2020/21 BUDGET STRATEGY PAPER

MINISTRY OF FINANCE AND MINISTRY OF DEVELOPMENT PLANNING

OCTOBER 2019

Table of Contents

LIST OF ABBREVIATIONS AND ACRONYMS

1. ANOCA – Association of National Olympic Committees
2. APPSA – Agriculture Productivity Program for Southern Africa
3. ART – Antiretroviral Therapy
4. AUSC – African Union Sports Council
5. BoS – Bureau of Statistics
6. BSP – Budget Strategy Paper
7. CAAMTI – Centre for Aerospace and Advanced Manufacturing, Technology & Innovation
8. CBL – Central Bank of Lesotho
9. CMS – Continuous Multi-Purpose Household Survey
10. CPF – Country Partnership Framework
11. FY – Financial Year
12. GDP – Gross Domestic Product
13. GoL – Government of Lesotho
14. HIV/AIDS – Human Immunodeficiency Virus and Acquired Immune Deficiency Syndrome
15. ICT – Information Communications Technology
16. IFMIS – Integrated Financial Management Information System
17. KPAs – Key Performance Areas
18. LHDC – Low Human Development Countries
19. LHWP – Lesotho Highlands Water Project
20. MDAs – Ministries, Departments and Agencies
21. MDP – Ministry of Development Planning
22. MF – Ministry of Finance
23. MSMEs – Micro, Small and Medium Enterprises
24. MTDS – Medium Term Debt Strategy
25. MTEF – Medium-Term Expenditure Framework
26. MTFF – Medium-Term Fiscal Framework
27. NIR – Net International Reserves
28. NSDP – National Strategic Development Plan
29. PEMANDU – Performance Management and Delivery Unit
30. RAS – Recirculation Aquaculture System
31. SA – South Africa
32. SACU – Southern African Customs Union
33. SADC – South African Development Community
34. SDGs – Sustainable Development Goals
35. USD – United States Dollar
36. WBG – World Bank Group

ACKNOWLEDGEMENT

The Government of Lesotho has prepared 2020/21 – 2021/22 Budget Strategy Paper which is a three-year rolling plan that sets policies and priorities of the government. The paper offers insight into the fiscal performance of the government over the past two years and the current fiscal year. It further projects revenues and expenditures over the next three years and sets out strategic resource allocations and lays down macroeconomic assumption.

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

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

(MRS) MOTENA TŠOLO
PRINCIPAL SECRETARY – FINANCE

I. INTRODUCTION

1. The Ministry of Finance (MF) in collaboration with the Ministry of Development Planning (MDP) has produced the Budget Strategy Paper (BSP) since 2013/14 fiscal year as part of the national budget process.
2. The BSP guides the annual national budget preparation process and enhances the understanding amongst stakeholders on the broader macro-fiscal issues that guide both the budgeting process and the prioritisation on budget allocation. It is a basis in which the government evaluates the effectiveness of existing policies and help to bridge the gap between public expectations and what the government can actually deliver through national budget in terms of programmes and projects.
3. The 2020/21 BSP sets out a framework for the preparation of the 2020/21 National Budget which will be considerate of the NDSP II, Big Fast Results Methodology initiatives and other national strategic documents. The 2020/21 National Budget Framework will provide Ministries, Departments and Agencies (MDAs) with an opportunity to review the proposed national policies; priority areas; implementing strategies; as well as proposed programmes, projects and budget allocations in the medium-term.
4. In preparing the 2020/21 BSP, it is worth noting that, the 2020/21 is the third year of the implementation of the NSDP II. The theme for NSDP II is "Inclusive growth, private sector – led jobs and reduced unemployment". The strategic thrust for 2020/21 should continue to be the implementation of innovative approach to accelerating investment, economic growth and job creation with the aim of enhancing inclusive and sustainable economic growth and private sector-led job creation that contribute towards making all Basotho better off.
5. Such a strategic push will be pursued within the backdrop of limited resources exacerbated by a mild recession in 2017/18 in the domestic economy; with a shortfall in cash and foreign reserves, while Southern African Customs Union (SACU) revenues continue to drop, and most tax revenue categories miss their annual targets. Future growth in the domestic economy, will however be supported by the prospects of strong positive global growth in 2018 through to 2020.
6. The 2020/21 Budget Strategy Paper will contain;
   i. Introduction
   ii. Development context 2018/19 – 2021/22,
   iii. Macroeconomic trends and outlook
   iv. Macroeconomic assumptions for 2019/20 – 2020/21

v. Risks to the economic and fiscal outlook
vi. Strategic Priorities for 2020/21 Budget
vii. Translating policies into resource allocation
viii. Summary conclusion

Budgetary Principles

7. In response to consistent shortfall in cash and foreign reserves as well as the volatile SACU revenues, the depreciation of South African (SA) Rand against major world currencies and its negative impact on the external debt stock and strong recurrent expenditure growth which have put pressure on budget deficit, the Government will continue to adopt the following principles which will underpin and guide the 2020/2021 Budget;

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

II. DEVELOPMENT CONTEXT 2018/19 –2021/22

Background

8. The Government of Lesotho (GoL) acknowledges the role played by development partners in the development of the Kingdom. The Government further recognises the impact brought forward by this assistance and the economic benefit given improvements and strengthening of aid coordination management systems within the MDP. To this end, the Government has developed a new Country Partnership Framework (CPF) 2016 – 2020 with support from the World Bank Group (WBG). The aim of the CPF is to address two areas; improving efficiency and effectiveness of the public sector and promoting private sector job creation. The two strategic arears include eight strategic objectives expected to lead to strong development results. These are:
    - Improving public sector and fiscal management
    - Improving equity of the social assistance system
    - Improving Basic Education Outcomes
    - Improving health outcomes
    - Improving business environment reforms and diversifying the economy
    - Improving smallholder and MSME agricultural productivity
    - Increasing water and renewable energy supply industry, agriculture and export opportunities
    - Increasing transport connectivity to facilitate private sector growth.

9. Through this framework, the Bank supports GoL in its transition to new growth model which is driven by private sector investment that will require a reduction in the size of public sector and improved public sector effectiveness.

Persistent Poverty and Inequality

10. The 2030 Agenda for Sustainable Development puts people first and has a fundamental objective of addressing poverty and hunger while promoting human rights and gender equality.[1] Sustainable Development Goals (SDGs) 1,2,3,4,5, and 10, require that countries focus their development agenda on people, by making sure that poverty and hunger are addressed in a sustainable manner. Also, youth, women and those living with Human Immunodeficiency Virus (HIV) and disabilities be targeted and protected.

[1] United Nations Development Group, interim UNDAF Guidance (Final Draft), June 2016.

11. Considering that Lesotho is characterised among the poorest within Southern African Development Community (SADC) region, profound and prevalent poverty remains the primary challenge facing the country. This is associated with failure of economic growth to reduce unemployment and consequently poverty. The issue of unemployment and underemployment in the country are more structural in nature. According to Bureau of Statistics'(BoS) 2015/16 Continuous Multi-Purpose Household Survey (CMS) Report, Lesotho's unemployment was estimated at 32.8 percent, of which males of age groups of 25 - 29 and 30 - 34 make up 16.0 percent and 12.0 percent respectively, while females of the same age group make up 15.2 percent and 9.3 percent respectively. Out of the stated 32.8 percent unemployment rate, 18.5 percent in the age group of 20 to 24 were residing in the urban areas, while rural unemployed population within the same age group was estimated at 21.0 percent.
12. The situation is even worse in the rural areas where unemployment rate is found to be much higher especially among females at the rate of 65.6 percent[2] against the observed 34.4 percent for male population. Table 1 illustrates:

Table 1. Percent distribution of Unemployed Population

	Residence		
Sex	**Urban**	**Rural**	**Total**
Male	37.20	34.40	34.70
female	62.80	65.60	65.30
Total %	100.00	100.00	100.00
Total - number	20,513.00	266,418.00	286,931.00

Source: BoS CMS Q2 2015/16

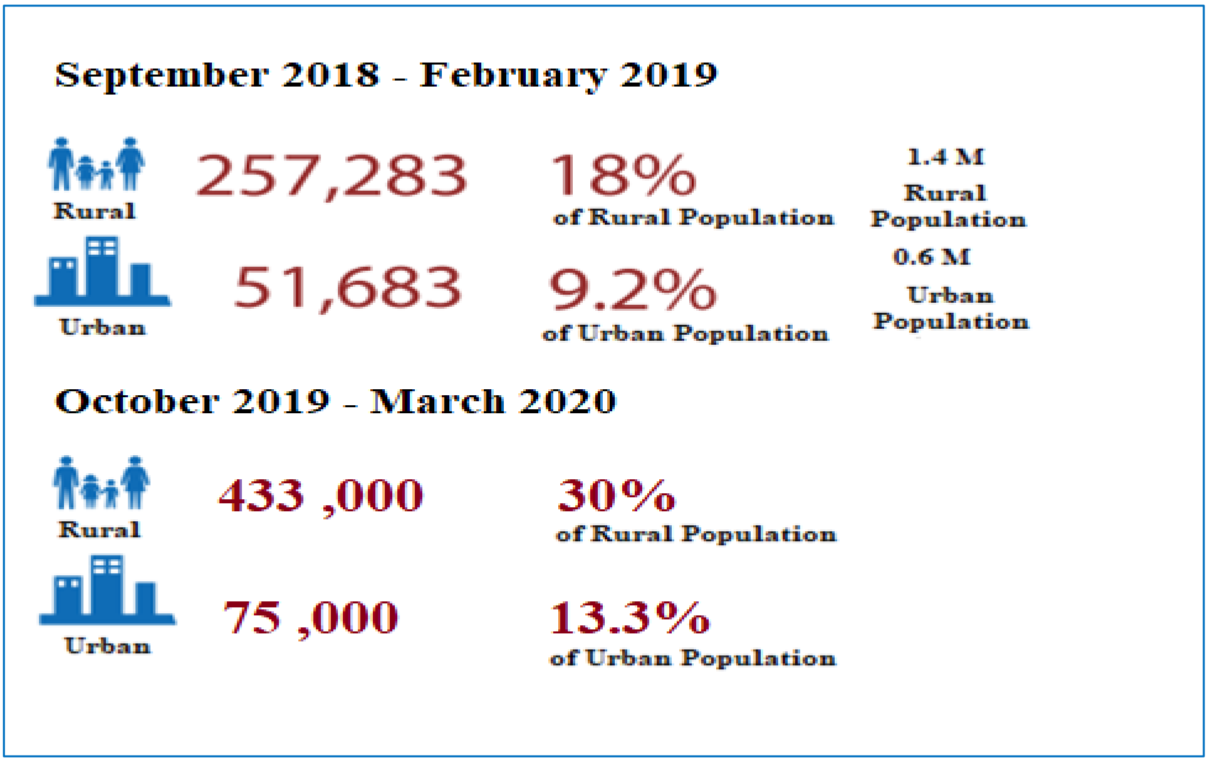
13. Subsistence farming was identified as the biggest source of employment and household incomes at 29.5 percent[3] compared with salaried employed at 28.5 percent and is characterised by poor productivity, low incomes and very little protection. Very little development has been made by relevant authorities to assist the agricultural sector to drift away from the traditional subsistence rain fed farming practices to more dynamic and commercial oriented farming practices.
14. From the human rights point of view, Lesotho has not made weighty progress to graduate from Low Human Development Countries (LHDC). In 2017, human development index[4] for Lesotho was 0.52 score which puts Lesotho in the low human development category –

[2] BoS CMS Statistical Report No. 40:2018
[3] Household Budget Survey Report (2010/11) Volume 1 of November 2014
[4] Human development Index: A composite index measuring average achievement in three dimensions of human development - a long and healthy life, knowledge and decent standard of living. 1 = the most developed

positioning it at 159 out of 189 countries and territories[5]. This has increased marginally from 0.48 score in 1998, growing at an average rate of 45.0 percent.

15. The findings of Lesotho Vulnerability Assessment and Analysis Report of July 2019 indicate that approximately 30 percent - 433, 000 – of the rural population will require humanitarian assistance relative to 18 percent – 257,283 – estimated in September 2018.
16. Following late onset rains and late planting, below normal rainfall, unseasonal snowfalls, erratic temperatures and hailstorms experienced during planting season – September 2017 to March 2018, cereal production has reduced significantly. However, despite projected food shortages, most households have adequate water for drinking and sanitation.

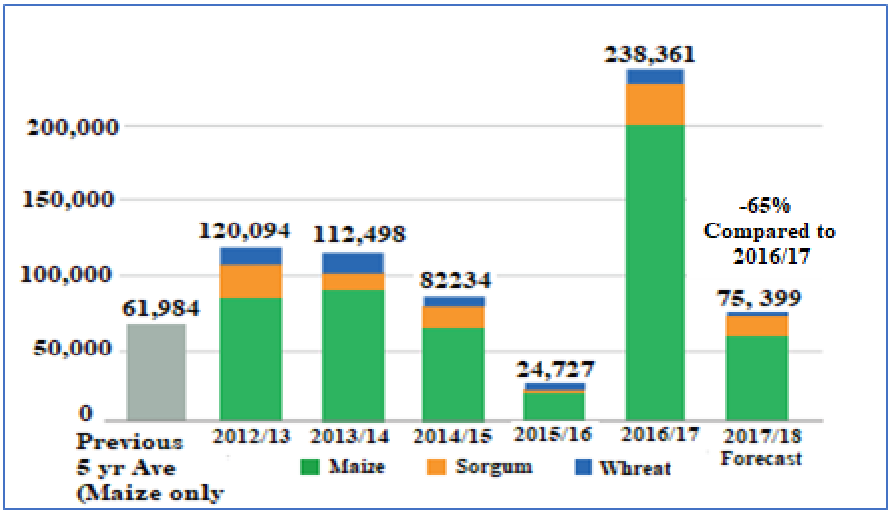
Fig 1. People in Need of food assistance



Source: LVAC VAA/IPC 2018

[5] UNDP - Human Development Indices and Indicators: 2018 Statistical Update Briefing note for countries on the 2018 Statistical Update

Fig 2. Cereal production in Metric Tons

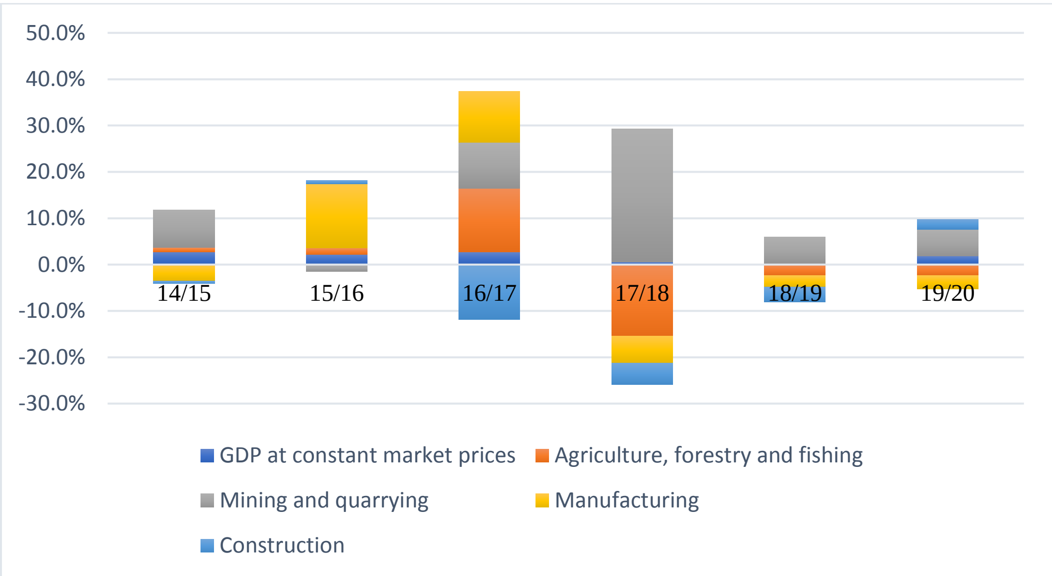


Source: LVAC VAA/IPC 2018

III. MACROECONOMIC TRENDS AND OUTLOOK

17. Real GDP growth contracted by 0.1 percent in 2017/18, down from modest 2.7 percent in 2016/17, and the experienced contraction in the economy was broad – based. The outlook appears blue, with growth projected at 0.1 percent in 2018/19 and 1.9 percent in 2019/20, mainly driven by enhanced production in mining and quarrying sector coupled with growth of government sector and financial intermediation. Lesotho Highlands Water Project (LHWP) Phase II is expected to boost growth of construction sector over the medium term.

Fig 3: Real GDP growth FY14/15 – FY19/20



18. Growth experienced in the recent years has not been sufficiently inclusive as a result, vulnerability has increased. Unemployment continue to escalate and number of people in need of assistance expands following prolonged poor crop production due to bad weather.
19. Capital formation remains poor compared to other SACU Member States. To this end, infrastructure financing remains a challenge over the medium term. To gradually increase real GDP to 5 percent, will require a gradual increase in the propensity to invest in capital formation from the current 28.2 percent to at least 50.3 percent over a period of five years (NSDP II period).
20. The 2019/20 budget speech was constructed on the bases of expected expansionary fiscal policy stance in 2018/19. The fiscal balance for 2018/19 was estimated at a deficit of about M2, 403.0 million or 6.5 percent of GDP. The budget speech projected less expansionary for fiscal year 2019/20, with fiscal balance projected to register a deficit of M476.9 million or 1.2 percent of GDP. The primary budget balance, defined as the budget balance net of interest payments was estimated to register a deficit of M83.3 million (0.2% of GDP) during the same year. However, this projection is revised upwards to 2.3 percent of GDP deficit following some unbudgeted expenditures proposed and some put in place for the current fiscal year.
21. Fiscal deficit for 2020/21 is expected to worsen to 8.8 percent of GDP (**M 3,790.5 million**) and the situation is expected to continue to worsen in 2021/21. Below (Paragraph IV) are the assumptions that underpin this deterioration.

Fig 4: Total Revenue Trend

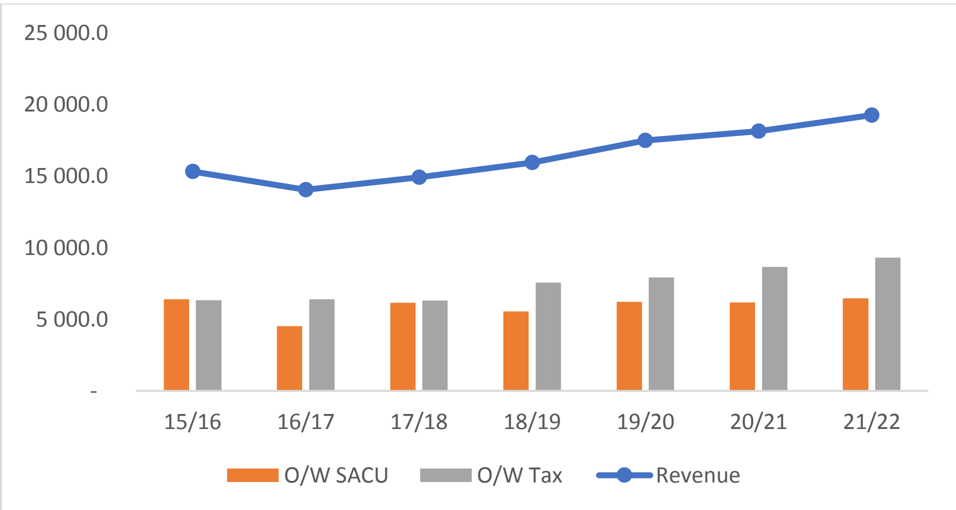
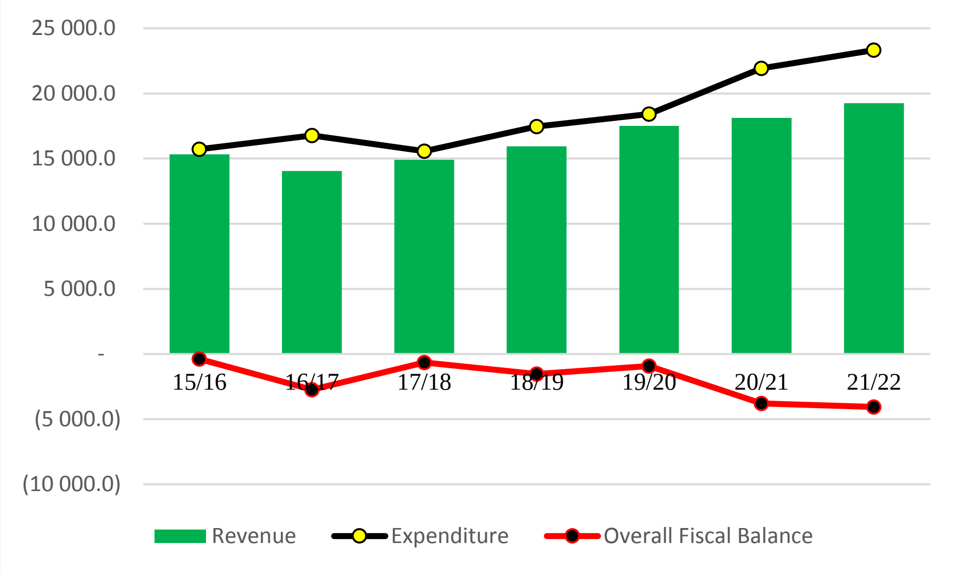
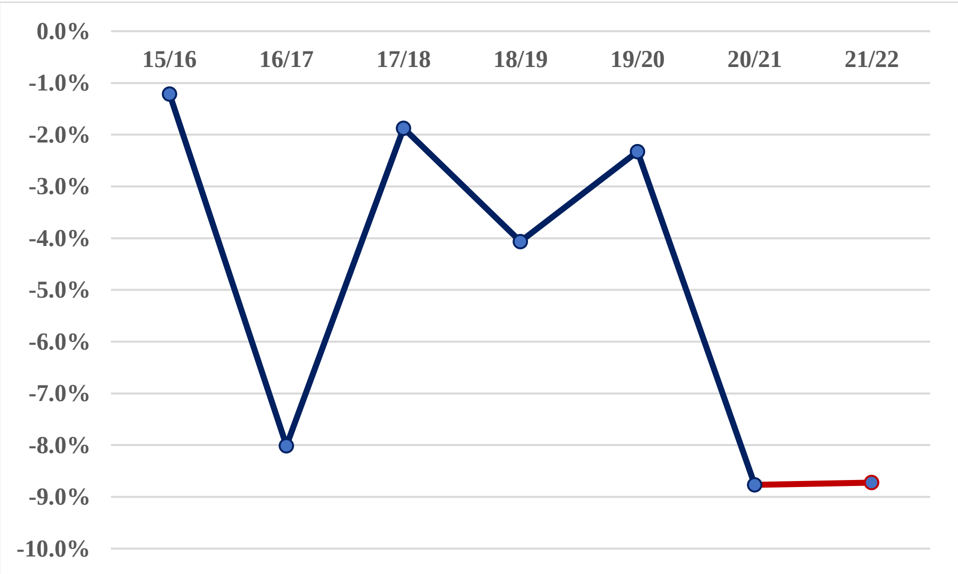


Fig 5: Overall Fiscal Deficit, Revenue and Expenditure (15/16 – 21/22)



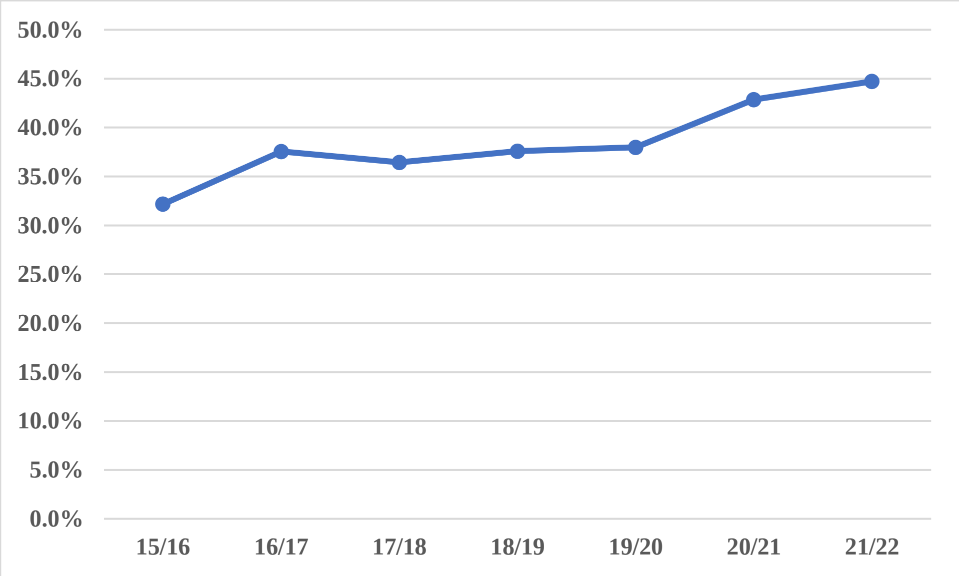
Source: Ministry of Finance Projections

Fig 6: Overall Fiscal Deficit at % of GDP



Source: Ministry of Finance Projections

Fig 7: Compensation of Employees as % of Revenue



Source: Ministry of Finance Projections

IV. MACROECONOMIC ASSUMPTIONS FOR 2019/20 – 2020/21

In view of recent domestic and external developments, the following macroeconomic assumptions were adopted: **In combination, these measures are expected to reduce the overall fiscal deficit from a projected 6.6 percent of GDP in 2018/19 to 2.3 percent of GDP in 2019/20 but expand further to 8.8 percent and 8.7 percent of GDP in 2020/21 and 2021/22.**

- In 2020/21, government wage bill will expand by M270 million following salary increase for teacher, and security agencies.
- Payment to LRA for previously postponed Lesotho College of Education PAYE of M45 million
- Funding of AUSC Region 5 2020 youth games at M170 million
- M240 million financing for Big Fast Results Model enabling environment
- Payment of public sector payment arrears estimated at M773 million
- Proposed M30 million subvention to National Reform Authority
- Consideration of including citizens aged 60 to 69 in the old age pension scheme at an estimated sum of M627 million
- Payment of M40 million in 2019/20 and M22 million to LHDA for Mmuela tunnel maintenance.

- M322 million for LMDS student loans for 2020/21
- The inflation rate assumption for 2019/20 is revised upwards to 5.3 percent from 4.3 percent in 2018/19 due to anticipated food prices acceleration following expected poor crop production coupled with weaker Loti/USD. Meanwhile, the inflation assumption for 2020/21 to 2021/22 is retained at 5.2 percent.
- Growth to recover owing to growth of mining but offset by poor growth of textile following loss of employment and reduced production in the textile industries
- Nominal GDP is expected to grow in line with GDP deflators 2019/20 and 2020/21

Table 3.1 Macroeconomic Performance and Baseline Projections

	2017/18	2018/19	2019/20	2020/21	2021/22
Percentage Change	**Actual**	**Estimate**		**Forecast**	
Real GDP growth	0.6	0.1	1.7	1.9%	2.4%
Nomial GDP growth	2.3%	7.7%	6.3%	8.4%	7.7%
CPI inflation	5.3	4.3	5.3	5.2	5.2
GDP at Current prices (million Maloti)	34,835.38	37,517.03	39,893.98	43,234.43	46,549.16

Source: Department of Macroeconomic Policy and Management

V. RISKS TO THE ECONOMIC AND FISCAL OUTLOOK

Macroeconomic Risks

22. Macroeconomic developments can cause fiscal outcomes to deviate from projections for key macroeconomic variables such as total revenue, government expenditure, real GDP growth, consumer price inflation, Net International Reserves (NIR) and are consequently a source of fiscal risk. The current outlook is characterised by slow recovery of macroeconomic position over the medium term following a slow growth of 2017/18, severe expenditure pressure and contingent liability emanating from public sector payment arrears.
23. Source of uncertainty include among others:
    - The scope of funding for proposed Public Works and Internship Programme[6] and growing public sector wage bill.
    - South Africa's economic growth outlook for the rest of the year has darkened, and projection for 2019/20 and 2020/21 now on the downside and expected to range

[6] Ministry of Finance Budget Speech 2019/20

between 0.6 percent year on year and 0.8 percent year on year respectively, from closer to 1.5 percent at the start of the year.

- With South Africa achieving little in reducing unemployment over the past decade on a sustainable basis, households are constrained financially, and household expenditure growth in real terms has weakened, resulting in low GDP growth. Consequently, South Africa may import less particularly from the region, putting pressure on intra-SACU trade.
- Political instability which leads to delay in implementing various SADC decisions, as well as Lesotho's reform agenda, particularly the needed fiscal consolidation efforts which are crucial in creating a stable environment for development programming.
- Inability to address and control the recent build-up of domestic arrears, particularly at year-end which undermines budget execution and debt management.
- Failure to control rigid expenditure categories such as personal emoluments which tend to avert creation of fiscal space to support more efficient public investment levels.

Fiscal Framework

Government Budget Operation for Fiscal Year 2017/18 - 2022/23	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual		Estimate	Forecast	
TOTAL REVENUE	**14,914.4**	**15,942.0**	**17,499.8**	**18,135.4**	**19,263.2**
Tax Revenue	6,314.3	7,560.7	7,930.7	8,658.0	9,303.9
Total Income Tax	3,487.3	4,306.7	4,317.2	4,787.5	5,158.3
Taxes on goods and service	2,826.2	3,211.7	3,612.7	3,868.5	4,143.1
Grants	822.1	1,061.3	1,250.3	1,108.2	1,198.3
Other Revenue	1,623.8	1,777.8	2,093.2	2,195.0	2,290.7
O/W LHDA Royalties	933.3	932.3	964.0	1,029.5	1,074.9
SACU	6,154.2	5,542.2	6,225.6	6,174.3	6,470.4
TOTAL EXPENDITURE	**15,566.5**	**17,467.4**	**18,428.5**	**21,925.9**	**23,324.3**
Recurrent Expenditure	12,113.0	13,275.1	13,250.8	16,054.9	17,153.8
Compensation of Employess	5,436.1	5,994.7	6,644.7	7,774.1	8,614.9
Use of goods and services	2,667.3	3,112.5	2,919.1	3,648.7	3,675.4
Interest payments	327.4	451.6	393.6	441.9	461.3
Subsidies	310.3	279.2	183.8	192.8	202.7
Grants	1,111.7	837.5	711.1	842.9	885.9
Social Benfits	1,568.2	1,939.7	1,734.3	2,459.7	2,585.2
Capital*	3,453.5	4,192.3	5,177.7	5,871.0	6,170.6
Overall Fiscal Balance	**-652.1**	**-1525.371**	**-928.6791**	**-3790.544**	**-4061.118**
FINANCIAL TRANSACTIONS					
Change in deposits	281.3	-764.9	1,523.0	1,178.9	1,212.1
Change in domestic financial liabilities	466.2	1,396.8	1,300.0	1,350.0	1,400.0
Change in foreign liabilities	135.8	600.0	700.0	750.0	650.0

* Capital Budget includes GoL, Donor Grants and Loans

Fiscal Policy

24. The Government's fiscal stance is expected to remain less expansionary throughout 2019/20. The fiscal balance is projected to register a deficit of 2.3 percent of GDP, down from an estimated deficit of 6.6 percent of GDP in 2018/19. To prevent the deficit from worsening, the 2019/20 proposed additional fiscal stabilisation measures which include among others:
    - Elimination of all international training funded by government except those that are fully funded.
    - Reduction of foreign mission through reduction of the number missions and reviewing of the formula for calculation their salaries.
    - Setting of price limits in the Integrated Financial Management Information System (IFMIS) to curtail unnecessarily high prices charged to government by suppliers.
25. Notwithstanding these measures, the economy is expected to be confronted by structural challenges. High wage bill and recurrent budget coupled with low investment to drive growth

will continue to weigh on growth. The over-dependence of fiscus on SACU revenue which finance approximately 34.3 percent of the total resource envelope is expected to continue to be the major source of uncertainty and volatility.

26. **In view of the above discussions, even if Lesotho is considered moderately indebted country, under this economic environment about availability of financing and growth, Lesotho's fiscal deficit appears unsustainable in the short to medium-term and even beyond.**
27. At the level of primary surplus of 4.8 percent of GDP in 2020/21 and 4.5 percent of GDP in 2021/22, a lot of fiscal determination would be required to bring the overall fiscal deficit down to sustainable levels until it eventually stabilizes at steady state levels of 3 percent of GDP depending on the political effort to cut unproductive spending and invest in growth generating infrastructure.
28. The current plan of government to adopt fiscal consolidation as is in the 2019/20 budget speech, is still far from the required fiscal effort. Given the level of the required fiscal effort and the political effects of implementing the expenditure adjustment option, more domestic financing might be required in the medium-term for the fiscal policy to remain sustainable.
29. **Lastly, growth boost through a more constructive investment climate also becomes important in view of the link between higher growth and fiscal sustainability.** Owing to limited resource availability, augmenting growth demands for more involvement of the private sector to generate the requisite investment and growth. In this regard, deepening of reforms tailored towards charming and retaining foreign direct investment as well as broadening of the tax base becomes vital.

Medium Term Debt Strategy

30. Lesotho's debt portfolio as at June 2019 totalled M14,564.6 million, with foreign debt constituting M12,698.1 million (87 percent of total debt) while the remaining M1,866.5 million was domestic debt. The bulk of the external debt (M10,778.4 million) is from multilaterals, of which IDA dominates with LSL4,849.8 million.
31. In the Medium-Term Debt Strategy (MTDS) of 2018, the government has prioritised the development of domestic debt market to mitigate exposure to foreign exchange risk. This redirected focus of government to domestic market yielded a one percent year on year increase in the share of domestic to foreign debt. However, the limited number and diversity of domestic market participants means exposure to government securities is already high and has prompted commercial banks as major participants to acquire mostly short tenor instruments. In mid-2018/19, after a series of poor performance of bond auctions, the government in its quest to

finance the fiscal deficit was for the first time forced to issue the 365-day treasury bills to aid fiscal policy. The move has further increased refinancing risk of the domestic portfolio through declining average time to maturity from 15.3 to 15 years. To curb the risk, the government plans to attract pension funds through high economic return projects financing and innovative long tenor bonds due to long term emphasis of the fund's strategy.

32. Debt accumulation in 2019/20 up to July 2019 has been recorded at M3,385.4 million while it only averaged only M1.3 million in the previous 5 years. The accelerated debt accumulation in 2019/20 is a consequence of contracting Lowlands Water Project Phase II (European Investment Bank component and World Bank component), Smallholder Agricultural Development Phase II (World Bank) and Agricultural Productivity Program for Southern Africa (World Bank). It is expected that debt accumulation rate will further intensify owing to eminent M2.4 billion borrowing associated with the African Union Sports Council Region 5 youth games playgrounds and accommodation construction. The shallowness of the domestic market means the Government will continue to borrow externally for capital projects with substantial cost and relatively low financial returns. Going forward, the Government of Lesotho will have to exercise caution to issues surrounding debt sustainability as external debt stock is approaching upper limits.

VI. STRATEGIC PRIORITIES FOR 2020/21 BUDGET

Key Policy Targets

33. The medium-term national priorities were established as part of the NSDP II. These priorities are articulated to foster job creation and inclusive growth and are: *Enhancing Inclusive and Sustainable Economic Growth and Private Sector Job Creation*; *Strengthening Human Capital*; *Building Enabling Infrastructure*; *and Strengthening National Governance and Accountability Systems.*

34. The plan has prioritised four productive sectors for jobs creation and inclusive growth and they are *Agriculture, Manufacturing, Tourism and Creative Industries and Technology and Innovation*. The NSDP II emphasises private sector development and gives priority to pursuing people-centred development. Annual national budgets provide an opportunity for Government to implement specific strategies and allocate appropriate resources to the relevant sectors of the economy to realise these national priorities. The 2019/2020 financial year is the second in the implementation of NSDP II, and therefore, the proposed policies and strategies for implementation during the year, as well as the resource allocations, should be aligned to the national priorities.
35. The NSDP II proposes that in developing the government budgetary plans for 2020/21 to 2022/23, the focus should remain on job creation and promotion of inclusive growth. All public spending must address the most binding constraints faced by the private sector in a coordinated and clustered manner. The budget priorities for this period are derived from NSDP II and therefore, the 2020/21-2022/23 key policy targets are:
    - Creation of an estimate of 49,319 private sector jobs (23,096 from the 4 productive sectors and 26, 223 from rest of the economy) over the plan period or 9,863 jobs created each year.
    - Increasing economic growth to at least 5 percent growth per annum over the plan period with gradual increase in average propensity to invest in capital formation from the current 28.2 percent to 50.3 percent over the plan period.
    - Restoring macroeconomic stability to sustainable levels by reducing fiscal deficit to less than 5 percent of GDP.
    - Enhancing democratic governance, political stability and accountability.
    - Reducing the country's ranking on the ease of doing business from position 104 (in 2018) to at least position 80 in the medium-term trough implementation of Investment Climate Reforms.
    - Reduce TB incidence from 665 to 475 per 100,000 population.
    - Reduce Mortality rate in TB/HIV from 206 to 140 per 100,000 populations.
    - Reduce incidences of HIV/AIDS and increase coverage of Anti-Retroviral Treatment (ART) to 100 percent.
    - Reduce Malnutrition especially for under 5 children by at least 5 percent and, food insecurity by 5 percent in the medium term.
    - Increasing efficiency in the public service delivery to support private sector initiatives.

- Provide adequate infrastructure to support private sector projects.
- Increase fuel storage capacity from 3days to 90 days to ensure security of fuel supply.
- Increase electricity generation capacity from 72MW to 172MW to reduce electricity import.

Priorities for Productive Sectors

36. The NSDP II has identified the four productive sectors clustered under Key Priority Area (KPA) I. These productive sectors have been selected and approved based on the sector's job creation potential; GDP growth potential; Potential for existence of comparative advantage existence or potential; Potential or existence of significant value-chain development potential; and the sector's multiplier effect or impact across multiple sectors. These sectors will pursue the following key priorities for 2019/2020 – 2022/23:
    - Increase cereal crop production and enhance food and nutrition security;
    - Promote climate smart agriculture and food security system;
    - Increase production of High value crops, livestock and cottage industry;
    - Increase irrigated crop production;
    - Improve Digital content production;
    - Enhance e-Governance solutions;
    - Diversify products and market access for Lesotho's products and services;
    - Strengthen investment and trade promotion; and
    - Promote consumer protection and education.

37. In strengthening implementation of NSDP II, the Government of Lesotho adopted the Big Fast Result (BFR) Methodology, focusing on Key Priority Area I (KPA I). As such, the Lesotho Economic Lab was agreed to be conducted for each of the four productive sectors. The lab identified high-impact projects and thus their cumulative private investment value and the amount of jobs creation for NSDP II plan period. The prioritised list of projects, initiatives and delivery mechanism have been agreed upon and committed by Ministers and Principal Secretaries of Ministries of Agriculture and Food Security; Trade and Industry; Tourism, Environment and Culture; and Communications, Science and Technology. The four productive sectors identified 77 high impact projects which will yield 30,021 direct private sector jobs, M19,933 million of private investment and M14,367 million in GDP contribution.

VII. TRANSLATING POLICIES INTO RESOURCE ALLOCATION

38. For the government to realise the NSDP II, priority projects that best address issues contained in the plan and that promise to deliver aspirations of the plan were identified and have to be implemented. During the plan period, the government engaged PEMANDU Associates to facilitate the realisation of this outcome through the use of the Big Fast Results Methodology (adopt to local context). The process entailed intensive consultations with the public and private sectors as well as investors from within and outside the country; who are willing to invest in any of the four identified productive sectors. The investors were required to provide status of their projects as to whether they are new or an expansion of a project, the investment to be injected and number of jobs to be created at the end of the NSDP II implementation.

Big Fast Results Model Initiatives

39. In the ***agriculture sector***, the main projects of the identified 25 include ***i. Rietfontein Commercial Grains Production*** whose aim is to increase commercial production of grains such as maize, sunflower, sorghum, wheat, beans and peas, and ***ii. Industrial Aquaculture Project*** whose aim is to develop a large-scale indoor production of Atlantic salmon based on an advanced indoor Recirculation Aquaculture System (RAS) technology. The two projects have the potential to create an impressive 759 jobs with an investment of M1,260 million.
40. In the ***manufacturing sector***, the most impactful project of the 22 identified is ***Aerospace Product Manufacturing,*** which is going to establish a Centre for Aerospace and Advanced Manufacturing, Technology & Innovation (CAAMTI), producing both manned and unmanned avionics system. The target market is for export within Africa Continent for the purpose of surveillance and security. The project has the potential to create a whopping 1, 048 new direct jobs with an investment of M717 million.
41. In the ***tourism and creative arts sector***, the main projects of the identified 13 include i. ***Morija-Matsieng Heritage Tourism Project***, which involves up-scaling of the Morija Arts Centre to become a vibrant hub for skills training in art/craft as well as incubation for small creative business ventures; and ii. ***Sehlabathebe Luxury Adventure Resort and Spa Project*** where the plan is to build a luxury adventure golf and spa estate at the Sehlaba-Thebe National Park as well as to include academic activities such as geology, botany and zoology; that would attract local and international scholars for research. These projects have the potential to create 560 jobs with an investment of M478 million.
42. In the ***technology*** and innovation sector, the main projects of the identified 17 include i. ***Huawei Lesotho,*** whereby Huawei expects to develop a Smart City Solution for the

government. The first phase of this solution will cover a Safe City solution consisting of: a Unified Command Centre, an Intelligence Video Surveillance, an Intelligence Traffic System and Data Centre; and ii. ***Thamani Technology***, which is currently undertaking a prefeasibility study to develop a manufacturing facility in Maseru to produce cell phones, tablets, laptops and PC boards. Together these initiatives have the potential to create 585 jobs with an investment of M288 million.

43. In addition to 77 identified high impact projects, the Government is already undertaking projects that are geared towards the NSDP II goals.

GOVERNMENT Initiatives

Agriculture

44. The NSDP II has identified 7 investment areas to boost the sector; these are Bio-trade, Poultry production, Horticulture, Aquaculture, Red meat production, Medicinal plants and Wool and mohair production.
45. There are 3 ongoing projects that are geared towards the increased production of crop and fruit. These include; high value irrigated crop project (M33 million), mushroom production project (M54 million) and smallholder agriculture development project (additional finance (M818 million). Furthermore, there is a project that addresses increased production and improved value chain of wool and mohair, i.e. wool and mohair production project (M466.8 million). All these projects will be completed during the plan period except for smallholder agriculture development project (additional finance) that would go beyond the plan period.
46. Beef production project and Agriculture Productivity Program for Southern Africa (APPSA) project proposals have been approved. The two projects will address beef production and machinery associated agriculture products respectively.

Manufacturing

47. The NSDP II has identified 10 potential investment areas to enhance the sector; these are Organic and fortified foods, grain production; water bottling; processing sandstone for building; brick making; packaging materials; leather products; waste management and recycling; electronics and car parts; medicaments; and food processing.
48. The government has invested in the project (Economic Diversification Support Project) that supports private sector development through improving partnership, entrepreneurship and skills development, access to finance and market, and investment promotion in the selected sectors critical for economic diversification. In addition, and most importantly, the

Government is already undertaking a project that will improve the ‘ease of doing business position’ of the country through the improvement of access to finance, support investment promotion activities in new sectors. The project will also enhance linkages to domestic Micro, Small and Medium Enterprises (MSMEs) and improve economic diversification through targeted support to new growth sectors such as horticulture and tourism (Private Sector Competitiveness and Economic Diversification Project – Phase II).

49. In order to facilitate diversified private investment, the government has embarked on building industrial infrastructure and factory shells (Tikoe Industrial Infrastructure Phase III (M323 million) and Ha Belo Industrial Infrastructure Phase I (M800 million). There is also construction of slaughterhouses and fresh produce market centres to improve competitiveness and access to markets respectively; i. Poultry and piggery slaughter Plants (M100 million) and ii. Regional Fresh Produce Market Centre (M52 million). In addition, the government is undertaking projects on the establishment of standards and accreditation (Standards and Quality Infrastructure, M50 million).

Tourism

50. The NSDP II has identified 4 investment opportunities to enhance the sector; these are Tourism attraction sites; accommodation and conferencing; sports and recreations; and creative arts.
51. Semonkong is one of the main attraction sites. The government through, Development of Semonkong Visitor Centre project, has invested in the construction of tourist visitor centre. There are plans in place to improve tourism attraction sites such as Bokong Nature Reserve, Morifi Recreational Park, and Development of Qacha’s Nek Snake Park and Tourism Information Centre.
52. With regard to sports and recreation, the country will host the African Union Sports Council (AUSC) 2020 Region 5 games followed by Association of National Olympic Committees (ANOC) games in 2022, both fall within the plan period. In preparation for these, the government will build indoor games facility and a stadium at Lepereng, construct accommodation facility at National University of Lesotho and upgrade other existing sport facilities. The Leribe sports complex, an ongoing project, which will have various sport facilities, accommodation and conferencing facilities and could serve as a training area for regional athletes.

Technology and Innovation

53. The NSDP II has identified 3 priority areas that would improve the sector; these are strengthening research for policy making and product development; functioning incubation centres and industrial parks; and improving use of Information and Communications Technology (ICT).
54. The government has invested in an e–Government Infrastructure Project whose aim was to strengthen core government-controlled fibre network infrastructure. This required optimising an existing metropolitan fibre network linking ministries and the data centres, improving bandwidth access to submarine cable systems for e-Government services. The project will be completed during the financial Year 2019/20. However, there is an intention to expand the works to cover the whole country.
55. With regard to research for product development, there is already an approved proposal on the establishment of a well tissue culture and storage facilities for seed potato so as to have a sustainable potato production for local and international markets (Potato Value Chain).
56. The total investments in the four sectors is as follows; Agriculture (M428,522,836.00), Manufacturing (M237,978,214.00), Tourism (M96, 323,396.00), and Technology (35,488,000.00) from all sources.

VIII. SUMMARY CONCLUSION

57. Fiscal sustainability remains a real challenge in the short to medium-term and even beyond which calls for government's deliberate effort towards fiscal adjustment and concessional resource mobilization. In the event of a deterioration in the South African growth environment and trade war between US and China, both SACU and donor resources might significantly drop. Such a delicate situation is likely to coincide with slow domestic growth and call for severe fiscal adjustment with significant political consequences given the state of unemployment and poverty in the country. Reforms tailored towards creating a more favourable investment environment become more critical than ever before.