

## **“LCN identifies major gaps in the budget”**

LCN has over the years been the voice of the civil society organizations when it comes to advocacy on national policies. LCN considers a national budget as a vital policy tool towards promoting economic growth and poverty reduction. LCN believes that budget participate in the budget cycle, that includes, budget analysis and tracking. Budget is one of the major policies of any institution from the household to government level. At the household the budget is designed in a manner that it finances the needs of all family members, ranging from schools fees to acquisition of property, and in that case, it is much easier to capture the needs of each member, and decide timely, whereas in the case of government it takes months or even years to establish a need. Thus the arising role to the civil society organisations will be to ensure that identified needs of the populace are integrated into the budget, and that the government delivers, and it is accountable to its electorate. This analysis is looking as to whether the budget responds to the needs of the populace, does it address the poverty trappings of the society.

Following presentation of the National Budget Speech in Parliament on the 12<sup>th</sup> February 2010, members of LCN have reviewed the budget with a view to assessing its ability to deliver and support economic growth and development. In the review, the key determinants were the ability of the government to implement public policy and deliver effective public services to the citizens, promote public participation and accountability.

### ***Participation in National Budget cycle***

Budget formulation should be as consultative and participatory as possible across all the elements of the budget cycle. Engagement of stakeholders including civil society organization is imperative to promote citizen participation in policy formulation. More often, civil society organizations and other stakeholders get involved only upon presentation of the budget speech in Parliament. The entire budget cycle is mainly a government domain, with limited or no access to information. The decentralization process initiated in 2005 through establishment of local councils is better placed to ensure that public priorities inform the budget speech. Budget should be as participatory as possible, including translation of the speech into Sesotho for a broader citizenry participation in public policy.

While the budget is expected to answer social and economic needs of the people, the link between policy and its implementation is missing. The current budget is based on the Vision 2020 objectives, this strategy was long term and too broad to enable effective tracking and monitoring of policy priorities. The 2009/10 budget speech was based on the temporary Growth Strategy and Issues Paper; are issues in these documents irrelevant in the current budget? In view of this, the 2010/11 budget is essentially made in vacuum, and cannot have

traceable linkage to national economic priorities; hence the pronouncement for formulation of the National Development Plan is highly welcome. It is only imperative that the process becomes as consultative and participatory as possible.

## **The 2010/11 National Budget issues**

### ***National Development Policy and execution***

The establishment of the National Planning Board is long overdue thus limiting the support and requisite guidance for economic development. While measures are being considered to operationalise the Board, as insinuated in the budget any envisaged amendments with regard to the Board establishment must not interfere with its independence.

The essential good practices for economic management and development should be inherent within the government. Audit of public funds and expenditure was never performed since 2006/07, which posits a challenge on the ability of the government to account for its expenditure. A proposal to establish a statement of affairs on the government funds does not absolve the government of its constitutional obligation for annual audit of public funds. Civil society organizations are calling for immediate finalizing of all outstanding annual reports.

The theme of the 2010/11 budget, “An aggressive domestic resource mobilization and expenditure prioritization is an imperative” is considered a bit ambitious based on the background provided; as well as national and international economic crisis. The reality presented in the budget is not reflective of expenditure prioritization as other sectors seem to have gained more budget support than important economic and social development sectors. The recurrent budget for 2010/11 proposes a 100% increment to statutory bodies, relative to budgetary decline to other key sectors such as education, and social transfer payments. In which case, statutory allowances and salaries are exempted from belt-tightening, with increase from 2009/10 M11.8 million to M22.9 million in 2010/11. The proposed ‘belt – tightening’ should be across – the board.

### ***Market diversification and employment creation***

The decline in the SACU revenues has always been anticipated; at least the 2007/08 budget highlighted this factor. Civil society recommends that in the quest to intensify internal resources mobilization, a detailed assessment on the sustainability of the SACU revenues vs. the ability of the economy to generate internal revenues be undertaken. This would among other things enable the economy to identify alternative sources of revenue, thus reduce the reliance on the customs returns. In view of the ongoing negotiations at the World Trade

Organisation (WTO) and the declining international market conditions, it is not clear how the SACU revenues can be expected to increase soon.

In the 2007/09, 2008/09 and 2009/10 budget, the key issue was development of a conducive environment for investment. The budget is silent in terms of how much investment has been generated over the period, and how much can be expected in the current fiscus. Has Lesotho's position been comparatively improved relative to creation of business?

The US market under AGOA, has been the only viable market since late 1990s, and Lesotho has tried overtime to develop its industrial base to remain competitive in this market against the emerging economies such as China, India and Bangladesh. Given the signing of the interim – Economic Partnership Agreement (I-EPAs) with the European Union, has Lesotho been able to improve the supply constraints to sustain these markets?

Historically, Lesotho has always had access to the EU market through the EBA (everything but arms) market under Cotonou Agreement which required no reciprocity, and has made 0% exports to this market. The new challenge presented by the EPAs is the ability for Lesotho to reciprocate and compete effectively with European Union as a country. Lesotho industrial sector in the current state may not be able to match the quality/quantity demands of the European markets. More importantly, which sectors other than the textiles and clothing have been identified for this market? The recommendation of the civil society in this regard would be to consult extensively on the EPA processes and the expected socio-economic benefits in Lesotho.

It is further recommended that linkages between large (foreign) and small (domestic) should be encouraged as a policy issue for sustainability of the sector. Lesotho has been exporting textiles and clothing in the past 20 years, without any local permeation into the industry.

### ***Public expenditure and public services delivery***

The pronounced ability of Integrated Financial Management Information System (IFMIS) to control public expenditure should be critically reviewed against the previous MTEF (Medium Term Expenditure Framework). In reality, the reduced expenditure could be due to inability to accommodate various suppliers into the system. The proposed decentralization of IFMIS is considered a bit pre-mature, in reference to the delayed decentralization process. Government is encouraged to move more towards decentralization of services and budgeting for better management and service delivery at district level; which in turn would translate into decentralization of budget and budgeting process, then financial management (IFMIS).

Policy for non – financial institutions is important but the government must speed up the response to the issues relating to MKM beneficiaries and other similar schemes.

The proposed deficit of 12% may not be sustainable for Lesotho, in view of the current economic situation. Financing economic growth through debt may not be sustainable in view of the current economic situation. Capital expenditure budget is a bit ambiguous to warrant an increased deficit to finance government expenditure.

### ***SMME Development and growth***

The resuscitation of the Credit Guarantee Scheme is commendable. However, a clear and transparent policy for accessibility and management of the fund should be developed as historically, this scheme was subject to abuse by various stakeholders.

SMME training may not be enough for development of local entrepreneurship, but provision of capital, mentorship programs, constant monitoring and market opportunities. Important is the development of a SMME policy that defines SMME sector for inclusion of all sizes of enterprises; the current definition by income thresholds excludes most enterprises on income/revenue generation to enable effective financial intermediation in the sector.

Since 2006/07, focus has been on developing a conducive environment for investment growth. The budget does not say anything regarding the impact and prospects for increased foreign or domestic investment growth.

### ***Human and Social Development***

#### ***Social protection***

Old age pensions have become an integral source of income and livelihoods for the aged, to meet various basic needs as well as support orphaned and vulnerable children. In view of the current economic crisis increment may not be possible, but in real terms this should be reviewed to maintain consistency with inflationary demands and costs for basic needs.

The Child Support Grant, what does is the implication on the cultural safety networks? Who is family in this context? Furthermore, M360.00 is not even enough to provide basic needs for household food security needs. Studies by the Action Aid and LVAC reveal that a basic food basket costs M600.00 for a household of a household of 5 people.

The budget does not provide any support towards the disabled. Although this may be encompassed within the vulnerable groups, this in most cases is addressed towards children, a broad definition of this group shall enable provision of a direct support to the disabled.

### ***Health***

HIV and AIDS remains a major for the country. The support of the Global Fund and other partners in this area is appreciated. In this case, LCN is happy that at least M50 million of these funds have been allocated towards civil society interventions in the next 2 years. However, the commitment of the government in the fight against the pandemic is undefined; relying on external sources only can be very unpredictable and unreliable. Furthermore, nothing has been said about poor women who have bailed out government by providing basic health services to HIV and AIDS patients in the villages. The 2009/10 budget proposed support to the support group, which in reality has not materialized.

### ***Education***

Education for all should be translated to be accessible, quality and inclusive education. Attainments of MDGs are necessary for social development, but provision of quality education should be a broader driver than numbers going through the system.

Scholarship program: there has to be a clear policy definition for human resources development, for collection and award of collections. The economic management policies should enable a higher absorption rate/employment rate for local graduates to increase repayment of loans.

### ***Agriculture***

Highlighted areas for development of the sector should be monitored closely to ensure returns. The Agricultural budget should be monitored closely as this sector is could be an alternative productive economic sectors in the country. The budget should priorities staple food items for subsidies. A 10% budget allocation as per SADC Declaration as worked for Malawi, while Lesotho allocates only 2% of the total budget to this sector. Lessons from Malawi can be replicated in Lesotho for productive agro industry.

The idea of block farming was a commendable one, but implementation process was flawed as it resulted in more vulnerability on government, through unrecoverable loans and the ordinary villager participating in the scheme, due to low productivity or skewed sharing processes, resulting in a higher food insecurity.

Declining agricultural productivity is also due to climate change, adaptability strategies should be pronounced in the budget.

### ***Tourism***

Marketing strategies should be clear for Lesotho tourism.

In 2009/10, it was highlighted that investment targeting the 2010 wave would be in place, e.g. Lesotho Sun. Although this (World Cup) may be short-lived (50 days), it would be enough to promote Lesotho tourism market internationally.

### ***Mining***

Mining companies should be encouraged to invest in the communities in which they mine.

Employment may not be enough; corporate social responsibility should secure other socio-economic developments in the area.

Local participation should be encouraged to invest in the mining sector.

### ***Water***

Provision to water should be a priority for the government. Water policy should be pro-poor.

The development of Polihali Dam in Mokhotlong is appreciated as a channel for creation of employment; however, this investment should support social development in the targeted areas. It is assumed that Mohale/Katse Dam construction have provided lessons for social compensation and restoration of livelihoods of the residents in the affected areas.

### ***Gaps in the national budget***

**Budget for local government elections.** This is a major issue for both governance and economic policy of the country to be excluded from the budget. According to Constitution and the Local Government Act, 2010 marks the anniversary and election year for local government.

**Budget for implementation of the APRM action plan.** In 2009, the Prime Minister presented the findings and action plan for the APRM, which should be implemented in order to improve on governance and accountability.

Lesotho Council of Non - Governmental Organisations (LCN) is an umbrella organization of civil society organizations and NGOs in Lesotho. LCN derives its mandate from the need to develop

Lesotho socially, politically and economically, by promoting public participation in all development processes. The Council was founded in 1990 with a mission to stimulate, promote and build capacity within Lesotho NGOs so that they are a stable, democratic, transparent, skilled, empowered, sustainable and responsive to their beneficiaries' needs and those of the voiceless and marginalised. In order to undertake this mandate, LCN has developed several programs that capacitate its membership and the general public to understand and translate public policy and other development processes to determine whether such meet their different expectations.