



28/02/2018

CITIZEN'S GUIDE TO THE 2018/19 BUDGET

**“Improving Fiscal
Stability and
Sustainability”**
*(Through Consolidation
and Peace and Stability
and Private Sector Led
Job Creation)*



MINISTRY OF FINANCE

FOREWARD BY THE HONOURABLE MINISTER OF FINANCE

It is my pleasure to welcome you again to Lesotho's citizen guide of the National Budget for the fiscal year 2018/2019. This time again, the Citizen Guide is being published to help you, the Citizens of Lesotho to understand the budget process in order to increase your awareness and ownership of Government programmes planned for the citizens. This marks the third year the Ministry of Finance provides the public with this easy overview of the National Budget. It is our responsibility to explain to the citizens how we intend to raise and spend public resources.

The structure of the crisis Lesotho faces is diverse, but the following statements characterises 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 end 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.

The 2018/19 budget is being prepared in the tough fiscal position confronting the country. SACU revenue is significantly down in both nominal and real terms. Net international reserves are below the target we set for ourselves to maintain parity with the rand, government deposits have finally run out and any fiscal deficit will now have

to be financed through new borrowing. These are new times. Our government now has to bite the bullet and make decisions that would be painful, but which if not taken would impose political and economic chaos on Lesotho. Government is committed to create jobs in the private sector through a judicious mix of macroeconomic and structural policies.

Dr Moeketsi Majoro

Minister of Finance

INTRODUCTION

Government is divided into individual twenty-six ministries which work mostly as individuals, without collaboration and coordination of programmes. The rise of the number of ministries has over time come with malignant fragmentation of government initiatives that has reduced impact. This has also increased competition between ministries and government work done in silos. The ineffectiveness of government is thus in part due to this unwelcome and longstanding development. To take this head-on and begin a process of reversal, Cabinet has established the **Finance and Budget Committee** to not only formulate annual budgets but to also specifically force ministries to work together and in constant dialogue with business.

Ministries were divided into two clusters, namely **growth, human development and infrastructure** on the one hand and **governance, security, and justice** on the other. There are many problems that the country is facing and government must focus on, are the lack of peace and stability and of jobs.

WHAT IS THE NATIONAL BUDGET?

A national budget is an annual financial statement presenting the government's proposed revenues and spending for a financial year that is passed by the legislature and is presented by the Finance Minister to the nation. A budget is drawn up for each financial year and it contains information on the estimated value of revenues and value of costs. If government does not have enough money to do everything it would like to do, then it uses this planning process to prioritise its spending and focus the money on the things that are most important to the tax payers. *Budgeting is simply balancing expenses with income. If they don't balance and you spend more than you make, you will have a problem. Many people don't realize that they spend more than they earn and slowly sink deeper into debt every year.*

HOW BIG IS THE NATIONAL BUDGET?

Total Expenditure Estimates for 2018/2019 amount to M19,830.1 million, representing an increase of 6 percent over 2017/2018 budget of M18,709.3 million. The Total Recurrent Expenditure Estimates has not increased at 0 percent, while Public Debt has increased by 14 percent from M995.7 million in 2017/2018 to M1,130.7 million in 2017/2018. The Capital Expenditure Estimates have increased by 14 percent from M5,202.6 million in 2017/2018 to M5,910.1 million in 2018/2019 against an no increase on the Recurrent Expenditure Estimates. This is due to a decline in GOL financing, donor grants and loans.

The Budget Estimates for 2018/2019 as follows:	2017/2018	2018/2019	Percentage Increase
i) That withdrawal from Consolidated Fund	18 709.4	19 830.1	6%
Total Recurrent Expenditure	13 506.8	13 920.0	3%
· Recurrent Expenditure	10 643.6	10 666.6	0%
· Statutory Expenditure	1 767.4	2 022.7	14%
· Principal Repayment	638.6	748.5	17%
· Interest Charges	357.2	382.2	7%
· Administration Account	100.0	100.0	0%
Capital Expenditure	5 202.6	5 910.1	14%
ii) That Financing	16 774.4	17 836.1	6%
· Government Revenue	14 994.9	16 099.6	7%
· Donor Grants	1 072.2	833.9	-22%
· External Loans	707.3	902.6	28%
iii) That the estimated Resources Gap	-1 935.0	-1 994.0	3%
Gross Domestic Product	35 170.8	37 259.7	6%

HOW IS THE BUDGET FINANCED?

Any budget has to be financed and the 2018/2019 budget will be finance with domestically generated revenues, borrowing domestically and externally and grants from development partners.

DOMESTIC RESOURCES

The overall target is estimated at M15,270.5 million, of which, SACU is M5,538.9 million, tax revenue is M8,203.2 million and non-tax revenue is M1,527.2 million. This is an overall revenue increase of 2 percent over the 2017/2018 target of M14, 994.8 million.

EXTERNAL GRANTS

These are monies given by development partners with no requirement to be repaid. For the 2018/2019 Budget, they are projected at M1,141.3 million which demonstrates an increase of 6% compared to 2017/2018 external grants budget.

EXTERNAL LOANS

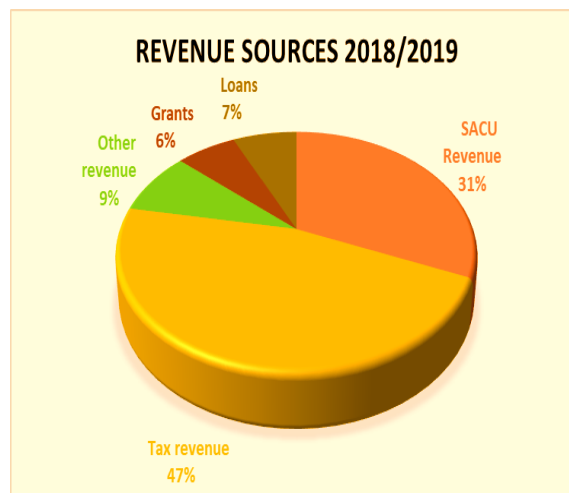
These are monies coming from foreign Governments and International Organisations with Government obligation to pay back. For the 2018/2019 Budget, external loans are projected at M1,218.5 million, which demonstrates an increase of 72% matched with 2017/2018 external loans budget.

DO ORDINARY MOSOTHO LEND MONEY TO GOVERNMENT?

Anyone from within or outside the country can lend money to the Government by investing in Government Bonds and or Treasury Bills through competitive and non-competitive auctions in the Central Bank of Lesotho.

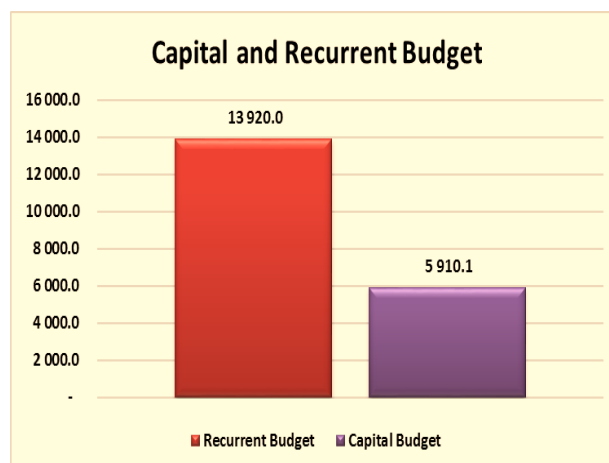
WHY SHOULD GOVERNMENT BORROW?

Borrowing is sometimes necessary even at household level in order to meet needs that are required immediately, for the benefit of the individuals in the home. Similarly, the Government will borrow so that it can spend more on programmes or projects that help to ultimately improve the livelihoods of every Mosotho, without having to make people pay more or higher taxes. However, for Government, it has decided to borrow for programmes or projects financing (with high economic returns) which will contribute to Government being able to raise more money from within the country and so allow it to pay back the loans that it has. Therefore, the Government has developed a "Medium Term Debt Strategy" that will make sure that any borrowing by Government is backed by its ability to payback and that the borrowings are affordable (have low interest rates and/or a long period to pay back).

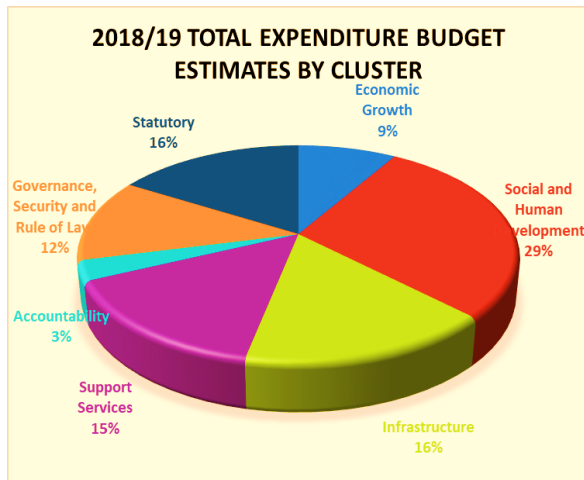


BREAKDOWN OF EXPENSES

The resources are allocated to different sectors of the economy-agriculture, manufacturing, tourism and creative arts, and technology Line Ministries, Local Authorities and Districts have the responsibility to spend this money in line with the law on activities which will help the country achieve its national objectives effectively.



HOW WILL THE M19.8 BILLION BE SPENT?



AGRICULTURE

Lesotho's rangeland supports the production of red meat, hides, wool and mohair. When well-managed, it also helps the protection of wetlands and the recharge of water sources. The *rehabilitation of rangelands* and widespread introduction of **management grazing** will stimulate the livestock and deciduous fruit value chains, both of which are priority sector for this government.



Government has instructed the ministries of Forestry and Land Reclamation, Agriculture and Food Security, Trade and Industry, Small Business Development, Cooperatives and Marketing, and Water to work collectively with private sector to rehabilitate rangelands and wetlands with the objective of stimulating investments in these two value chains. Investments in commercial red meat production, hides and related

products, wool and mohair and related products, chicken broiler and egg production, and fruit tree production, and sale of water to Botswana and continued sale of water to the Republic of South Africa should be the outcome of collective work and the dialogue between the selected ministries and potential private investors.



A large part of Lesotho is suitable for deciduous fruit production. A suitability map produced by the Government of Lesotho shows that fruits can be produced successfully from Botha Bothe, cutting across the western lowlands and running all the way to the southern foothills near Mphaki. Government will support the expansion for orchards and the development of a deciduous fruits industry as part of the strategy to create additional jobs.



The Ministry of Forestry and Land Reclamation, Trade and Industry, Small Business Development, Cooperatives and Marketing and the Ministry of Agriculture and Food Security working with banks, insurance companies, buyers, and investors will lead the roll out of fruit orchards. Their efforts will build on the successful operation

of the Likhothola Orchard in Mahobong, Leribe.



TOURISM AND CREATIVE ARTS

Tourism remains a top priority for creating jobs for the people. Although the sector has previously underperformed, hopeful signs are emerging that Lesotho is being recognised as an important tourist destination. With the construction commencing soon of Marakabei-Monontša and Mpiti Sehlabathebe roads as well as the Belo Industrial Estate, the Northeast and Southeast areas of Lesotho will become tourist hotspots and come with opportunities for new investments. The limiting factors will be availability of appropriate hospitality facilities such as those found in Clarence, Golden Gate, Qwaqwa, and the Drakensberg. Government will also work with the Free State, Kwazulu Natal and Eastern Cape to develop catalyse investment in facilities on both sides of the border.



In addition, feasibility studies have been concluded for Sani Top, 'Maletsunyane Water Fall, and Letsa-la-Letsie. New brownfield investments should be possible

at both Katse and Mohale Dams. Government commits to working with potential investors to catalyse large investments at the borders and also in these other areas.

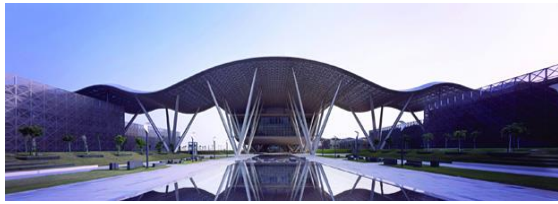


Exploitation of works of creativity, collection, management and redistribution of royalties for the works of creativity is still a challenge. To address this challenge, the Ministry in consultation with the concerned stakeholders is in the process of establishing a Copyright Society Board of Artists and Authors to enforce the copyright legislation and reduce the illegal distribution of works of art, which has up to now undermined the creative talent in the country. The Board shall be fully functional in April 2018. During 2018/19, The Copyright Order of 1989 will be modernised and replaced by new legislation.

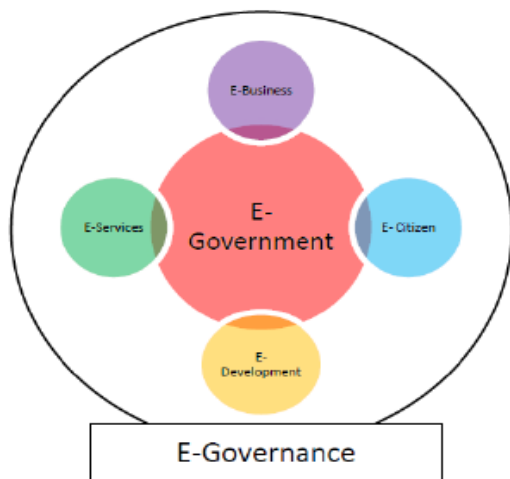
TECHNOLOGY

To increase product variability in manufacturing, Government will explore the establishment of science and technology innovation hub for stimulation of manufacturing of small day-to-day commodities such as detergents, agro-processed products that are consumed by every Mosotho on the street. Government has taken note of entrepreneurial efforts with the National University of Lesotho and Limkokwing University and will seek to strengthen partnerships in order to promote the innovation activities that are taking place such as the Egg-Chick Incubator, electric fruit drier, and others that can be easily assimilated in Lesotho and be used to stimulate economic growth. With the local

purchase program, some of the businesses coming from this incubation can graduate into products that can enter the mainstream market.



As a strategy to launch e-government, the Ministry of Communications, Science and Technology will begin a process to integrate all government systems that are presently running on separate platforms, including the systems for civil registry, human resource, payroll, pension system, visa, residency permits and working permits. The Ministry should assist the Ministry of Labour and Employment to implement an automated processing of work permits to improve efficiency and eliminate pervasive fraud under the current manual system. As a policy, no new government system will be procured to run separately.



MINING

While mining may not contribute significantly to employment, it is valuable in two important ways, namely revenues and procurement. On revenues, Basotho's concern is whether Lesotho is maximising its value from its minerals. To safeguard its rights, Government will, during financial year 2018/19, review the entire handling of the process chain until the minerals have been sold. At bilateral level, government will consult with Belgium, International Monetary Fund and other experts in order to put in place a fail-safe mechanism for diamond handling. The new handling regime will probably introduce independent diamond valuation services and domestic off-taking for beneficiation.



MANUFACTURING

Government wants to be clear that after 40 years, the industry should move up the value chain into high value garments that could penetrate boutique markets in Europe. CGM seems to have transformed itself and left the AGOA market to focus on the large regional market for garments which has enabled it to establish links with the domestic economy and to mentor Basotho to enter the garment chain. There is a worthy lesson to learn from this transformation.

WATER

Water will continue to be provided for domestic, commercial agricultural production, industrial development, tourism and water sports and hydropower

generation. Government will develop feasibility studies of Hlotse and Makhaleng Dams which are planned to supply the Maputsoe, Hlotse, some parts of Botha Bothe, Mafeteng, Mohale's Hoek and Republic of Botswana with surplus water. This will generate and boost revenue for Lesotho and in this regard, feasibility studies are planned for April 2018. The ministry continues to oversee the implementation of the Lesotho Highlands Water Project which is moving into the next phase (Polihali Dam).



ENERGY

There are plans to construct a power plant at Ha Ramarothole in Mafeteng district that will generate power using solar system. The work on this project has not yet started because of absence of EIA. The project is expected to commence around June 2018 and M60 million is earmarked for this project. The cost per Kwh should be no more than 6 US cents.



HEALTH

Establishment of a **Cancer Treatment Centre** will necessitate the establishment of a special institution to manage the

radioactive materials generated by the Cancer Centre and its threat to the environment. The Government has already drafted a Radiation Protection Agency Bill, which will culminate in the establishment of a specialised agency that will oversee the operation of the Cancer Treatment Centre. The International Atomic Energy Agency (IAEA) will provide the necessary capacity building to ensure effective management of the Radiation Protection Agency. Towards this effect, it is worth mentioning that Lesotho will be hosting 12th Stop Cervical Cancer in Africa Conference (SCCA) in July 2018 through the Office of the First Lady in collaboration with Princess Nikky Cancer Foundation.



INFRASTRUCTURE

Government will ensure that provision of services at the department of Traffic and Transport are enhanced and computerized so that they can be accessed online with the assistance of a national database. Marakabei-Monontša and Mpiti-Sehlabathebe Roads will commence and it is expected that manufacturing and tourism investments will see the opportunities from the infrastructure.



EDUCATION

These are people who left school before they could acquire life skills needed for survival and employment. Lesotho's technical and vocational education and training has too few slots for advancement and too expensive. The Ministry of Education and Training is revamping TVET policy, and it will engage with employers to ensure that its curriculum matches the jobs being created by employers.



WHAT OTHER PROGRAMMES ARE THERE FOR THE POOR?

On **social grants** the Ministry of Social Development will increase the coverage of the National Information System for Social Assistance (NISSA) to all community councils and to cover over 350,000 households. The Child Grants Programme and the Public Assistance Programme will target to increase the benefit to at least 25 percent of consumption needs.



WHAT ARE THE MEASURES TO INCREASE REVENUE?

Government intends to implement the following revenue mobilisation initiatives:



- VAT will be raised to 15 percent to align with that of South Africa to prevent smuggling;
- The LRA will introduce a reverse charge mechanism to tax imported services;
- Government is introducing the Voluntary Disclosure Program which is estimated to yield M225 million in additional revenue;
- The LRA will also enhance tax administration measures, targeting improved compliance by major tax contributors. This is expected to yield an additional M350 million;
- A small business taxation is being introduced to simplify and improve tax compliance;
- A mining tax regime will be reviewed to cater for windfall taxation;

- Fringe Benefit Taxation will be reviewed to expand its base and compliance;
- VAT rates on telecommunications and electricity, which presently stand at 5 percent will gradually align to the unitary rate of 15 percent. The rates will be increased by 4 percent for telecommunications and 3 percent for electricity;
- All ministries, departments and agencies should review and set new rates for all non-tax revenues under their control;
- Government will, as soon as practicable, introduce the Government Lottery under the Lotteries Act 1975; the legislation will be modernised in tandem with the operation of the Lottery; and finally;
- Government will study the introduction of levies on alcohol and tobacco and will consider their introduction at a future time.

As a measure to curtail leakages in revenue collection, payment of all government services and collection of revenue will take place only at commercial banks and services will only be granted on the production of proofs of payment. The measure will enter into force in April 2018 and the design will be completed in March 2018.

WHAT ARE THE MEASURES TO REDUCE EXPENDITURE?

Government will implement the following austerity measures:



- International travel has been curtailed to levels below the allocations in 2017/18. There will be no virements into International Travel and Subsistence votes. Ministers will submit to the Rt Honourable the Prime Minister all trips for the full year that shall fit within the reduced budget;
- Transparency in the procurement of airline tickets including on commissions will be introduced and framework contracts will be signed with airline agencies. Details of this new approach will be communicated during the month of March;
- International training will be significantly curtailed and key competencies will be provided by a reformed LIPAM;
- Price caps on common goods procured by Government will be introduced;
- Revenue retention by Parastatals will be reviewed with a view to submitting surpluses to the consolidated fund;
- The Government fleet will be rationalised, while also transferring their supply to Basotho;
- Subscriptions to international organisations will be rationalised, retaining memberships to only critical ones;
- The Contributory Pension Scheme will be reviewed with a view to contain the cost overruns and costly decisions of the past;
- On the wage bill management, Government will continue its efforts to remove ghost workers, freeze new positions and limit hiring to critical positions only, link notch increases to performance, and introduce voluntary retirement;
- Government will also explore the feasibility of introducing liability insurance for each vehicle registered.

This measure will extend automotive insurance to loss of property and will protect all the parties involved in the accident. Government will be in a position to claim for damage to street lights and guardrails.

WHY SHOULD CITIZENS PARTICIPATE IN BUDGET FORMULATION, MONITORING AND EVALUATION?

Citizens and civil society have the right to monitor the implementation of the budget of Government. Citizens are encouraged to monitor performance of works and services done by service providers. Citizens' participation in the monitoring and evaluation of budget execution provide Government with an opportunity to be accountable to the citizens on the use of public funds. This increases citizens' confidence in the Government using their money and thus promote citizens' understanding and ownership of Government programs which increases the likelihood of their success. To this end, Citizens should request managers of public funds to report on the level of implementation of planned and budgeted activities. Districts should hold open days to provide citizens with information about Government activities. These open sessions are important in monitoring implementation and evaluation of performance contracts.



WHAT CAN YOU DO WITH THIS INFORMATION?

This booklet is Lesotho's 2018/19 Citizens' Budget. It is a simplified version of the proposed 2018/19 National Budget that was presented by the Honourable Minister of Finance on Wednesday 28th February, 2018.

The Citizens' Budget explains how the Government proposes to raise money and where it intends to spend it, in a simplified manner that is easy for citizens to understand. You are, therefore, encouraged to read the Citizens' Budget and if you have any comments, please contact your area Member of Parliament (MP) to raise the matter during the Parliamentary debates on the Budget, before it is approved by Parliament.

You are also encouraged to follow the debates by Members of Parliament (MP) on the proposed 2018/19 National Budget on Lesotho Television. The budget becomes a law after it is passed by Parliament. After the approval, the budget can be found in the form of Government Gazette at the Ministry of Law and Constitutional Affairs - Government Printing. A soft copy of the complete Appropriation Act can be accessed at the Government website and of the Ministry of Finance:

www.gov.ls/www.finance.gov.ls

In addition, every fiscal year, the Government produces a Citizen's Guide to the budget that is distributed in all districts and Civil Society Organizations. A soft copy of the Citizen's Guide to the budget is also

available on the website of the Ministry of Finance.

It is the right of every Mosotho to have information about the National Budget. Talk to your neighbours, Government Officers or your Leaders about this information and share it with other people in your community!



**ASK YOUR
QUESTIONS
ABOUT THE COUNTY'S
BUDGET**

This guide is published under the authority of the Minister of Finance

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The Newsletter is available on the Ministry of Finance website: <http://www.finance.gov.ls>