



PARLIAMENT OF THE KINGDOM OF LESOTHO

Strengthening Fiscal Resilience and National
Competitiveness for Accelerating Economic
Growth and Development

Budget Speech to Parliament for the

2012/2013 Fiscal Year

By

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Maseru – Lesotho

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Madam Speaker,

Allow me to pay my respects to you and through you to:

His Majesty King Letsie III and Head of State

The Right Honourable the Prime Minister and Head of
Government

The Honourable Deputy Prime Minister and Leader of the House

The Honourable President of the Senate

My Colleagues, Honourable Ministers of His Majesty's
Government

Honourable Members of both Houses of Parliament

Excellencies Heads of Diplomatic Missions and International
Organizations present here

Distinguished members of the Media

The entire Basotho nation across Lesotho and abroad

Ladies and Gentlemen

“You can't enjoy the fruits of effort
without first making the effort”.

Lady Margaret Thatcher,
Former Prime Minister of Britain

1. To-day the Seventh Parliament and its Executive are poised to write the last Chapter and conclusions of their stewardship of the ship of State during the last five turbulent years. What is this Chapter likely to say?

Madam Speaker

2. Let me give this Honourable House and the Nation, a sneaking preview. The Chapter and conclusions are likely to contain a declaration:

First, that the Seventh Parliament and the Executive have launched Lesotho **on a path of economic transformation, economic modernization, competitiveness and sustainable employment creating growth and poverty reduction.** Working together and walking hand in hand in partnership, we can claim our rightful place in the global competition for **growth, investment, jobs** and **better life for all Basotho.**

Second, that the Seventh Parliament and the Executive have laid firm **foundations**, legal and institutional, to **build and consolidate good governance; democracy; regular elections; the rule of law; independent judiciary; respect for human rights, including gender equality within and outside marriage; accountability of public officials for use of public funds;** and, above all, **peaceful settlement of disputes through dialogue, negotiation, compromise and reconciliation,** using our national institutions, including faith-based institutions.

Third, that the **Seventh** Parliament and its Executive have put in place **sound and resilient macro-economic fundamentals** that can propel Lesotho, like other nations, towards a knowledge-based economy **of the future**; an economy that is characterized by skilled human capital, innovation, information communication technology infrastructure **that is affordable and accessible to all Basotho**.

Fourth, that the Seventh Parliament and its Executive **have successfully steered** the ship of State through one of the most challenging and perilous shoals of economic and financial crisis that included unparalleled natural disasters; spikes in food and fuel prices. Based on this experience, the Executive and the Seventh Parliament believe strongly that, by **improving our investment climate and the competitiveness of Lesotho and by creating strong technical, financial, managerial and marketing support institutions**, farmers, entrepreneurs, workers, self-employed, local and foreign manufacturing and service companies can open opportunities, produce products, create jobs, and compete in international export and labour markets.

Fifth, that the Seventh Parliament and the Executive have deepened and consolidated Local Government administration and elections including decentralizing some functions that were previously performed at Central Government. The process of empowering Councils with skills and systems will need acceleration in the future in order to bring services closer to where people live.

Sixth, that, the Seventh Parliament and the Executive have approved and launched various development programmes that have:

- **Opened** the mountains by building bitumen and weather gravel roads that will make it possible to bring much needed services to the people who live there;
- **Built** bridges across previously impassable rivers such as Senqu and Senqunyane rivers that had long divided communities and took many lives;
- **Built** a large number of primary and secondary schools to reduce the distance that children have to travel to attend schools;
- **Expanded** potable water and sanitation to many communities throughout the country;
- **Built** and **rehabilitated** the largest number of clinics and health centres in the rural and mountain areas;
- **Made** salaries and benefits of teachers and public servants competitive;
- **Extended** significantly, electricity and cellphone connections in both rural and urban areas.
“Kekahookajeno re utloangbatho ha babatlahobuakamohala, kapababatlalhoromellamelaetsa, ba se ba refeela: “Ntšoarethekekeng, ngoana”!
- **Ensured** that our elderly receive monthly pensions to buy medicines, some essentials and support their grand-orphans.

Madam Speaker

3. These are the messages that the Seventh Parliament and Executive are likely to put in the last Chapter and conclusions which they will pass on to the 8th Parliament to build on.

International and Regional Developments and their Implications for Lesotho

Madam Speaker,

4. As a small open economy, Lesotho is greatly affected by international and regional economic and financial developments. The House will recall that, the 2008 global financial crisis originated in the U.S. Sub-prime housing market and quickly spread into all developed countries with devastating effects. Through the trade channel, emerging markets and Sub-Saharan Africa, including Lesotho, were subsequently affected. Until then, the international financial institutions and most national regulators had focused their attention on developing countries as potential sources of financial crises. But this crisis has taught us the importance of balanced treatment in global surveillance and regulation.
5. The second lesson is that emerging market economies have become the locomotive of global economic recovery. The political impasse in

the US on how to limit its debt and in Europe and on how to solve the Euro-zone debt crisis have all affected global market sentiments. Some Rating Agencies have downgraded the U.S., France, and other European States. This is a worrying development.

6. In terms of output, the U.S. economy grew by 1.6percent in the third quarter of 2011 compared to 2.5percent during the same period in 2010. It is projected to grow by 1.5percent in 2011 thereby indicating the fragility of its recovery. Unemployment was recorded at 9.0percent in the third quarter of 2011 compared to 9.6percent in the same period in 2010. This improvement is, however, still very small. But if it is sustained, it may have a positive impact on Lesotho's textile sector which depends on the U.S. markets for its exports. Overall, U.S. economic recovery is still fragile and tentative.

7. In the Euro-zone, politics is now about the economy and how to deal with national sovereign debt of many European states such as Greece, Spain, Italy, Portugal and others. The Markets have become jittery at the lack of consensus among EU members on how to bail out some members without changing the Treaty. Nevertheless, growth remains weak, at 1.6percent in 2011 and projected to fall to 1.5percent in 2012. Unemployment, on the other hand, increased from 10percent to 10.2percent in the second quarter of 2011. This may affect Lesotho's diamond exports to Europe as well as investments from Europe. Imports from Europe into SACU may also decline.

8. In emerging markets, growth is expected to remain high in 2012, at 4.1percent in Russia; 9.0percent in China; 7.5percent in India; and 3.6percent in Brazil. Growth of the South African economy, which affects Lesotho greatly, continues to be sluggish at 3.4percent in 2011 and projected at 3.6percent in 2012. Unemployment continues to be worrisome at 25.0percent during the third quarter of 2011. The foreign exchange rate of the Rand to the Dollar, hence Loti, has continued to fluctuate between R7.00 and R8.00 to the dollar, reflecting some inflationary pressures.

9. The uncertain global economic recovery in general will probably affect the financing of our Development Plan. Some of our development partners, such as Ireland and the U.S are going through difficult times and this may affect their new commitments to us. Capital flows from the private sector may also be affected. However, **Lesotho must focus on Public Private Partnerships, building on its successful and innovative PPP Project in building Queen 'Mamohato Memorial Hospital, as an alternative source of financing.** Remittances are likely to remain at the same level as well as employment. Food and fuel commodity prices which have risen sharply this year are likely to affect our import bill. Our mining sector is likely to show strong performance even with the fragile global recovery that is expected in 2012.

Progress and Achievements Towards Vision 2020

10. The global economic and financial crisis of 2008 has had devastating effects on Lesotho's revenues, especially from SACU. It was also difficult for our Development Partners to meet their aid commitments under Gleneagles Agreement, although some have not reduced their aid commitments to Lesotho. Despite this resource constraint, Lesotho has made considerable progress towards the achievement of Vision 2020 – and some of the Millennium Development Goals. Honourable Members will recall that Vision 2020 was launched by His Majesty in 2001.

11. Some of the achievements of Vision 2020 are:
 - The target of US\$600 for Gross National Income for 2010 has been exceeded at US\$1090;
 - Real GDP growth has averaged 3.4percent, close to the target of 3.5percent in 2010;
 - Adult literacy is on target at 85percent in 2010;
 - Trends in access to clean water and sanitation are moving in the right direction, with 77percent of the households having

access to improved water sources and 25percentto improved sanitation;

- The road network and border infrastructure have been considerably improved with road network at approximately 7,500 kms of which 16percent has been paved or tarred;
- Access to electricity has increased from below 17percent to about 24percent of the population;
- Fixed telephone line connections have increased and now stand at 27 lines per 1,000 people while mobile subscribers are at 137 per 1000 people;
- Life expectancy at 40 years in 2010 is close to the target of 45, but will not meet the target of 60 in 2016; and
- Gross savings of 12percent are not likely to be met at 35percent in 2016.

12. With regard to Millennium Development Goals, Lesotho has made remarkable progress despite the dramatic decline in our SACU revenues in 2010/11. For example, by introducing Free Primary Education in 2000, the net enrolment rate increased from 69percent in 1999 to 84percent in 2006 – a massive improvement. This figure, I am sure, has increased further and will definitely do so under the

recently adopted legislation for Compulsory Education. **Lesotho will definitely meet MDG target No.2 of Universal Primary Education.** We are also on target for Goal No.3, **Gender equality and empowerment of women.** We are making slow progress on MDG No.6, Combating HIV and AIDS; No.7 Ensuring environmental sustainability and No.8 Developing a global partnership for Development. We are off track for **eradicating extreme poverty and hunger, reducing child mortality and improving maternal health.**

Madam Speaker

13. We must never, however, **underestimate the fact that considerable progress has been made in other areas such as governance, political stability, expansion of new economic sectors such as mining, manufacturing, trade and tourism** including development of alternative dispute resolution mechanisms. In fact, the Millennium Challenge Corporation of the United States Government, using six scores by Independent Research Institutions, has ranked Lesotho since 2007 above average for all Compact eligible countries in three categories: **Economic Freedom, Investing in People and Ruling Justly. Let us do even better in the years ahead.** We need to celebrate and consolidate these achievements.

Fiscal Strategy for the Next Five Years

14. Fiscal Policy remains a linchpin of economic management in Lesotho. Between 2003/04 and 2008/09 Lesotho experienced fiscal surpluses, driven by large SACU receipts. Instead of using these surpluses to expand public administration and consumption, the Government **adopted a strategy of building reserves and paying off some expensive commercial loans** which had been acquired in the past. This reduced our annual debt service and released resources to finance other development activities.

15. When the financial shock hit in 2008/09 and SACU revenues precipitously declined, Government was able to use its accumulated reserves to finance the deficit and cushion the severity of the austerity programme. **It was this strategy which, coupled with Extended Credit Facility from the International Monetary Fund, enabled Lesotho to come through the crisis relatively unscathed compared to what is going on in the Euro-zone.**

16. During the coming five years, the Government proposes to **rebuild its reserves towards a five months import cover, to pursue fiscal consolidation** as well as to maintain the peg to South African Rand. We will limit budget deficits as a percent of GDP at 3percent, while keeping debt at sustainable levels. The Government will also keep recurrent costs relatively constant in real terms while allowing only increases associated with productive investment. This strategic shift in expenditures will be accompanied by increased efforts in mobilizing domestic revenue; improving efficiency and accountability in the management of public finances; cutting waste and fraud in

Government operations, particularly in the use of government vehicles, local and international subsistence, training and procurement of goods and services. New capital projects will be subjected to strict appraisal criteria to show their relative contributions to **economic growth, employment and income growth**.

The National Strategic Development Plan (NSDP) 2012/13 to 2016/17

17. Let me turn to the long term future of this beautiful land of ours. Last year, I informed this Honourable House that The Right Honourable Prime Minister Dr. Pakalitha Mosisili, had directed me and my hard-working and dedicated team of professionals to prepare a **National Strategic Development Plan**. The Plan was to define an Implementation Strategy to attain Vision 2020. Vision 2020 states that: **“By the year 2020 Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well developed human resource base. Its economy will be strong, its environment well managed and its technology well established”**.

18. The Vision has eight pillars around which actions must be taken by all Basotho together with their Government. The National Strategic Development Plan has merged these pillars into six and set national objectives around them. These are: **Economic growth, peace and democratic governance, infrastructure, technical and vocational**

skills together with innovation, competitiveness and communication technology, quality of health, maternal mortality, HIV and Aids and, reversal of environmental degradation as well as adaptation to climate change.

19. To-day, I am pleased to report that a draft has been produced and discussed extensively at Government level. However, like Vision 2020, it will be made available to the public and development partners for comments, suggestions and corrections before finalization and publication in the next month or so. Such public consultation is essential to ensure **ownership** and full **embodiment** of the aspirations of Basotho. On behalf of Government, I wish to thank all the members of the public who took time to work with our teams and who contributed ideas and suggestions to the Draft.

National Strategic Development Plan objectives

20. The overarching development objective of the National Strategic Development Plan is to **accelerate growth**, to **reduce poverty** and to **create jobs**. Six key pillars around which development will be anchored have been identified. Specifically, Government will:

- **Pursue high shared employment creating and sustainable economic growth.** Poverty has never been reduced in an environment of **stagnant** or **declining** economic growth;
- **Promote peace, democratic governance and effective institutions.** Neither local nor foreign investors have been

known to put their hard-earned money into unstable political and labour environments or where there is no rule of law, personal safety or legal certainty;

- **Develop key infrastructure for creating a minimum platform for production**, including **infrastructure for generating hydro, solar and wind power and for extending fibre optic networks for internet and broadband.**
- **Enhance national technical and vocational skills and institutional foundations for innovation, competitiveness and communication technology.** The cost of internet is unacceptably high and Lesotho is not getting benefits from its investments from under-sea cable through Eassy Cable route.
- **Improve the quality of health; reduce maternal child mortality; combat and prevent spread and new infections of HIV and AIDS; and, reduce social vulnerability, especially for children and old people; and;**
- **Reverse environmental degradation and adapt to climate change. Climate change is a reality.**

Madam Speaker

21. To be successful in implementing these objectives, **national efforts will require strong coordination, partnerships and working together between and among Government and the private sector, including farmers, traders, entrepreneurs, public transport providers, employers, teachers, workers, the self-**

employed, academics, youth and students. Countries that have succeeded in transforming their economies and in reducing poverty in less than fifty years, such as, Botswana, Rwanda, China, Korea, Singapore, etc, show that **political stability, good work ethic, skilled manpower, coordinated policy actions, partnerships and working in harmony with each other, are the key success factors.**

22. The fundamental questions we must ask ourselves as leaders and as individuals are:

Why can't Lesotho, a small culturally homogeneous country that has no ethnic divisions and possesses the highest literacy rate in Africa, transform its economy in less than fifty years?

Why can't Lesotho learn from Botswana or Rwanda that are so close to us?

Madam Speaker,

23. Talking of learning from others, I am reminded of a former Chinese Colleague at the World Bank who once said:

“If you are in a house and want to see what is happening outside, **look through the window and not through the mirror**”.

Perhaps we have looked through the mirror for far too long. **Let us look through the window and learn from others rather than re-invent the wheel ourselves.**

Proposed Budget and Sectoral Allocations for 2012/13

Madam Speaker,

24. Today's Budget represents a transition that paves the way for implementation of the National Strategic Development Plan and its sectoral prioritizations. Some of the current activities will be concluded during the next one or two years and others initiated. This means that Government will have to take a critical look at the contribution to plan implementation of each department and each activity.

Overall Budget Allocations

25. The overall Budget allocations are based on Total Revenue of M13.7 billion higher than 2011/12 revenue by M3.6 billion or 36.2percent. This increase is mainly from SACU from where we received an adjustment of about M900 million against the 2010/11 collections. There is also a projected recovery in SACU revenues from M2.8 billion to M5.0 billion in 2012/13 and M4.7 billion in 2013/14. Domestic tax revenue is also projected to increase from M3.9 billion in 2011/12 to M4.4 billion in 2012/13 and M4.9 billion in 2013/14. Other non-tax revenues do not show very significant collection by most ministries and departments. Their increase is expected to range from M720 million in

2011/12, M819 million in 2012/13 to M900 million in 2013/14. More focus will have to be given to this category of revenue in the future.

26. Total expenditure to be financed by the above revenue including grants by Development Partners and loans is proposed at M13.9 billion leading to 0.9percent deficit as a percent of GDP. This deficit is a substantial decline from the 17percent of GDP that was budgeted in 2011/12. The decline is explained by the unanticipated adjustment in SACU revenue and the projected import recovery into the Customs area. The absorptive capacity of line Ministries has also contributed to the decline in deficit.

27. Recurrent budget expenditures are proposed at M8.4 billion and Capital at M5.4 billion leading to an overall increase of M713.2 million or 5.4percent increase. The Government fiscal strategy is to rebuild reserves in the next two years and to keep recurrent costs relatively constant in real terms except those associated with investments in productive sectors. In addition, the Government will allocate an increasing amount of resources to Capital Budget which is where growth and employment come from. Finally, the Government will put more effort in mobilizing domestic revenues and, in so far as external support is concerned, it will seek first, grants, second, soft loans and as a last resort commercial loans. The deficit will be limited to 3 percent of GDP while ensuring a steady growth in international reserves.

Sectoral Allocation of the Proposed Budget National Road Networks

28. Let me turn to allocations to some of the sectors. The Ministry of Public Works and Transport is primarily responsible for developing a national road network that links the whole country together including inter-urban roads, bridges and footbridges. The Ministry of Local Government and the Councils are responsible for upgrading and bituminizing urban roads, bus terminals as well as constructing hard gravel roads that link communities within the districts. M295 million has been allocated for urban roads upgrading and M180 million for development of roads in rural communities. A total of M834 million has been allocated to the Ministry of Public Works and Transport to start work on the Mokhotlong-Sani Pass Road and to continue construction of the Oxbow-Mokhotlong Road, Roma-Ramabanta-Sekake Road, Koma-Koma Bridge and computerization of the Traffic Department. The Ministry will also streamline, in cooperation with LRA, Interpol and CID, the long customer insensitive procedures for registering new vehicles and renewing licences such as Drivers' Licences. Feasibility studies for upgrading and rehabilitating Moshoeshe I International Airport as well as Maseru Container Terminal are about to start. Particular attention will also be paid to the maintenance of the 7,500 km road network under the Ministry of Public Works and Transport.

Madam Speaker,

Environmental Services

29. Lesotho is facing a serious environmental challenge that is caused by individuals and businesses who throw their litters of beer cans, liquors and wine bottles and plastics along our roads and rivers. These pollute the underground waters that we drink. This litter also flows into the water that our animals drink from the rivers. In addition, there is increasing number of “scrap cars” that have been imported into the country but have no spare parts available. They cannot be repaired. They also pollute our underground water through rust that seeps into the ground. These two are challenges that both the Government and the private sector must give serious thought to. We have a small country and we must prepare to leave its clean environment for future generations.

30. To deal with other urban waste, the Ministry of Local Government and Chieftainship Affairs together with the Ministry of Finance and Development Planning are looking into the technical and financial options for establishing a **large Integrated Waste Treatment and Incineration Plant** to dispose solid waste and textile dye sludge in the City of Maseru. This is a complex industrial project that requires complex, specialised technical skills and technology to build, install, operate and maintain.

Water Resources

31. Last year I said that “**water is life**”. That is why the Government and its Development Partners have accorded top priority to its conservation, harnessing, distribution and recycling. In this context, I am happy to report that the Government of the Republic of South Africa and the Kingdom of Lesotho have concluded an Agreement to develop Phase II of the Lesotho Highlands Water Project at Polihali in the Mokhotlong district. Detailed feasibility studies are proceeding. Construction of Metolong Dam and Water Supply Project to which over M1.6 billion has been allocated for this is in full throttle. The Government of Lesotho would like to express its profound appreciation to the following Development Partners for their contribution to the realization of Metolong Water Supply Project: European Investment Bank, Republic of South Africa, Arab Bank for African Economic Development, OPEC Fund for International Development, Kuwait Fund, the Millennium Challenge Corporation (MCC), Abu Dhabi Fund and Saudi Fund.
32. Continuing allocations at the rate of M50 million a year, have been provided for the development of Village and Rural Water Supply Programme. This is also being supported by Irish Aid, European Development Fund, World Bank and MCC.
33. Other important projects under the Ministry of Natural Resources include the Maseru Peri-Urban Water Supply Phase I, Five Towns

Water and Sanitation, Wetlands Restoration and Rehabilitation and Rural Electrification Programme.

Energy

34. Lesotho produces most of its electricity requirements. But this has to be supplemented by imports from Mozambique through the SADC Power Pool. There are opportunities to develop more than 1,000 MW through Pump Storage Hydro Power Generating on the LHDA Katse Dam (Kobong). Detailed feasibility is being undertaken including development of a Power Purchase Agreement with members of the SADC Power Pool. Government is also exploring a possible joint venture with private power companies using its assets at 'Muela Power Station as equity.

Transport

35. Accelerated economic development depends on the speed, efficiency and capacity of various modes of transport – air, rail, trucking, passenger and private. The Government strategy, working with private operators, is to develop efficient integrated transport systems, by building, upgrading and maintaining national roads networks and promoting proper use and safety on these networks. The number of lives lost and vehicles damaged on our roads each year is unacceptably high. In almost all these accidents, alcohol and bad driving habits are involved. Instead of cherishing their passengers, many public transport drivers abuse and endanger the lives of their

passengers. In this coming year, the Government plans to review the **Motor Vehicle Insurance Act and related provisions.**

Information Communication Technology Infrastructure

36. The main focus for the Government in this sector is to prepare the country and its young people for the information, internet and broadband age by developing in partnership with the private sector the backbone fibre optic infrastructure that will facilitate high speed and affordable internet and broadband throughout the country. This will enable many schools, health clinics and communities to be connected. Priority will be given to migrating from analogue to digital transmission and to enhancing the utilization of Government e-platform and security protection.

Manufacturing

37. The manufacturing sector, particularly textile manufacturing, has been the main contributor to employment. Employment in the sector grew from 39, 762 in 2005 to 45,262 in 2008, fluctuating around an average of 43,000 in 2010. Its contribution to GDP was as high as 21 percent in the early 1990s but declined to around 17 percent at the start of the global economic crisis that affected demand in the United States and the **growing of the mining sector in Lesotho.** The sector is, however, severely affected by inadequate industrial infrastructure, long lead times required for exporting; erosion of preferences overtime, insufficient backward and forward integration;

limited product and market diversification. It is also constrained by lack of technical, marketing and financial skills. The medium-term objectives in the sector will be to rebuild Lesotho as a **textile hub and to increase textile and clothing exports, while diversifying the manufacturing industry by developing industrial clusters in areas such as wool and mohair, leather, food and jewellery**. To accommodate new industries, industrial infrastructure will be expanded and efforts will be made to expand local participation in manufacturing by providing information on manufacturing opportunities and markets; capacity building to facilitate access to the necessary technical advice and support in industrial engineering and technology advancements. An allocation of M104 million in 2012/13 has been made to support construction of factory shells for local entrepreneurs, establishment of a skills training centre, improving business climate and promotion of a fabric mill to anchor the textile sector as well as value chain in agro-industries.

Agriculture and Food Security

38. The contribution of agriculture to GDP has declined over time from around 20 percent in the past 10 years to around 7 percent in recent years, even though it remains an important sector for rural employment and income generation. Agriculture remains key in providing inputs to manufacturing sector including Agro-industries, such as the cannery which has collapsed as a result of failure by the agriculture sector to provide the necessary inputs to keep the industries running. Output potential in the sector can be achieved by

promoting commercialization, diversification, effective management of risks and building effective institutions. The medium-term strategy will be geared towards boosting growth and employment in the sector through the promotion of commercialization, diversification and efficiency and expansion of irrigation in partnership with the private land owners and private business. **Household food security will be improved through the promotion of conservation farming, community gardens, farm level processing and other traditional systems.** Agricultural institutions will be resuscitated and transformed to encourage youth participation in agriculture and agri-business and better organization of the farming community. To kick-start agricultural production, an initial allocation of M61.7 million has been made for 2012/13, which will support the rehabilitation of existing irrigation schemes, farmer training centres, woolsheds and the recapitalization of the Lesotho Agricultural College.

Tourism

39. The tourism sector has a large potential to contribute to employment and income generation. The key to unlocking this potential is to develop a comprehensive strategic plan including establishment of an effective and dynamic research, management and marketing organization that can promote and market Lesotho and its assets regionally and internationally; promote development and investment in adventure, resort, sport, historical and cultural facilities that can attract and retain, as long as possible, regional and international visitors. As a first step in formulating such a strategy, the Ministry

has just finished an inventory of all its properties and is reviewing all the agreements for managing them. It has also asked for technical assistance from a large and successful Irish Organization, Shannon Development Corporation; that has managed the transformation of Shannon International Airport when trans-atlantic flights could no longer land there.

40. The Ministry has also reached agreement with the Free State Provincial Government about developing joint tourist circuits, promotions and development of historical and cultural activities. It is expected, that these activities will increase tourists arrivals from 343,743 in 2008 to at least 500,000. Initially M23.4 million has been allocated for building information centres while a detailed plan is being developed.

Mining

41. The diamond mining industry has experienced strong growth over the last decade: its share of GDP increased from 0.2 percent in 2000 to 7.0 percent in 2010. Substantial expansions in operations are expected in the coming years with investment outlay of around M4.5 billion. The contribution of mining to employment generation is limited, due to the capital intensive nature of the industry. Mineral resources are finite and due consideration of economic, social, environmental and technical factors remains critical. Therefore supporting policies and legal frameworks need to be updated. To reap the largest benefits from the mining sector, some legislative

reforms would need to be instituted, which will include the revision of the mining code, development of appropriate policy and adaption of these to best international practices. With the assistance of our Development Partners, we expect to undertake a comprehensive geological survey that will assist the Government in updating the inventory of Lesotho's natural resources endowment.

42. The Government has also initiated development of jewellery manufacturing in Maseru. In November 2010, Government commissioned a feasibility study into the establishment of a Jewellery Manufacturing and Diamond Centre in Maseru. The centre is intended to expand from few select core businesses, all of which need to be value addition companies that could compete in the international market, promote joint ventures with existing foreign jewellery businesses, produce quality finished and semi-finished exportable products, institute intensive training programs and create sustainable jobs. I am happy to report that the centre is due to start its operations on the 1st of February, 2012.

Social Sector

43. The positive impact of investment in physical infrastructure on growth can only be achieved through a combination of investment in human resources development, in the form of appropriate skills and healthy lives. The social sector is, therefore, necessary for the attainment of the desired growth and employment.

Education

44. Though labour is abundant and literacy rates are high at 85 percent in Lesotho, there is relatively low productivity due to limited technical skills for performing skilled blue-collar jobs in the leading sectors. The medium-term strategy will be to improve the relevance and applicability of skills by preparing, reforming curricula in consultation with the private sector, expanding and upgrading Technical, Vocational education and Training (TVET) institutions, and transforming education and skills development institutions to become world class in selected areas. In addition, existing institutions will be encouraged to focus on excellence in Mathematics and Science, ICT, business and entrepreneurship. The allocations have been provided in the recurrent budget to support, among others, Free Education Programme and improvement of salaries and working conditions for teachers.

National Manpower Loan Bursaries

45. In the past, the Government has provided full loan bursaries to students who passed and were admitted into universities that offered courses which support the priority areas for generating growth and employment. In recent years, however, more students than Government can afford to sponsor have passed and been admitted to Universities in the priority fields of studies. Consequently, a large number of qualified students have not been sponsored. NMDS has been allocated M713.1 million for 2012/13, the same as last year. In

the coming year, Government and parents must engage in serious debates on whether or not parents should contribute something towards the education of their children except for orphans and those who are indigent. This is a challenge that we must face.

Health

Madam Speaker

46. The quality of health for any nation is very important. Healthy children grow to be healthy learners and good and productive workers. This is why the Government has invested so heavily in health, education and training. Yet the challenges remain. As I have noted, our indicators for maternal child mortality and child healthcare are not moving in the right direction. Progress on stopping and reversing HIV and AIDS is slow despite stepped up care and treatment and prevention of transmission from mother to child and control of TB.

47. While new and refurbished clinics and a new Queen 'Mamohato Memorial Hospital are important and must be built, the effective treatment, care and immunization services depend critically on available personnel, their organization and management as well as the timely availability of drugs and dressings. The Government intends to examine these soft issues in the healthcare system with a clear focus on **results and deliverables**. In the meantime, M655 million has been allocated in the budget for development of

healthcare infrastructure, immunization and TB control. M175.7 million has been allocated for the purchase and distribution of drugs which will also be subjected to monitoring and evaluation.

Security and Law Enforcement Organs

48. Effective law and order, security and justice are essential preconditions for political stability and for local and foreign investment. The protection of assets of Basotho and foreigners are critical in the fight against poverty and loss of income. Improving the effectiveness of our Police Service, therefore, remains critical if the economy is to grow and remain stable. Over the next three years, Government plans to allocate M150 million to the Police Service for the construction of housing and refurbishment of offices across the country. Providing adequate facilities and equipment will ease the burden of service delivery by the Police.

49. The security features of Lesotho passports have remained a concern for some years. This has rendered international travel difficult for Basotho, even to those countries where traditionally there were no visa requirements. Furthermore, the proliferation of illegal passports makes it difficult to use these passports as an authentic means of identification. The Government, therefore, intends to introduce a new passport with multiple and enhanced security features that will aid in preventing any efforts and attempts of forgery. In addition, biometric data will be collected and computerized for use in the issuance of the new passports. This will help avoid multiple

issuances of passports to the same individuals. The same data will also assist in the introduction of identity cards which will be used in financial transaction by commercial banks.

50. It was to facilitate these initiatives that Data Protection and Credit Bill were passed by this Parliament. To enable the Ministry of Home Affairs to start on the above initiatives, M108 million has been allocated for identity cards and e-passports.

Financial Sector

51. In the Financial Sector, the Central Bank of Lesotho (CBL) has continued its efforts to undertake financial sector reforms with a view to ensuring a sound and efficient financial sector. One major reform that has marked an important milestone was the review of the Financial Institutions Act (FIA). The new Financial Institutions Act was passed by Parliament in 2011, and is intended to address illegal deposit-taking, corporate governance, regulation of non-bank financial institutions and large financial cooperatives. The new Act coupled with Anti-money Laundering and Financial Intelligence Unit will help avoid Ponzi schemes.
52. The challenge to our commercial banks is that while they have large liquid funds derived from deposits, on the other hand, there is increasing public demand for loans. But, the high cost of loan origination, balance enquiries and cash deposits (even for businesses that operate only in cash) discourages the use of

banking by most of the currently unbanked. I want to appeal to the commercial banks to review their fees and charges relative to the interest rates they charge and risk profiles of customers. Clearly, these charges undermine government policies to encourage public to put their money in commercial banks.

Partial Credit Guarantee Fund

53. At the presentation of last year's Budget, I was authorized by this House to set aside M50 million to support Small, Micro and Medium Scale enterprises. This initiative was particularly intended to address the pressing issue of youth unemployment. I am pleased to announce that a **Partial Credit Guarantee Fund (PCGF)** has been established to provide part of the collateral for new and existing SMMEs to access credit from local commercial banks. The Fund will be operated through the banks. Government is finalizing the precise risk sharing figures with the banks. I should again impress upon those that will use this facility to honour their obligations to repay the loans so that these funds can reach as many potential entrepreneurs as possible. More information will be available in the media and from the Ministries of Tourism and Culture, Trade and Industry, Gender and Youth.

Independent Electoral Commission

Madam Speaker

54. I need not remind the Honourable Members that this is the National Election Year. The Independent Electoral Commission is ready to deliver an efficiently run and fair Election. They will be supported in this National endeavour by Political Parties, Lesotho Defence Force, the Police, the media, the Monitors, Observers and all their experts. M51 Million has been set aside for this national project. We wish them every success because their success is our success and pride.

Tax Relief for Low Income Earners

Madam Speaker,

55. I cannot conclude this address without dealing with tax and salary adjustments. In the past years, we did not adjust the income level at which people start paying income tax or PAYE. This was due to the difficult economic and financial circumstances which the country faced. From my preceding statements, it is clear that the economy is beginning to recover and the Government's fiscal strategy is broadly working. We must, therefore, look at how to provide relief for those low income earners, whose purchasing power has been eroded by inflation. In addition to inflation, the low-income earners have also been affected by annual salary adjustments which have put them into higher income tax brackets.

56. To give relief to these people, the Government proposes to increase the tax credit from M5, 000 to M5, 755 and the threshold from which a person will start paying tax from M22, 788 to M26, 160. **This means that all those people who earn less than M26, 160 per annum will not have to pay PAYE.**
57. At present, the people whose annual incomes are between M22, 788 and M40,368 pay income tax at the rate of 22percent. The range will be increased to M26,160 and M48,744 per annum.
58. The minimum turnover that businesses have to register for VAT has remained at M500,000 since 2003/04. I propose that this turnover threshold be increased to M850,000. This will relieve some small businesses from the burden of having to comply at M500,000 which, due to inflation, is easily reached. Also on VAT, I wish to recognize the burden which our cross border shoppers also incur. The VAT exemption threshold for these shoppers was also set in 2003/04 at M150.00. I propose that this VAT exemption be raised to M250.00.
59. Finally on VAT, I wish to appeal to all business and cross border shoppers to produce and hand over to LRA border staff **valid tax invoices and receipts from South Africa**. These are used by **LRA to claim VAT that has been paid in South Africa from SARS and not to tax you**. These VAT reimbursements are an arrangement which the Government of South Africa and ourselves have reached.

60. For some time now retirees have complained about the tax levied on their **terminal benefits**. The Government has decided to eliminate **tax on the lump-sum element of the terminal benefits – capped at 25 percent**.
61. **These tax proposals will be** effective in the next Fiscal Year.

Salary Adjustment for Public Servants

62. This year the Government has struggled with the meaning of public service relative to remuneration of private sector. Of course, the issue has been debated for years by many governments in developed and developing countries. It was recognized that Public Servants receive remuneration of the taxes paid by the public, some of whom are very poor indeed. It is recognized that the salaries of public servants cannot be compared to those in the private sector where salaries are paid according to the productivity of workers or their contribution to the profitability of the company.
63. The above debate, notwithstanding, the Government recognizes that public servants deserve a decent remuneration even when public revenues are under a squeeze. The Government also recognizes that when sacrifices have to be made in public remuneration, those in positions of leadership and those who earn more than others must make bigger sacrifices.

64. It was against this debate that Government decided that this year
- i) Ministers and Deputy Ministers;
 - ii) Members of the National Assembly;
 - iii) Senators;
 - iv) Statutory Officers;
 - v) Government Secretary, Principal Secretaries;
 - vi) Clerks to the Senate and the National Assembly;
 - and vii) others in similar categories should forego their increase in favour of a 3percent salary adjustment for the rest of the public servants who earn below them.

Old Age Pension

65. In 2004 our senior citizens aged 70 years and above were given a pension to help them purchase medications, buy some essentials and, in many cases support orphans whose parents have died from, among others, HIV and AIDS. This monthly allowance currently stands at M300 per month. In the same spirit that characterized the proposal on public servants, the Government proposes that the Old Age Pension be raised by M50 to M350 per month effective 1st April 2012.
66. The Government also proposes that no persons should draw two pensions from the Consolidated Fund. The recipient must choose one pension which is the larger of the two.

Appreciation to Development Partners

Madam Speaker

67. On behalf of the Government of Lesotho, I wish to express our profound appreciation for the support which Lesotho received in this difficult time. We recognize your countries are going through painful recovery from natural disasters, budget and social security cuts. This, notwithstanding, you have maintained your commitments to Lesotho. We greatly appreciate this act of solidarity with those who are not as fortunate as you

Conclusion

68. Since 1998 Lesotho has made considerable progress in achieving peace, reconciliation, democratic governance and the rule of law. To-day I have laid before this Honourable House some of the key achievements that this House and the Government have made in the economic and financial fields despite the tough times that the world and Lesotho in particular has gone through. These are collective achievements that we must celebrate.
69. The challenge that remains for those who come after us is to build on these successes and to consolidate resilience fundamentals for fiscal policy and management. This will help us navigate our way

through tough global economic and financial challenges where
Politics is now about economics.

70. For me, looking ahead Lesotho faces two challenges:

- Sustaining economic growth and creating jobs; and
- Creating national economic competitiveness which flows from scientific engineering, bio-medical and information communication technology and strong institutions with flexible labour markets.

71. Technology will enable our children to use new ways and new materials to produce new products that are needed by someone somewhere in the world. In terms of institutions Lesotho will need to create **locally relevant but globally engaged** institutions of governance and regulation.

72. In an environment of limited public resources, **Public-Private** Partnerships offer financing opportunities in which the state provides political and legal predictability while the private sector provides technical and financial support as well as risk management.

Acknowledgements

Madam Speaker,

73. I am very indebted to my people for the production of these ten Budgets. There are too many to mention, but allow me to mention a few.
74. First, my appreciation and profound thanks go to my staff in the Ministry of Finance and Development Planning who spent sleepless nights working with me to put the Budget together and to ensure that it is entered in the system. I will always remember your dedication, professionalism and sense of humour even when some of you were about to go to labour rooms in the middle of the work.
75. To the Honourable Deputy Prime Minister and Chair of the Budget Committee, I say thank you, Ntate, for your patience and guidance to the Committee when consensus was almost impossible. To my Colleagues in the Committee, thank you for your hard work and for putting the interests of the country before those of your own Ministries. It was a pleasure to work with you.
76. To The Right Honourable Prime Minister, thank you for giving me the honour to serve my people from this unique vantage point. I will always be grateful.

77. To you Madam Speaker, I wish to thank you for guiding this process of Budget presentation with dignity and décor.
78. Last but not least, I thank my wife and family who have had to put up with my absences and frustration.
79. Finally, to all Basotho everywhere, let us make our country truly the best in the world.

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Annex 1

GOVERNMENT BUDGET OPERATIONS FOR THE FISCAL YEAR 2012/2013 - 2014/2015						
Budget Item	Outturn 2010/11	Budget 2011/12	Projected Outturn 2011/12	Budget 2012/13	Budget 2013/14	Budget 2014/15
REVENUE	8,559.4	10,038.3	9,235.4	13,676.3	13,041.6	13,151.9
Tax revenue	3,499.1	3,952.6	3,855.4	4,412.9	4,878.3	5,341.9
Taxes on income, profits, and capital gains	1,957.1	2,212.5	2,281.5	2,560.1	2,881.0	3,112.2
Income tax - payable by individuals	1,164.0	1,322.1	1,421.7	1,595.5	1,755.4	1,899.7
Income tax - payable by corporations and other enterprises	467.5	480.3	476.5	529.8	621.3	661.5
Income tax - unallocable	325.6	410.1	383.3	434.7	504.3	551.1
Taxes on property	105.5	106.1	137.9	141.8	143.8	166.6
Taxes on goods and services	1,414.3	1,600.7	1,369.1	1,520.9	1,646.8	1,733.6
Value-added tax	1,276.4	1,435.0	1,271.7	1,401.7	1,520.3	1,589.5
Excise taxes	112.6	152.2	92.1	105.8	112.7	129.8
Taxes on specific services	20.3	8.4	0.5	7.9	8.4	9.1
Taxes on the use of goods and on permission to use or perform activities	5.1	5.0	4.9	5.5	5.4	5.2
Taxes on international trade and transactions	18.2	30.8	63.4	186.1	202.7	326.3
Other taxes	4.0	2.4	3.5	4.1	4.0	3.3
Grants	1,200.1	2,414.5	1,584.9	2,189.8	1,545.8	1,060.4
Other revenue	1,232.3	918.6	1,042.5	1,107.3	1,161.2	1,318.1
Property income	652.1	196.3	440.0	436.8	464.6	575.1
Interest	7.5	7.5	5.3	7.6	7.6	7.1
Dividends	560.0	185.4	332.9	370.6	387.3	485.2
Rent	84.6	3.4	101.9	58.6	69.7	82.8
Sales of goods and services	530.6	670.2	571.0	621.6	651.3	697.2
Electricity Muela	56.4	118.2	66.0	75.8	80.7	93.0
Water Royalties - LHDA	432.2	463.3	447.7	480.0	500.5	523.4
Administrative fees	12.4	34.0	16.5	18.9	20.2	23.2
Incidental sales by nonmarket establishments	29.7	54.7	40.9	46.9	50.0	57.6
Fines & forfeits	1.2	7.4	0.2	0.2	0.2	0.2
Miscellaneous and unidentified revenue	48.4	44.7	31.3	48.7	45.0	45.6
SACU	2,627.9	2,752.6	2,752.6	5,966.3	5,456.4	5,431.4
EXPENSE (Recurrent Budget)	-6,506.9	-8,008.8	-7,486.1	-8,431.7	-8,779.3	-9,246.7
Compensation of Employees	-3,026.4	-3,632.5	-3,336.3	-3,815.6	-3,990.8	-4,227.7
Wages and salaries	-2,708.4	-3,154.1	-2,890.6	-3,325.6	-3,445.6	-3,647.5
Employer contributions	-318.1	-478.4	-445.7	-490.0	-545.1	-580.2
Use of goods and services	-1,448.5	-1,864.6	-1,468.8	-2,160.7	-2,265.6	-2,376.7
Interest Payments	-96.0	-240.5	-151.3	-223.3	-244.6	-281.3
Nonresidents	-52.8	-73.7	-74.7	-90.4	-92.7	-92.4
Residents other than general government	-43.2	-166.8	-76.5	-132.9	-151.9	-189.0
Subsidies	-216.4	-95.8	-249.6	-268.9	-241.7	-249.6
Grants	-505.1	-574.2	-897.6	-566.8	-592.8	-620.2
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	-13.4	-19.6	-11.2	-34.3	-35.8	-37.5
Extra Budgetary Units	-301.5	-368.6	-668.8	-327.2	-342.2	-358.0
Local Government	-190.2	-185.9	-217.7	-205.4	-214.8	-224.7
Social benefits	-590.9	-604.8	-559.4	-676.0	-690.5	-704.9
Other expense	-623.6	-996.4	-822.9	-720.4	-753.3	-786.3
Student Grants	-596.1	-717.5	-795.1	-694.7	-726.6	-760.1
Other expense	-27.5	-278.9	-27.8	-25.7	-26.7	-26.2
NON FINANCIAL ASSETS (Recurrent Budget)	-34.3	-32.7	-24.5	-42.4	-42.4	-42.4
Capital Budget	-2,839.8	-5,116.1	-3,953.4	-5,396.7	-4,548.7	-3,727.0
GoL	-1,884.1	-2,022.0	-2,072.0	-2,427.3	-2,215.8	-2,318.1
Donor Grants	-828.0	-2,324.5	-1,372.1	-1,889.8	-1,245.8	-940.4
Donor Loans	-127.7	-769.6	-509.3	-1,079.5	-1,087.2	-468.5
Total Expenditure	-9,381.0	-13,157.6	-11,463.9	-13,870.8	-13,370.4	-13,016.1
CASH SURPLUS / DEFICIT	-821.6	-3,119.3	-2,228.5	-194.4	-328.8	135.8
% GDP	-5.0%	-17.2%	-12.3%	-0.9%	-1.5%	0.5%
GDP	16,310.3	18,136.3	18,136.3	20,558.5	21,888.7	24,886.6
NET CASH INFLOW FROM FINANCING ACTIVITIES	1204.3	2712.3	2228.6	194.5	328.9	-135.7
FINANCIAL ASSETS	1244.0	1457.0	1171.7	-944.1	-535.4	-331.1
Domestic	1,244.0	1,457.0	1,171.7	-935.3	-532.9	-328.7
Foreign	0.0	0.0	0.0	0.0	0.0	0.0
Capital Subscriptions	0.0	0.0	0.0	-8.8	-2.5	-2.4
LIABILITIES	-39.7	1,255.2	1,057.0	1,138.7	864.3	195.4
Domestic	-205.0	500.0	588.8	321.1	62.3	-5.3
Securities	143.3	500.0	273.3	227.3	0.4	-5.3
Loans	-348.3	0.0	315.5	93.8	61.9	0.0
of which Pension Liabilities	-250.0	0.0	0.0	-30.0	0.0	0.0
Foreign	165.3	755.2	468.2	817.6	802.0	200.6
Loans	165.3	755.2	468.2	817.6	802.0	200.6
Disbursements	365.7	1,040.0	645.7	1,079.5	1,087.2	468.5
Repayments	-200.4	-284.7	-177.6	-262.0	-285.2	-267.9
<i>Statistical Discrepancy</i>	<i>382.8</i>	<i>-407.0</i>	<i>0.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Months of Import Coverage (b)	4.3		3.6	3.5	3.5	3.7

Notes: (a) Captured by other categories of taxation in previous classification methodology.

(b) Calculated as Foreign Assets of CBL divided by one twelfth of same year imports

Annex 2

REVENUES AND EXPENDITURES AS % GDP FOR FISCAL YEARS 2012/2013 - 2014/2015						
Budget Item	Outturn 2010/11	Budget 2011/12	Projected Outturn 2011/12	Budget 2012/13	Budget 2013/14	Budget 2014/15
REVENUE	52.5	55.3	50.9	66.5	59.6	52.8
Tax revenue	21.5	21.8	21.3	21.5	22.3	21.5
Taxes on income, profits, and capital gains	12.0	12.2	12.6	12.5	13.2	12.5
Income tax - payable by individuals	7.1	7.3	7.8	7.8	8.0	7.6
Income tax - payable by corporations and other enterprises	2.9	2.6	2.6	2.6	2.8	2.7
Income tax - unallocable	2.0	2.3	2.1	2.1	2.3	2.2
Taxes on property	0.6	0.6	0.8	0.7	0.7	0.7
Taxes on goods and services	8.7	8.8	7.5	7.4	7.5	7.0
Value-added tax	7.8	7.9	7.0	6.8	6.9	6.4
Excise taxes	0.7	0.8	0.5	0.5	0.5	0.5
Taxes on specific services	0.1	0.0	0.0	0.0	0.0	0.0
Taxes on the use of goods and on permission to use or perform activities	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on international trade and transactions	0.1	0.2	0.3	0.9	0.9	1.3
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0
Grants	7.4	13.3	8.7	10.7	7.1	4.3
Other revenue	7.6	5.1	5.7	5.4	5.3	5.3
Property income	4.0	1.1	2.4	2.1	2.1	2.3
Interest	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	3.4	1.0	1.8	1.8	1.8	1.9
Rent	0.5	0.0	0.6	0.3	0.3	0.3
Sales of goods and services	3.3	3.7	3.1	3.0	3.0	2.8
Electricity Muela	0.3	0.7	0.4	0.4	0.4	0.4
Water Royalties - LHDA	2.6	2.6	2.5	2.3	2.3	2.1
Administrative fees	0.1	0.2	0.1	0.1	0.1	0.1
Incidental sales by nonmarket establishments	0.2	0.3	0.2	0.2	0.2	0.2
Fines & forfeits	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous and unidentified revenue	0.3	0.2	0.2	0.2	0.2	0.2
SACU	16.1	15.2	15.2	29.0	24.9	21.8
EXPENSE (Recurrent Budget)	-39.9	-44.2	-41.3	-41.0	-40.1	-37.2
Compensation of Employees	-18.6	-20.0	-18.4	-18.6	-18.2	-17.0
Wages and salaries	-16.6	-17.4	-15.9	-16.2	-15.7	-14.7
Employer contributions	-2.0	-2.6	-2.5	-2.4	-2.5	-2.3
Use of goods and services	-8.9	-10.3	-8.1	-10.5	-10.4	-9.6
Interest Payments	-0.6	-1.3	-0.8	-1.1	-1.1	-1.1
Nonresidents	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
Residents other than general government	-0.3	-0.9	-0.4	-0.6	-0.7	-0.8
Subsidies	-1.3	-0.5	-1.4	-1.3	-1.1	-1.0
Grants	-3.1	-3.2	-4.9	-2.8	-2.7	-2.5
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Extra Budgetary Units	-1.8	-2.0	-3.7	-1.6	-1.6	-1.4
Local Government	-1.2	-1.0	-1.2	-1.0	-1.0	-0.9
Social benefits	-3.6	-3.3	-3.1	-3.3	-3.2	-2.8
Other expense	-3.8	-5.5	-4.5	-3.5	-3.4	-3.2
Student Grants	-3.7	-4.0	-4.4	-3.4	-3.3	-3.1
Other expense	-0.2	-1.5	-0.2	-0.1	-0.1	-0.1
NON FINANCIAL ASSETS (Recurrent Budget)	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2
Capital Budget	-17.4	-28.2	-21.8	-26.3	-20.8	-15.0
GoL	-11.6	-11.1	-11.4	-11.8	-10.1	-9.3
Donor Grants	-5.1	-12.8	-7.6	-9.2	-5.7	-3.8
Donor Loans	-0.8	-4.2	-2.8	-5.3	-5.0	-1.9
Total Expenditure	-57.5	-72.5	-63.2	-67.5	-61.1	-52.3
CASH SURPLUS / DEFICIT	-821.6	-3,119.3	-2,228.5	-194.4	-328.8	135.8
% GDP	-5.0%	-17.2%	-12.3%	-0.9%	-1.5%	0.5%
GDP	16,310.3	18,136.3	18,136.3	20,558.5	21,888.7	24,886.6
NET CASH INFLOW FROM FINANCING ACTIVITIES	7.4	15.0	12.3	0.9	1.5	-0.5
FINANCIAL ASSETS	7.6	8.0	6.5	-4.6	-2.4	-1.3
Domestic	7.6	8.0	6.5	-4.5	-2.4	-1.3
Foreign	0.0	0.0	0.0	0.0	0.0	0.0
Capital Subscriptions	0.0	0.0	0.0	0.0	0.0	0.0
LIABILITIES	-0.2	6.9	5.8	5.5	3.9	0.8
Domestic	-1.3	2.8	3.2	1.6	0.3	0.0
Securities	0.9	2.8	1.5	1.1	0.0	0.0
Loans	-2.1	0.0	1.7	0.5	0.3	0.0
of which Pension Liabilities	-1.5	0.0	0.0	-0.1	0.0	0.0
Foreign	1.0	4.2	2.6	4.0	3.7	0.8
Loans	1.0	4.2	2.6	4.0	3.7	0.8
Disbursements	2.2	5.7	3.6	5.3	5.0	1.9
Repayments	-1.2	-1.6	-1.0	-1.3	-1.3	-1.1
<i>Statistical Discrepancy</i>	<i>2.3</i>	<i>-2.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Months of Import Coverage						

Notes: (a) Captured by other categories of taxation in previous classification methodology.

Annex 3

ANNUAL % CHANGE IN REVENUES AND EXPENDITURES			
Budget Item	Budget 2011/12	Budget 2012/13	% Change
REVENUE	10,038.3	13,676.3	36.2
Tax revenue	3,952.6	4,412.9	11.6
Taxes on income, profits, and capital gains	2,212.5	2,560.1	15.7
Income tax - payable by individuals	1,322.1	1,595.5	20.7
Income tax - payable by corporations and other enterprises	480.3	529.8	10.3
Income tax - unallocable	410.1	434.7	6.0
Taxes on property	106.1	141.8	33.6
Taxes on goods and services	1,600.7	1,520.9	-5.0
Value-added tax	1,435.0	1,401.7	-2.3
Excise taxes	152.2	105.8	-30.5
Taxes on specific services	8.4	7.9	-6.0
Taxes on the use of goods and on permission to use or perform activities	5.0	5.5	9.1
Taxes on international trade and transactions	30.8	186.1	505.0
Other taxes	2.4	4.1	69.0
Grants	2,414.5	2,189.8	-9.3
Other revenue	918.6	1,107.3	20.5
Property income	196.3	436.8	122.5
Interest	7.5	7.6	0.6
Dividends	185.4	370.6	99.9
Rent	3.4	58.6	1638.7
Sales of goods and services	670.2	621.6	-7.2
Electricity Muela	118.2	75.8	-35.9
Water Royalties - LHDA	463.3	480.0	3.6
Administrative fees	34.0	18.9	-44.2
Incidental sales by nonmarket establishments	54.7	46.9	-14.3
Fines & forfeits	7.4	0.2	-97.8
Miscellaneous and unidentified revenue	44.7	48.7	8.8
SACU	2,752.6	5,966.3	116.7
EXPENSE	-8,008.8	-8,431.7	5.3
Compensation of Employees	-3,632.5	-3,815.6	5.0
Wages and salaries	-3,154.1	-3,325.6	5.4
Employer contributions	-478.4	-490.0	2.4
Use of goods and services	-1,864.6	-2,160.7	15.9
Interest Payments	-240.5	-223.3	-7.1
Nonresidents	-73.7	-90.4	22.6
Residents other than general government	-166.8	-132.9	-20.3
Subsidies	-95.8	-268.9	180.8
Grants	-574.2	-566.8	-1.3
To foreign governments	0.0	0.0	
To international organizations	-19.6	-34.3	74.7
Extra Budgetary Units	-368.6	-327.2	-11.3
Local Government	-185.9	-205.4	10.5
Social benefits	-604.8	-676.0	11.8
Other expense	-996.4	-720.4	-27.7
Student Grants	-717.5	-694.7	-3.2
Other expense	-278.9	-25.7	-90.8
Capital Budget	-5,116.1	-5,396.7	5.5
GoL	-2,022.0	-2,427.3	20.0
Donor Grants	-2,324.5	-1,889.8	-18.7
Donor Loans	-769.6	-1,079.5	40.3
Total Expenditure	-13,157.6	-13,870.8	5.4
CASH SURPLUS / DEFICIT	-3,119.3	-194.4	
% GDP	-17.2%	-0.9%	
GDP	18,136.3	20,558.5	

Annex 4
2011/12

2012/13

Ministry

	2011/12				2012/13					
	Recurrent Budget	GoI	Donor Grants	Donor Loans	Total	Recurrent Budget	GoI	Donor Grants	Donor Loans	Total
Agriculture and Food Security	149.1	30.4		13.0	43.4	154.8	45.0		16.7	61.7
Health and Social Welfare	1042.4	274.1	347.6		621.7	1166.3	157.0	408.3		565.2
Education and Training	1910.9	47.0	79.7	7.0	133.7	1984.7	22.0	88.9	5.0	116.0
Finance & Development Planning	1080.9	104.3	1180.4	45.4	1330.1	1180.5	114.8	283.7	7.5	406.0
Trade and Industry, Cooperatives & Marketing	48.0	34.0	17.4	75.7	127.1	61.2	45.6	25.4	43.0	114.0
Justice, Human Rights & Rehabilitation	197.0	28.0			28.0	145.4	27.0			27.0
Home Affairs & Public Safety	386.9	34.5			34.5	441.9	161.7			161.7
Prime Minister's Office	80.3					94.4	5.0			
Telecommunications, Science and Technology	73.3	105.0		50.0	155.0	79.6	111.0			111.0
Parliamentary & Constitutional Affairs	58.1					57.0				
Foreign Affairs & Intern Relations	299.4					288.8				
Public Works & Transport	167.2	422.2	75.3	97.9	595.4	176.1	677.7	119.2	37.0	834.0
Forestry & Land Reclamation	39.3	100.0	5.5		105.5	45.5	100.5	3.4		103.9
Natural Resources	139.3	196.2	568.5	480.7	1245.4	141.2	244.1	762.9	970.3	1977.3
Labor & Employment	32.0					41.6				
Tourism, Environment & Culture	54.5	26.4			26.4	66.3	23.4			23.4
Attorney General's Office	19.4		1.6		1.6	22.7				
Prime Minister's Office	6.0	20.0			20.0	6.4	80.0			80.0
Public Service Commission	5.2					5.8				
Other Highlands Development Authority			10.0		10.0		2.0	12.0		14.0
Police & National Security	360.7	24.5			24.5	379.6	12.0			12.0
National Assembly	70.0					67.5				
State	13.0	1.0			1.0	18.8	10.0			10.0
Attorney General's Office	4.7					5.5				
Independent Electoral Commission	285.5					29.2	51.0			51.0
Local Government & Chieftainship affairs	314.5	546.8	21.4		568.2	364.0	501.8	121.2		623.0
Gender, Youth, Sports & Recreation	41.4	27.6	17.2		44.8	52.1	31.6	15.4		47.0
Public Service	22.7					30.4				
Attorney General's Office						89.3				
Social Welfare						38.9	4.1	47.8		51.9
Directorate of Corruption & Economic Offence						9.6				
Total	6901.8	2022.0	2324.5	769.6	5116.1	7245.1	2427.3	1888.2	1079.5	5390.1
Municipal Repayment	284.7					262.0				
Interest Charges	240.5					223.3				

Annex 5

Expenditure by Ministry as % of Total - Capital and Recurrent

Ministry	2011/12					2012/13				
	Recurrent Budget		Capital Budget			Recurrent Budget		Capital Budget		
	GoL	Donor Grants	Donor Loans	Total	GoL	Donor Grants	Donor Loans	Total		
Agriculture and Food Security	1.80	1.50	0.00	1.69	1.76	1.85	0.00	1.55	1.15	
Health and Social Welfare	12.59	13.55	14.95	0.00	13.29	6.47	21.62	0.00	10.49	
Education and Training	23.09	2.32	3.43	0.91	22.61	0.91	4.71	0.46	2.15	
Finance & Development Planning	13.06	5.16	50.78	5.90	13.45	4.73	15.03	0.69	7.53	
Trade and Industry, Cooperatives & Marketing	0.58	1.68	0.75	9.83	0.70	1.88	1.35	3.98	2.11	
Justice, Human Rights & Rehabilitation	2.38	1.38	0.00	0.00	1.66	1.11	0.00	0.00	0.50	
Home Affairs & Public Safety	4.67	1.71	0.00	0.00	5.03	6.66	0.00	0.00	3.00	
Prime Minister's Office	0.97	0.00	0.00	0.00	1.08	0.21	0.00	0.00	0.00	
Communications, Science and Technology	0.89	5.19	0.00	6.50	0.91	4.57	0.00	0.00	2.06	
Law & Constitutional Affairs	0.70	0.00	0.00	0.00	0.65	0.00	0.00	0.00	0.00	
Foreign Affairs & Intern Relations	3.62	0.00	0.00	0.00	3.29	0.00	0.00	0.00	0.00	
Public Works & Transport	2.02	20.88	3.24	12.72	2.01	27.92	6.31	3.43	15.47	
Forestry & Land Reclamation	0.47	4.95	0.23	0.00	0.52	4.14	0.18	0.00	1.93	
Natural Resources	1.68	9.70	24.45	62.46	1.61	10.06	40.40	89.88	36.68	
Labour & Employment	0.39	0.00	0.00	0.00	0.47	0.00	0.00	0.00	0.00	
Tourism, Environment & Culture	0.66	1.31	0.00	0.00	0.76	0.96	0.00	0.00	0.43	
Auditor General's Office	0.23	0.00	0.07	0.00	0.26	0.00	0.00	0.00	0.00	
His Majesty's Office	0.07	0.99	0.00	0.00	0.07	3.30	0.00	0.00	1.48	
Public Service Commission	0.06	0.00	0.00	0.00	0.07	0.00	0.00	0.00	0.00	
Lesotho Highlands Development Authority	0.00	0.00	0.43	0.00	0.20	0.08	0.64	0.00	0.26	
Defence & National Security	4.36	1.21	0.00	0.00	4.32	0.49	0.00	0.00	0.22	
National Assembly	0.85	0.00	0.00	0.00	0.77	0.00	0.00	0.00	0.00	
Senate	0.16	0.05	0.00	0.00	0.21	0.41	0.00	0.00	0.19	
Ombudsman	0.06	0.00	0.00	0.00	0.06	0.00	0.00	0.00	0.00	
Independent Electoral Commission	3.45	0.00	0.00	0.00	0.33	2.10	0.00	0.00	0.95	
Local Government & Chieftainship affairs	3.80	27.04	0.92	0.00	4.15	20.67	6.42	0.00	11.56	
Gender, Youth, Sports & Recreation	0.50	1.36	0.74	0.00	0.59	1.30	0.82	0.00	0.87	
Public Service	0.27	0.00	0.00	0.00	0.35	0.00	0.00	0.00	0.00	
Judiciary	0.00	0.00	0.00	0.00	1.02	0.00	0.00	0.00	0.00	
Social Welfare	0.00	0.00	0.00	0.00	0.44	0.17	2.53	0.00	0.96	
Directorate of Corruption & Economic Offence	0.00	0.00	0.00	0.00	0.11	0.00	0.00	0.00	0.00	
Principal Repayment	3.44				2.98					
Interest Charges	2.91				2.54					
Pension & Gratuities	8.76				10.00					
Statutory Salaries & Allowances	0.36				0.37					
Subscriptions to International Organisations	0.25				0.39					
Other	0.00				0.03					
Administration Fund (Contingency)	0.91				1.14					
Total	100.00	100.00	100.00	100.00	100	100	100	100	100	

Annex 5										
Expenditure by Ministry as % of Total - Capital and Recurrent										
Ministry	2011/12					2012/13				
	Recurrent Budget	Capital Budget				Recurrent Budget	Capital Budget			
		GoL	Donor Grants	Donor Loans	Total		GoL	Donor Grants	Donor Loans	Total
Agriculture and Food Security	1.80	1.50	0.00	1.69	0.85	1.76	1.85	0.00	1.55	1.15
Health and Social Welfare	12.59	13.55	14.95	0.00	12.15	13.29	6.47	21.62	0.00	10.49
Education and Training	23.09	2.32	3.43	0.91	2.61	22.61	0.91	4.71	0.46	2.15
Finance & Development Planning	13.06	5.16	50.78	5.90	26.00	13.45	4.73	15.03	0.69	7.53
Trade and Industry, Cooperatives & Marketing	0.58	1.68	0.75	9.83	2.48	0.70	1.88	1.35	3.98	2.11
Justice, Human Rights & Rehabilitation	2.38	1.38	0.00	0.00	0.55	1.66	1.11	0.00	0.00	0.50
Home Affairs & Public Safety	4.67	1.71	0.00	0.00	0.67	5.03	6.66	0.00	0.00	3.00
Prime Minister's Office	0.97	0.00	0.00	0.00	0.00	1.08	0.21	0.00	0.00	0.00
Communications, Science and Technology	0.89	5.19	0.00	6.50	3.03	0.91	4.57	0.00	0.00	2.06
Law & Constitutional Affairs	0.70	0.00	0.00	0.00	0.00	0.65	0.00	0.00	0.00	0.00
Foreign Affairs & Intern Relations	3.62	0.00	0.00	0.00	0.00	3.29	0.00	0.00	0.00	0.00
Public Works & Transport	2.02	20.88	3.24	12.72	11.64	2.01	27.92	6.31	3.43	15.47
Forestry & Land Reclamation	0.47	4.95	0.23	0.00	2.06	0.52	4.14	0.18	0.00	1.93
Natural Resources	1.68	9.70	24.45	62.46	24.34	1.61	10.06	40.40	89.88	36.68
Labour & Employment	0.39	0.00	0.00	0.00	0.00	0.47	0.00	0.00	0.00	0.00
Tourism, Environment & Culture	0.66	1.31	0.00	0.00	0.52	0.76	0.96	0.00	0.00	0.43
Auditor General's Office	0.23	0.00	0.07	0.00	0.03	0.26	0.00	0.00	0.00	0.00
His Majesty's Office	0.07	0.99	0.00	0.00	0.39	0.07	3.30	0.00	0.00	1.48
Public Service Commission	0.06	0.00	0.00	0.00	0.00	0.07	0.00	0.00	0.00	0.00
Lesotho Highlands Development Authority	0.00	0.00	0.43	0.00	0.20	0.00	0.08	0.64	0.00	0.26
Defence & National Security	4.36	1.21	0.00	0.00	0.48	4.32	0.49	0.00	0.00	0.22
National Assembly	0.85	0.00	0.00	0.00	0.00	0.77	0.00	0.00	0.00	0.00
Senate	0.16	0.05	0.00	0.00	0.02	0.21	0.41	0.00	0.00	0.19
Ombudsman	0.06	0.00	0.00	0.00	0.00	0.06	0.00	0.00	0.00	0.00
Independent Electoral Commission	3.45	0.00	0.00	0.00	0.00	0.33	2.10	0.00	0.00	0.95
Local Government & Chieftainship affairs	3.80	27.04	0.92	0.00	11.11	4.15	20.67	6.42	0.00	11.56
Gender, Youth, Sports & Recreation	0.50	1.36	0.74	0.00	0.88	0.59	1.30	0.82	0.00	0.87
Public Service	0.27	0.00	0.00	0.00	0.00	0.35	0.00	0.00	0.00	0.00
Judiciary	0.00	0.00	0.00	0.00	0.00	1.02	0.00	0.00	0.00	0.00
Social Welfare	0.00	0.00	0.00	0.00	0.00	0.44	0.17	2.53	0.00	0.96
Directorate of Corruption & Economic Offence	0.00	0.00	0.00	0.00	0.00	0.11	0.00	0.00	0.00	0.00
Principal Repayment	3.44					2.98				
Interest Charges	2.91					2.54				
Pension & Gratuities	8.76					10.00				
Statutory Salaries & Allowances	0.36					0.37				
Subscriptions to International Organisations	0.25					0.39				
Other	0.00					0.03				
Administration Fund (Contingency)	0.91					1.14				
Total	100.00	100.00	100.00	100.00	100.00	100	100	100	100	100