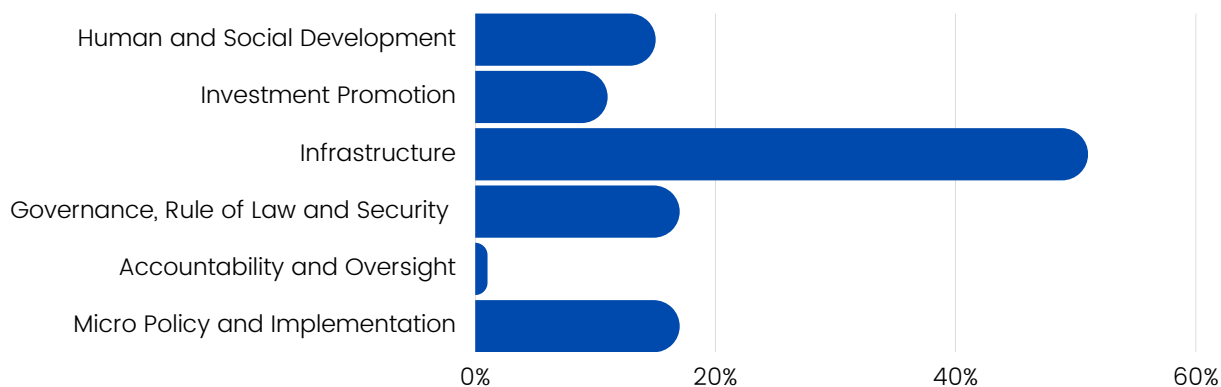
FIGURE 8: PERCENTAGE DISTRIBUTION OF RECURRENT BUDGET, FINANCIAL YEAR 2021/22



SOURCE: BUDGET BOOK 2021/2022 AND BUDGET DEPARTMENT CALCULATIONS

The capital budget was mainly allocated to infrastructure activities, with 51 per cent for the construction of roads, government buildings and industrial estates, energy, and water.

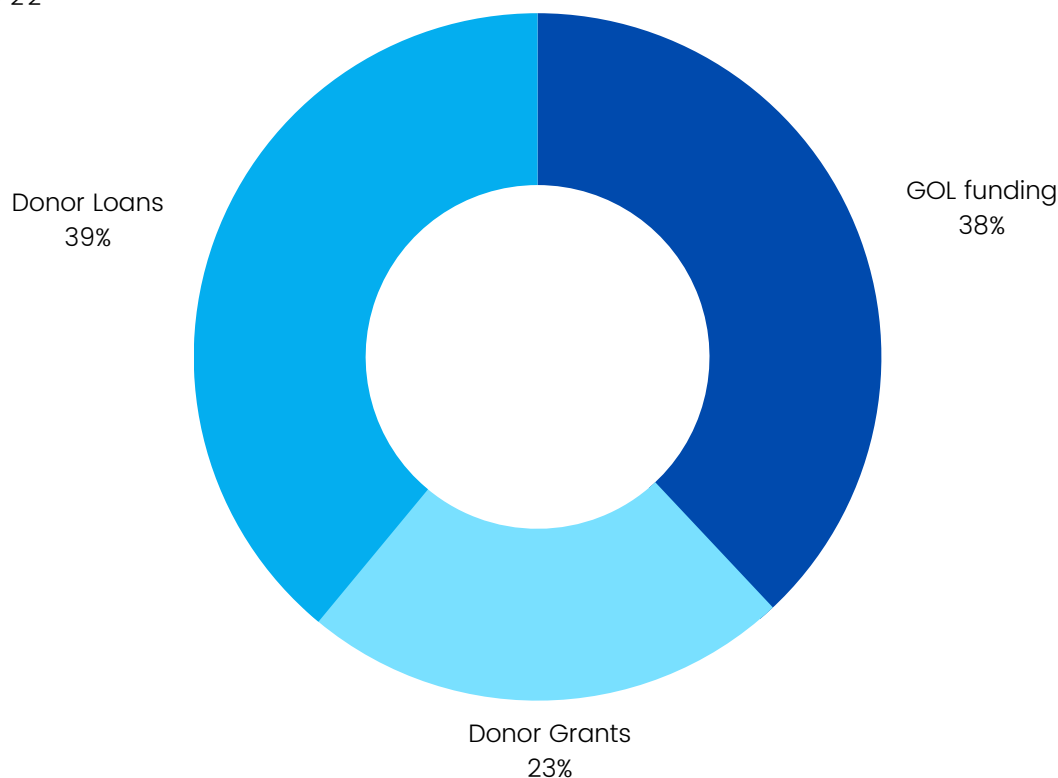
FIGURE 9: COMPOSITION OF CAPITAL SPENDING BY SECTOR, FISCAL YEAR 2021/22



SOURCE: BUDGET BOOK 2021/2022 AND BUDGET DEPARTMENT CALCULATIONS

The capital budget comprises three primary funding sources: the Government of Lesotho, donor grants, and donor loans. The Government contributes for about 38 per cent of the budget, while grants and loans components contribute for about 23 per cent and 39 per cent, respectively. Its contribution declined by 10 per cent from the previous fiscal year.

FIGURE 10: COMPOSITION OF CAPITAL SPENDING BY FUNDING SOURCE, FISCAL YEAR 2021/22



SOURCE: BUDGET BOOK 2021/2022 AND BUDGET DEPARTMENT CALCULATIONS

05 BUDGET CREDIBILITY AND EXECUTION

The overall expenditure for the 2021/22 fiscal year amounted to M17,292.2 million, against an approved budget of M23,769.9 million, leaving an unspent balance of M6,477.7 million. This translates into an expenditure rate of 73 per cent. The lower spending resulted from liquidity challenges emanating from lower-than-expected revenue collection, low reserves that could not finance the deficit, and spending on donor-funded projects, that must be accounted for in the financial management system. The recurrent expenditure continues to dominate the overall spending at M14,686.8 million or 62 per cent of the total budget, and capital expenditure at M2,605.3 million or 11 per cent. The government-financed capital expenditure trends depict over-expenditure except in 2020/21, when COVID-19 restrictions disrupted significant constructions.

FIGURE 11: OVERALL BUDGET EXECUTION FROM 2017/18 - 2021/22

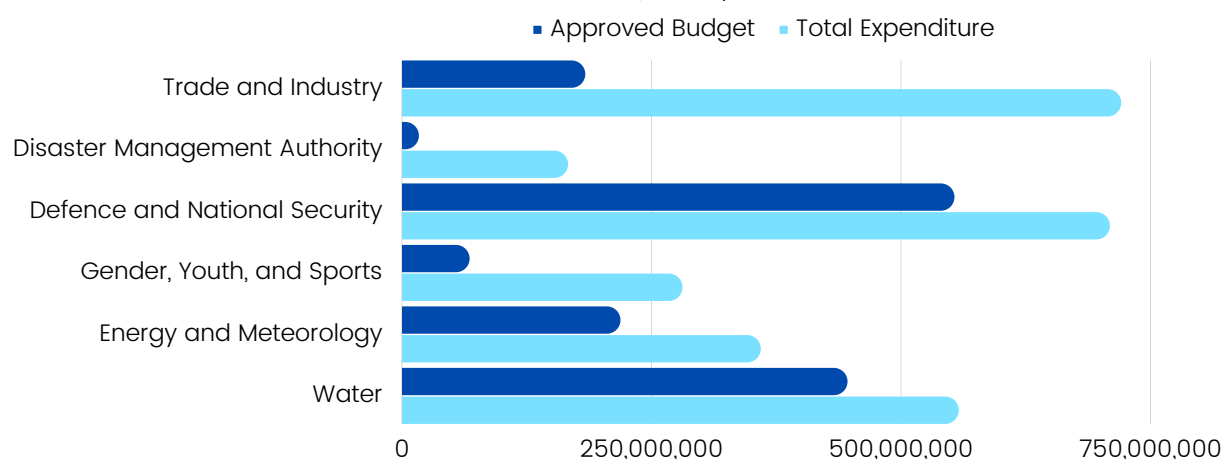


SOURCE: BUDGET BOOK 2021/2022 AND BUDGET DEPARTMENT CALCULATIONS

5.1 EXPENDITURE IMBALANCES

In 2021/22, Ministries' budget credibility was affected by in-year reallocations that led to a supplementary budget. The Ministry of Trade and Industry had over-spent 295 per cent on Tikoe and Belo Industrial Infrastructure Projects. The Ministry of Home Affairs exceeded the budget by 15 per cent to cater for shortages under the National Identity and Civil Registry and Livestock Registration and Marking. The heavy rains and flash floods obliged the Government to seek urgent humanitarian assistance, leading to the Disaster Management Authority over-spending by 978 Percent above the initial budget. The deployment of the Lesotho Defense Force (LDF) to the SADC peacekeeping Mission in Mozambique (SAMIM) has also led to over-expenditure of 28 per cent of the approved budget. The Senate overspent its budget by 71 per cent for constructing the Chamber and offices. The Ministry of Gender and Youth, Sports and Recreation considerably overspent by 257 per cent for The African Union Sports Council (AUSC) Region 5 games that Lesotho hosted. The Rural Electrification and Ramarothole Solar Generation projects led to a 164 per cent expenditure for the Ministry of Energy and Meteorology. Spending for insurance and maintenance of 'Muela Hydropower Station led to 125 per cent overspending for the Ministry of Water.

FIGURE 12: OVER EXPENDITURE BY MINISTRIES, 2021/22

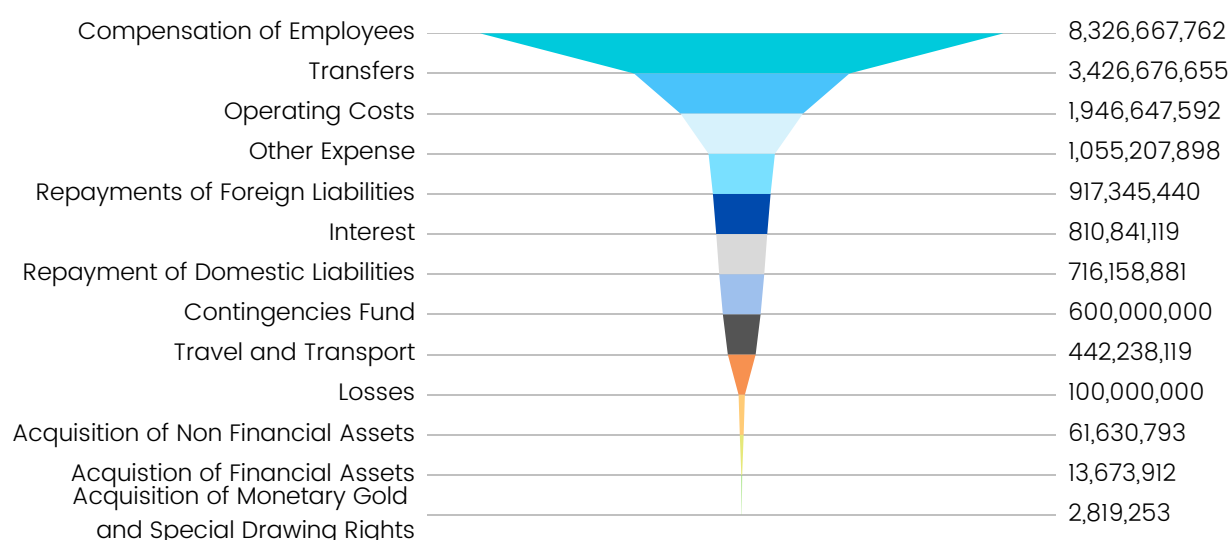


SOURCE: BUDGET BOOK 2021/2022 AND BUDGET DEPARTMENT CALCULATIONS

5.2 EXPENDITURE BY SUB-HEAD

Compensation of employees accounted for the largest share of the budget expenditure at 88 per cent. In comparison, 66 per cent of the acquisition of non-financial assets was spent on purchases of vehicles and non-office equipment. Transfer expenditures stood at 100 per cent for public institutions given subventions by the government. Purchases of drugs, ammunition and vaccines contributed to 96 per cent of operating costs' expenditure.

FIGURE 13: RECURRENT EXPENDITURE BY SUBHEAD, 2021/22



SOURCE: BUDGET BOOK 2021/2022 AND BUDGET DEPARTMENT CALCULATIONS

Budget credibility measures the ability of government to accurately and consistently meet the expenditure and revenue targets that are imperative for upholding government commitments. Credible national budgets provide a roadmap to effective service delivery and to the achievement of national objectives. The 2021/22 budget was not credible due to failure to meet revenue targets and budget overspending across different Ministries. The revenue for 2021/22 was M17,557 million against the revenue target of M17,253.8 million, representing an overperformance of 2 per cent or M303.2 million.

06 BUDGET TRANSPARENCY AND PUBLIC PARTICIPATION

Lesotho's budget system is one of the least transparent in the world, but the situation has been improving since the Open Budget Survey (OBS) of 2019, where the country scored 31 per cent on budget transparency. The survey revealed that Lesotho citizens had limited access to national budget information and opportunities to engage in the budget process.

The Lesotho legislature and supreme audit institution must also provide stronger oversight on budget implementation. Furthermore, in 2021, the OBS score declined to 26 per cent, mainly due to decreased public access to budget documents, non-publication of the Annual Audit Report and failure to publish the Enacted Budget promptly. To improve future scores, the Government has prioritized timely publication of the Enacted Budget, the Citizens' Guide to the Budget, In-Year Reports, Year-End Reports and Audit Reports online and to include macroeconomic forecasts and the financial position of the Government in the Executive's Budget Proposal data.

Transparency alone is insufficient for improving governance. Public participation in budgeting is vital to realize the positive outcomes of greater budget transparency. To strengthen the involvement in the budget process, the Government has started engaging the public through pre-budget consultations at the initial stages of budget formulation to solicit views on the policies and activities that should be supported by the budget as well as to report back on the implementation of the previous year's budget.

07 BUDGET FINANCING

7.1 REVENUE PERFORMANCE

The total annual revenue collections for 2021/22 recorded M17,557 million, which presented a slight growth of 2 per cent against the estimated target of M17,258 million, and representing a decline of around 6 per cent against the same period in 2020/21. The decrease is underpinned by a sharp fall in SACU revenues from 24 per cent of GDP in 2020/21 to 16 per cent of GDP in 2021/22. This is a 33 per cent reduction, reflecting slow trade and supply chain disruptions brought on by the economic shock of COVID-19.

TABLE 2: REVENUE PERFORMANCE

Revenue Items	2020/21 Collection	2021/22 Collection	Growth in percent
Tax Revenue	6,778.6	7,757	14%
Grants	1,049	1,756	67%
Other Revenue	1,825	2,036	12%
SACU	9,818	6,008	-33%
Total	18,632.8	17,557	-5.8%

SOURCE: BUDGET BOOK 2021/2022 AND BUDGET DEPARTMENT CALCULATIONS

7.2 PUBLIC DEBT

The total public debt in 2021 comprised external debt and domestic debt. The total public debt stock increased from M17.4 billion in March 2021 to M18.9 billion in March 2022, of which external debt was estimated to be M15.2 billion. The increase in external debt was driven by both movements in currency exchange rates and disbursements by projects under implementation. The domestic debt increased from M2.8 billion in 2019/20 to M3.7 billion at the end of March 2022. As a share of GDP, total public debt increased from 46.4 per cent in March 2021 to 47.3 per cent in March 2022. Total debt in 2019/20 was pushed towards the upper boundaries of debt sustainability due to depreciating exchange rates and declining GDP due to the COVID-19 pandemic.

TABLE 3: PUBLIC DEBT STOCK BREAK DOWN INTO CONCESSIONAL, NON-CONCESSIONAL AND DOMESTIC DEBT

YEAR	2019/20	2020/21	2021/22
Disbursed Outstanding Debt	18 464,3	17 441,7	18 938,4
External Debt	15 651,7	14 848,8	15 220,3
Concessional	13 637,5	12 201,3	12 379,4
Non-concessional	2 014,2	2 647,4	2 840,9
Domestic Debt	2 812,6	2 592,9	3 718,1
T bonds	2 382,6	2 592,9	3 133,3
T-Bills (fiscal)	430,0	000,0	584,8
T-bills (monetary policy)	882,2	881,2	876,6

SOURCE: MINISTRY OF FINANCE, PUBLIC DEBT

08 PUBLIC FINANCIAL MANAGEMENT AND ACCOMPLISHMENTS

8.1. PUBLIC FINANCIAL MANAGEMENT DEVELOPMENTS

The Government of Lesotho launched the Public Financial Management (PFM) Reform Programme in 2013 to improve the delivery capacity, effectiveness, accountability, and transparency of public resources. The Government had to improve its Public Financial Management by setting up an action plan in 2012 with 8 components to achieve the set goals.

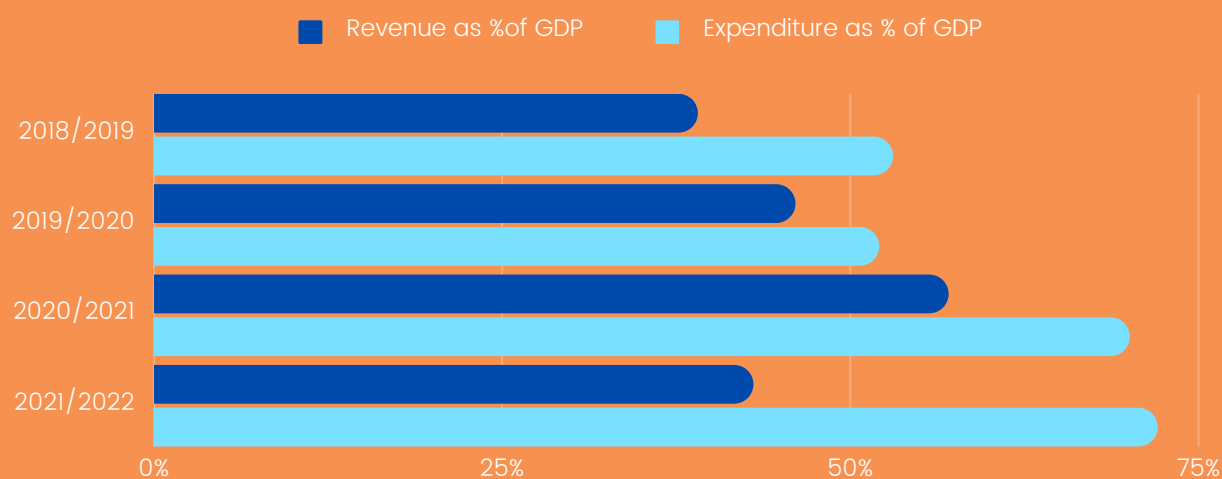
2021/22 Accomplishments:

- Improvement of the Medium-Term Expenditure Framework that will ensure linkage between policies and budget allocations and further enable monitoring;
- Mid-Term Budget Review and Annual Budget Briefs are prepared and published;
- The legislative and regulatory framework was revised and upgraded; the bill established a public procurement authority to regulate public procurement structures;
- Human Resource Management Information System (HRMIS) and Central Budget Management System (CBMS) integrated.

09 THE FISCAL SPACE

The International Monetary Fund (IMF) defines 'Fiscal space' as room in a Government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy. As with most developing countries, Lesotho faces the challenge of creating fiscal space for development and service delivery by the Government. Domestic taxes and revenue shares from the Southern African Customs Union (SACU), which in the 2020/2021 Fiscal year added up to 34%, remain the principal revenue source for the Government. In recent years, Lesotho has witnessed a decline and volatility in its revenues, which poses a substantial risk to the Government's ability to cover public expenditures sustainably. Decreasing external grants, following the suspension of budget support by major Development Partners, notably the European Union and the African Development Bank, have put additional pressure on the Government's ability to honour its fiscal obligations. As a result, the stock of domestic arrears has increased considerably in recent years. Reforms to public financial management systems, procurement processes and social accountability and transparency mechanisms would contribute towards the improvement of the fiscal space.

FIGURE 14: REVENUE AND EXPENDITURE AS A PERCENTAGE OF GDP



SOURCE: BUDGET BOOK 2021/2022 AND BUDGET DEPARTMENT CALCULATIONS

It is important to note that the Government implemented the following policies to enhance growth and increase fiscal space:

- Increasing tax and non-tax revenue. Revenue Services Lesotho (Former Lesotho Revenue Authority) is implementing processes expected to broaden the tax base by introducing an Integrated Revenue Management System. Although this is unlikely to impact fiscal space in the medium term significantly, continuous effort is essential. Projections suggest substantial fiscal space expansion can be achieved even with marginal improvements in PIT (Personal Income Tax) and CIT (Corporate Income Tax) administration. Furthermore, such modifications would contribute immensely to reducing Lesotho's reliance on SACU revenue. This revenue is also highly volatile and consequently unpredictable. It is projected that, in the medium term, SACU revenue transfers will decline significantly, leading to reductions in Government spending, increased budget deficits and a deterioration in the country's debt profile. The Government has proposed to increase the VAT rate on alcohol and tobacco products as a means of generating additional revenue. An expected additional benefit of the tax will be to decrease the consumption of alcohol and tobacco, which would subsequently improve health outcomes and reduce the burden on the health system. Although the VAT revenue from these products is relatively small, the reduction in health spending associated with the consumption of alcohol and tobacco could contribute substantially to the fiscal space.

- Increasing external grants for budget support and projects. External grants have decreased over the years. Lesotho's loss of status as a low-income country and poor financial management systems are the main contributors to this trend.
- Reducing non-priority expenditures. Lesotho's poor public financial management practices affect Government revenue by contributing to the hesitation of development partners to extend support to the Government. They also have a severe impact on the efficiency of expenditure. Besides, general underspending on capital projects and overspending on operational costs are significant concerns. Improving the budgeting and procurement systems could unlock large amounts of funding that could be redirected to priority sectors.
- Reducing external debt service through debt swaps to reduce foreign exchange costs of debt service. Non-concessional external debt should never be used to fund priorities such as education and health because the profits from education and health expenditures come only in the long term, beyond the typical terms of non-concessional external debt.

ANNEX 1: BUDGET CALENDAR

Month	Key activities and outputs
April	Sector Investment Committee quarterly meetings
May	Budget Book published
June	Discussion and approval of physical and financial reports by Cabinet Budget Committee. Baseline Medium-term Fiscal Framework prepared by the Ministry of Finance and the Ministry of Development Planning Strategic and analytical phase
July	Cabinet retreat (presentation of the key fiscal and budget policy, strategy, and priorities)
August	Budget Framework Paper circular and ceilings are issued by the Ministry of Finance Line-ministry Budget Framework Papers prepared
September	Review of Budget Framework Paper Requests Ministry Budget Framework Paper hearings
October	Updated Medium-term Fiscal Framework Prepared Draft ceilings finalized Budget ceilings approved by Cabinet Budget finalization phase
November	Budget call circular and ceilings issued by the Ministry of Finance to line ministries Budget estimates prepared by all ministries
December	Review of estimate requests by the Ministry of Finance and the Ministry of Development Planning
January	Ministry budget hearings
February	Draft estimates compiled Draft budget approved by Cabinet Budget Committee Budget speech prepared Budget Day District consultations on the budget

