



LESOTHO

**PARLIAMENT OF THE KINGDOM  
OF  
LESOTHO**

**ECONOMIC TRANSFORMATION AND DIVERSIFICATION  
TOWARDS SUSTAINABLE ECONOMIC GROWTH AND  
EMPLOYMENT**

**Budget Speech to Parliament for the  
2011/2012 Fiscal Year**

**By  
Honourable Timothy T. Thahane  
Minister of Finance and Development Planning**

*Maseru - Lesotho*

*14<sup>th</sup> February 2011*

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 Organisations  
here present

Distinguished members of the Media

The entire Basotho nation across Lesotho and abroad

Ladies and Gentlemen

Madam Speaker

1. I have the honour to present to this Honourable House and its Members, who, on this occasion have been joined by the Honourable President of the Senate and Honourable Senators. As you have always emphasized in the past, this is an important day in the life of our Nation. It is a day when the Executive, through the Minister of Finance, reports on the Economic and Financial State of the Nation; on its performance towards the attainment of Vision 2020, and, on the challenges ahead and how they can be turned into opportunities.

## Introduction

2. The Budget I am presenting today looks back briefly on the road we have travelled, the valleys and hills we have crossed, and the opportunities we must capitalize on. It highlights some of the achievements, notes, the levers and drivers we can utilize to fly like the Eagle. My speech may be longer than in the past because it is an account of which the Government has done during the life of this Parliament.
3. A little over two years ago, the world confronted an economic and financial turmoil that shook its foundations. The turmoil has been variously compared to the **Great Depression of 1929-33** or to a **financial “Tsunami”**. The aftershocks and to-day’s hesitant global recovery still pose huge economic and social risks and challenges to our Nation.
4. Lesotho’s economic growth has shrunk; unemployment, especially among the youth, has increased; Our exports have contracted; and, Basotho mine workers in South Africa have been retrenched. Government revenues, especially from SACU have declined, thereby, making it more difficult for Government to implement policies that lean against the wind. Lastly, our Development Partners, such as **Ireland**, the **United States of America** and **Germany**, to name a few, have faced unprecedented challenges in their own countries. But, they have kept their **commitment** and **solidarity** with the low income countries by maintaining their development assistance. New and emerging Development Partners, such as the People’s Republic of China, India, Brazil, The Gulf Cooperation States of the Middle East and others, have stepped in to become the new locomotive engines for global economic recovery.
5. This turmoil has placed Lesotho and its people between a rock and hard place. We must make hard choices. We must decide to move into the future, in line with Vision 2020, as a **united**, dynamic, highly competitive and agile nation that produces goods and services for global markets; as a nation that equips its youth with skills and

disciplines to compete for jobs in the knowledge economy of the future. This vision of Lesotho is a clarion call to economic transformation, diversification, job creation and a radical change in the mind-set of our people, especially the youth. It is a call to embrace change, competitiveness, science, innovation, research and technology. It is not a call to surrender our freedom; to buckle under fierce competition; it is not a call to be wiped away from the face of the earth and be swallowed by another State as some misguided voices seem to suggest.

Madam Speaker

6. In my Budget a year ago, I laid special emphasis on the **need to remain focused on fundamentals**, even when economic storms rage around us. I am pleased to report that the Government has remained focused on the following twelve key goals that ought to guide any Government of Lesotho:
  - i) Pursue a strategy for **high, sustainable and shared economic growth within sound and stable macro-economic frameworks**;
  - ii) Create **meaningful jobs in and through the private sector**, particularly **for the youth**;
  - iii) Develop and diversify **industrial and manufacturing enterprises** that take account of and exploit Lesotho's **regional location**;
  - iv) Enhance **food security** by diversifying into **high value cash crops** and establish strong **Supply Chains** that include research, production storage, processing distribution and marketing;

- v) Promote **decentralization** and **build capacity** of District and Local Councils in financial management, planning, programming, execution and monitoring;
- vi) Establish high-tech **enterprises**, that are innovative and embrace technology and use of broadband;
- vii) Develop **relevant, high level technical and vocational skills** at primary and high school levels and link them to world class tertiary education institutions;
- viii) Build **sound networks of health and healthcare institutions** including those for HIV and Aids;
- ix) Develop good infrastructure of urban and rural roads that link the mountains and the lowland areas;
- x) Engage our neighbour, South Africa, in a new **dialogue aimed at building a new relationship based on mutual benefits, shared values, common vision** and provision of rapid transit for Lesotho's imports and exports, citizens and tourists;
- xi) **Consolidate our democracy, peace and stability** and promote a **culture of tolerance and integrity**; and
- xii) Provide social protection, care and support of our elderly, orphans and vulnerable children.

Madam Speaker

7. If we could resolve to pursue these twelve broad goals **cooperatively** and **consistently**, we can transform Lesotho's prospects for the better and give hope to the young people. To translate these broad goals into concrete actionable plans, the Right Honourable Prime Minister launched a process of preparing a **National Strategic Development Plan** about ten days ago and I appeal for inputs of the Honourable Members. The plan will need to be all-encompassing.

Madam Speaker

8. The present Budget has been formulated with a focus on:

- **Maintaining** a sound macro-economic framework in order to avoid plunging the country into a financial crisis;
- **Allocating** resources to construct roads and purchase heavy equipment to build more Road Construction Units in the District Councils;
- **Extending** village water supplies and sanitation and accelerating water supply connections in the urban areas. It is expanding fixed line cellular and electricity networks and connecting more households than at any time in the history of Lesotho;
- **Providing** continued investment in free primary education, school feeding and construction of new secondary schools and classrooms;
- **Catering** for adjustment of teachers' salaries according to their new salary scales;
- **Continuing** the construction of over 150 clinics throughout Lesotho and completing a new 440 beds Referral Hospital next month and opening it formally in September or October;
- **Supporting** older citizens with pensions and providing protection for orphans and vulnerable children; and
- **Continuing** to build bridges over some of the most impassable rivers, such as Senqu and Senqunyane, Seapala, Qhoali and Mohlapiso.

9. Above all, the Budget provides for the **start of construction** of Roma-Ramabanta-Semonkong Road, across Senqunyane-Senqu bridges to Qacha's Nek. It has allocated funding for the construction

of Sani Top to Mokhotlong Road and for the design of Thaba-Tseka-Taung- Mokhotlong Road and rehabilitating and reconstructing Oxbow-Mokhotlong Road. Negotiations are also at an advanced stage to generate electricity using wind and to expand solar power along Mphaki-Qacha's Nek grid.

10. Last but not least, this year the Government **will launch a M50 million Partial Guarantee Fund to provide**, together with the Commercial Banks, **entrepreneurial training** on how to start and run a business, prepare a Business Plan and provide financing for the plans prepared by the trainees. This initiative is directed especially to young people and women who can organize themselves into enterprises. It is of no use to provide access to finance when the applicants do not know how to run a successful business. The Fund and Banks will share the risk in cases of genuine business failures.

Madam Speaker,

11. The success of the **Partial Credit Guarantee Scheme** and the Entrepreneurship Initiative will depend on:
  - i) How well the applicants organize and work cooperatively together to identify business ventures and opportunities;
  - ii) How willing, disciplined and committed the applicants are; and
  - iii) Repay and service their loans.

### **Recent Regional and International Developments and their Impact on Lesotho**

Madam Speaker

12. Let me touch briefly on the recent international and regional developments so that we can put Lesotho's efforts into context and thereby see the importance of its policy responses. A year ago, I

reported to this House that the U.S. economy had contracted by an annual average of 3 percent for the year 2009 and that unemployment was recorded at 10.2 percent - the highest since 1983. For us, it meant that Americans had less disposable income to buy our textile exports. That underscored the need and urgency to **diversify our markets and export products**. Today there is notable recovery in the U.S. economy. Output growth of 1.7 percent was recorded in the second quarter and a further improvement of 2.5 percent in the third quarter of 2010. Unemployment went down to 9.6 percent in the third quarter of the same year. This signals a fragile recovery which may impact on our textile exports to the US. But the challenge for our textile industry is still to improve their ability to compete with other textile producers, especially from Asia. We recognise however, that our people do not have a long tradition of knitting. But they are fast learners. Despite these challenges, manufacturing employment has seen an increase of 5.2 percent from 44, 098 in the first quarter to 46,379 in the third quarter of 2010.

13. In the Euro-zone, 2009 saw output decline averaging 4.9 percent in the second and third quarters and unemployment averaging 9.5 percent for the same period. In terms of growth, there has been an average growth of 1 percent, even though unemployment increased to 10 percent, year-on-year. The worst hit countries in the Euro-zone in terms of adjustment are Greece, Ireland, Portugal, Spain and the United Kingdom which has experienced a growth of 0.5 percent.
14. The South African economy recovered with a recorded growth of 3.1 and 2.6 percent in the second and third quarter of 2010, respectively. This compares to an average contraction of 2.5 percent during the same period in 2009. Unemployment, however, worsened from an estimated 24.5 percent during the third quarter of 2009 to 25.3 percent in the third quarter of 2010. Inflation slumped from 5.1 percent in the first quarter to 3.4 percent in the last quarter. Key interest rate also went down from 7 percent in the first quarter to 5.5 percent in the last quarter of 2010. A Combination of these factors creates a favourable environment for investment that is necessary for growth. But the strong Rand against the major trading currencies, especially the U.S. dollar, renders our exports less competitive with



the rest of the world, and could have dire consequences for prices, employment and incomes in Lesotho.

15. The appreciation of the Rand against the US Dollar has proved a threat to Basotho mineworkers in South Africa. Between the first and third quarters of 2010, the number of Basotho mineworkers declined by 1.9 percent from 43,092 to 42,252. Retrenchment of migrant workers means a decline in remittances which affect the living standards in the rural areas where most of the workers come from. The strong Rand and the weak dollar have compelled the Government to put top priority on improving the competitiveness of our textile and diversifying our markets and products. It has also compelled the Government to seek ways and means of exporting textile to SACU, SADC, and other African markets.

### **Economic and Fiscal Performance in 2010/2011**

Madam Speaker

16. The preparation of the 2010/11 Budget against the backdrop of the global economic and financial crisis has provoked vigorous debates not only in the Government but also in the Boards of the World Bank and the International Monetary Fund. The Government's total domestic revenue suffered a decline of about 30 percent with more than 50 percent reduction in SACU receipts which have been the bulwark of Lesotho's national budget ever since 1969. This meant that Government had to deal with an unprecedented fiscal consolidation effort in the midst of the need to counter the effects of the crisis, by stimulating the economy to secure jobs and preserve the capacity of the economy to recover. The result of these debates was the largest budget deficit in the history of Lesotho, at 12.3 percent of GDP.

Madam Speaker

17. With regard to SACU I wish to clear some confusion that seems to have crept into the public debates recently. **SACU Revenue Pool belongs to all SACU Member States.** It is composed of Customs, and excise duties. Duties are charged on all goods imported into Botswana, Lesotho, Namibia, South Africa and Swaziland. South Africa has been asked to manage this Pool on behalf of all the Member States. Although South Africa is a major contributor to the Pool in terms of its imports, it **does not own the Revenue Pool and has never made such a claim.** Second, because South Africa is the largest economy compared to the four BLNS economies, its imports into the SACU Area constitute the largest share, hence, the largest share of the duties that go into the Pool. Third, the Pool is divided on the basis of imports of each Member State of SACU relative to the size of the Pool. Therefore, Lesotho's share is proportionate to its imports from South Africa, other SACU members as well as the rest of the world. Fourth, if economic growth of the SACU region declines, as it happened in 2009, the imports will decline, and so will the duties that go into the Revenue Pool. Also declining will be the shares of each of the five members of SACU. Naturally, we can expect the shares of each of the five members of SACU to decline too. This is not a fault of any of the Member States or its incompetence to manage its economies. I wish to make it clear to pseudo-experts that SACU revenue belongs to us. How each Member uses its share is the decision of that Members' Parliaments.
18. Finally, I wish to note that the formula used to effect payments from the Pool works with a time lag. The first payment to each Member State is made on the basis of **projected imports for each Member State.** An adjustment is then made a year later on the basis of actual and audited imports and trade figures. This explains why all the BLNS countries had to pay back to the Pool after the financial crisis that affected the volume of imports into the SACU area. I am pleased, however, to say that we expect a slight increase in the SACU revenue to M2,752.6 million next year compared to M2,161.9 million this year. In 2012/13 and 2013/14 we expect SACU Revenue to be M4,287.0 million and M4,480.1 million, respectively.

19. Before leaving SACU, I wish to state that **SACU is well and thriving**. The Heads of State and Government of SACU Member States have re-affirmed their commitment to SACU and have offered SACU's experience of over 100 years as a building block for a SADC Customs Union. They have also directed the Council of Ministers to review the formula for Revenue Sharing with a view to removing the current wide swings in the revenue shares because of fluctuations in imports. Notwithstanding this, the challenge for Lesotho is to **mobilize optimally its domestic revenue and to base its long term development planning on it**. SACU revenue must come on top to enable us to accelerate the financing of our capital formation, economic transformation and diversification.

### **Sources of Historic Growth and Challenges Ahead**

Madam Speaker

20. It is important to go back a few years into the performances of the various sectors and identify the levers and drivers of economic growth in Lesotho. Let me take the largest sector first, Agriculture. It is the backbone of our economy. 77 percent of people live in the rural areas and make their living from subsistence farming there. It has unfortunately not been doing well. At the beginning of the last decade, agriculture contributed over 10 percent to our Gross Domestic Product (GDP). But this has gradually gone down to only 7.9 percent in 2009/10. The largest contributor to this decline is crop production whose contribution to GDP fell from 4.8 percent in 2000/01 to only 1.8 percent in 2009/10. Livestock's contribution has remained at around 4.5 percent during the same period. The Medium Term projections show that Agriculture will continue to decline **unless the Government together with the Private Sector undertake radical, comprehensive and coordinated programmes** that address the following problems:

- the large number of hectares of land that lie fallow each year due, in part, to the **increasing poverty of subsistence farmers**; at the same time there is growing landlessness;
  - The effectiveness, coordination and management of all the **institutions** that support subsistence farmers throughout the Supply Chain i.e. starting from what to plant, when, soil preparation, management, care of plants, their harvest, storage, processing, marketing and distribution to the final consumers;
  - The involvement of private sector at each stage of the Supply Chains.
21. Clearly, the “rifle shot” approach that has been used in Agriculture so far and the beautiful plans that have been drawn over the years have not worked. They must be reviewed, implemented or abandoned.
22. Still on Agriculture, there is a need to address through a **concerted campaign of scientists, researchers, chemical companies** and the **Ministry of Agriculture the problem of the increasing Nut Sedge** grass (known in some place of Lesotho as Motaba-tabane) which is increasingly taking over our limited arable land. Research shows that this grass is difficult to eliminate and grows very fast when there is moisture on the ground. It is a tough competitor for ground resources and its roots produce substances that are harmful to plants. Valuable arable land is being taken over by this weed. Its scientific name is **Cyperus Rutundus**. Perhaps our Development Partners can join in the campaign. We need land to grow food.
23. **Mining** has increased its contribution from 0.2 percent of GDP in 2000/1 to 8.1 percent in 2007/8 before the onset of the global economic and financial crisis. Even then, experienced a slight dip of 6.1 percent and shows every sign of being a strong contributor given the recovery in the global prices of diamonds and Government plans to cut and polish diamonds here in Lesotho. Letšeng and other mines, such as ‘Mothae, Kao, Lihobong and Sekameng are expected to provide a strong source of growth in the future although not so much of employment.

24. The Manufacturing and secondary sectors have been dominated by Textile and Clothing whose contribution to employment is unquestionably higher than that of the public service. Manufacturing's contribution fell from a high of 20.6 percent of GDP in 2002/3 to only 14 percent in 2009/10. This was due to the impact of the global financial crisis and the stiff competition from the Asian producers at the end of the preferences which Lesotho enjoyed as Least Developed Country under the Multi-Fiber Agreement. The other threat to the Textile Sector is the end of AGOA which is near. **This puts the urgency on the Government and the industry to jointly find new markets and new products.** If the Textile and Clothing sector were to close, over 45,000 of our people would be thrown out of work and this would cause untold hardships to many families. The other challenge is for Government and Industry to find quickly new ways of disposing of the waste from the factories in a more environmentally safe manner. For its part, the Government is exploring the establishment of a large incinerator plant that will cater for industry and for other waste generated by the community.
25. The contribution of construction to GDP fell from the high of 10.5 percent to 4.5 percent in 2009/10 when Mohale Dam construction was completed. It is expected to pick up when the construction of Metolong Dam and ancillary projects begin this year and when Phase II of Lesotho Highlands Water Project begins. The contribution of the Tertiary sector which includes Public Administration and other services has remained at about the same level rising from 53.7 percent in 2000/01 to 58.7 percent.
26. One sector which has immense potential for job creation is Tourism. The Government plans to review this sector critically including partnerships with the private sector. It plans to create space for entrepreneurs that have experience and financial capacity to join hands with Government and locals. Under the Ministry of Tourism, the Government plans to take a fresh look at the operations, the governance arrangements and the expertise for managing and promoting the sector both at home and in the region. In this context, Technical Assistance will be sought from our Development Partners for personnel with experience and expertise to mentor and train our staff.

27. In closing this brief historical perspective on growth, I wish to note the contribution of Public Administration to GDP growth. In 2000/01 Public Administration contribution to GDP was 9.9 percent. It increased to 13.1 percent in 2009/10. This shows that during this period, the Public Administration expanded in size and cost more than investment in real assets where sustainable growth is generated. This explains why the Government has adopted a Policy to keep the cost of Recurrent Budget relatively constant in real terms and to expand Capital investment Budget. It also explains why the Government wants to create space for private sector to grow by outsourcing all those activities that can best be performed by the private sector and are not core to public service.

### **Millennium Development Goals – Progress**

Madam Speaker

28. A word about the progress towards the attainment of Millennium Development Goals. Lesotho has suffered heavily from the effects of the global economic and financial crisis including from the high prices of food and fuel during pre-crisis period. This has halted the progress that we were making towards the attainment of some MDGs. It has put some MDG off-track. The main constraint is the lack of resources and weak implementation capacity.
29. The first goal is combating HIV, TB and related diseases through universal access to care and treatment for HIV/Aids and to halt and reverse the incidence of T.B. Despite massive efforts by the Government, and Development Partners, indications are that progress in this goal is very slow. The challenge is to double efforts in implementing the current programmes. The other goal where progress is slow is that of ensuring environmental sustainability. The goals of reducing child mortality by two-thirds between 1990 and 2015 in the under-five children and of reducing maternal mortality rate by three quarters, will most likely remain unmet. On eradicating extreme poverty and hunger, the data indicate that this goal will not

be met. The two goals that Lesotho will meet by 2015 relate to universal access to primary education for both boys and girls and to eliminating gender discrimination and inequality. But more efforts will have to be devoted to the latter goal if the present momentum is to be sustained.

Madam Speaker

30. Let me now turn to the budget performance in 2010/11. Parliament approved revenue of M8,183.5 Million inclusive of grants of M1,809.1 Million. I am happy to report that during the year there were positive developments with regard to addition revenue that was not included in the budget. Government received M466.2 Million in payment of outstanding SACU adjustments for 2006/07 and 2007/08 following conclusion of the arbitration in favour of Botswana, Lesotho, Namibia and Swaziland. Another M500 Million was received from the Central Bank of Lesotho as payment of dividends for the 2008/09 and 2009/10 years. This means that the expected revenue collections at the end of March 2011 is estimated at M8,9206.2 Million, which represents over-collection of M722.5 Million or 9 percent over the approved annual revenue figure.
31. On the expenditure side, Parliament approved a total budget of M10,244.6 Million split into M6,575.0 Million and M3,569.6 Million, for recurrent and capital expenditures, respectively. The year-end expenditures are expected to record M10,168.8 Million, which is about 99 percent of the appropriated total budget. Recurrent expenditure is expected to reach M6,817.1 Million or 22 percent above the budget, while capital expenditure is expected to amount to M3,351.7 Million or 94 percent of the budget. This is for the first time that expenditures have performed close to budget. The deficit for 2010/11 is expected to be 8.2 percent of GDP instead of the budgeted 12.3 percent. This is due to the unanticipated revenue referred to above.

## **Budget Allocations for 2011/12**

32. This year's Budget is the most difficult the Government has ever had to put together. Looking at the Revenue side, Honourable Members will note that:-
- There was a sharp decline in revenue especially SACU revenue. This was accompanied by a slow response or poor collection in non-tax revenue;
  - Although LRA has continued to improve its revenue collections and although more and more Basotho are paying their income and corporate taxes, the culture of tax evasion still continues at a high rate, especially at the Border Crossings;
  - There is a lot of rampant fraud and corruption involving collaboration between public servants and private sector.
33. Unless all of us pay our FAIR share of the taxes or pay for the services we receive, there is no way Government will have the resources to build schools, hospitals, roads, bridges, or provide water supplies, remove garbage or assist in measures to protect the tons and tons of soil that washes away each rainy day. If Government is to raise funds, it can only do so by raising taxes and nobody wants this.
34. Our Development Partners, who come to our land, come only to support our efforts not to replace them. Their countrymen have paid their taxes, and for their services although their governments are cutting salaries, pensions and services because of the current economic crisis, they have chosen to maintain their aid levels to us. This should make us stop and think as people about the kind of message we are sending to our Partners. How long do we think they can continue to support our consumption?



Madam Speaker,

35. With regard to paying taxes we must pay our fair share of taxes, and for the services we get, we must join hands with Government and its agencies to rid this country of the thieves and fraudsters who steal from the public purse or from the poor. Let us cooperate with law enforcement agencies to expose those who rob and abuse the elderly, the indigent, the orphans, the disabled and the vulnerable. In short, let us live as a community that supports itself with fairness, equity and integrity; and that protects its weak and vulnerable.
  
36. Turning to the Expenditure side, the Government faced the greatest challenge this year. The submissions from line ministries were two or three times higher in some cases. Everything was urgent, everything was important and everything was top priority. The Government then decided on a set of four principles that have guided the formulation of this Budget. These are to:-
  - To preserve all the programmes that provide social welfare protection to the poor, Continue free education and school feeding; and, provide loan bursaries;
  - To select those programmes and projects that will contribute most to the creation of meaningful and permanent jobs, especially for the youth;
  - To select those projects and programmes that will maximize revenue and create incomes for the people; and
  - To select those projects and programmes that will strengthen the institutions of policy formulation execution and monitoring and those that fight fraud and corruption.
  
37. Applying these principles, it is proposed that Revenue for 2011/12 Fiscal year be set at M7,367,159,655.00 or M7.367 billion. This is M1.026 above last year. It should be noted, however, that revenue collection, contrary to Government directive last year, is very low.

LRA continues to exceed its targets in collections and this explains why the Ministry of Finance and Development Planning is expected to contribute M7.122 billion to the fiscus. The other main contributors to revenue are: The Ministry of Natural Resources at M154.939 Million; Home Affairs and Public Safety at M20.285 Million; Public Works and Transport at M14.089 Million; Health and Social Welfare at M11.663 Million; Communications and Technology at M8.245 Million. The remaining Ministries collected less than five Million Maloti. It is our view in Finance and Treasury that with more public cooperation, improvement in collection methods, better management and custody of received revenues, the targeted figure for 2011/12 can be exceeded.

38. With regard to Expenditure, the highest allocation has been made to the Ministry of Education and Training at M1,843,516,691. This is in line with the principles outlined above. It preserves Free Primary Education which provides basic access to most primary school children. Many of these would not have the opportunity to learn to read or write due to poverty and loss of parents because of Aids. The Ministry of Education and Training continues to build and expand secondary schools and classrooms to accommodate more primary school completers. This Ministry has also introduced a new Salary Scale for Teachers which brings them more in line with the public servants. This year it is providing to Teachers adjustments within this scale. It is also taking over additional part of school feeding from the World Food Program which is pulling out. M225 Million has been allocated for school feeding and M54 Million for scholarships for double and single orphans.
39. The second highest allocation goes to the Ministry of Finance and Development Planning largely because of the NMDS. It was allocated M595 Million for Manpower Loan Bursaries this year. This has been increased to M717.5 Million in 2011/12. Clearly, these kinds of increases are unsustainable, especially when few of these loans are paid back. Government must therefore launch a serious dialogue with parents, churches, schools, business, etc. to come up with an affordable and sustainable programme of scholarships. In the meantime, I appeal once more to all those who have not repaid their loans to do so before their names are referred to the Credit Bureaus.

Madam Speaker

40. The details of proposed allocations to various Ministries can be found in Annex IV of my speech. Allow me, therefore, to single out those sectors and subsectors that provide a necessary foundation or Minimum Investment Platform (MIP) for investment, economic growth, employment generation, and infrastructure that link the whole country together and provide people easy access to services.

### **National and Local Road Networks**

41. During the last five years, Central and Local Governments have made considerable investments in improving the quality of roads to bitumen or hard gravel standards; in expanding the networks of urban and rural roads and repairing and rehabilitating others. The proposed budget allocations continue to provide for this programme. It has provided for reconstruction of Oxbow-Mokhotlong roads, construction of Mokhotlong-Sani-Top, completion of Likalaneng-Thaba-Tseka road; design, through donor financing, of Thaba-Tseka-Taung-Mokhotlong road; start of construction of Roma-Ramabanta-Semonkong, across Senqunyane and Senqu Bridges to link with Qacha's Nek-Quthing roads at Ha Sekake. M544.4 Million has been allocated for upgrading of roads including bridges and footbridges in the mountain areas. The Government Bonds will be used to finance some of these roads in addition to donor grants and soft loans from multi-lateral financial institutions and the Arab Funds for International development of the Middle East.

### **Water Resources Development**

42. Water is the source of life. Lesotho has always regarded it as its "white gold" to support its people. The Government continues to

attach top priority to this subsector. First, the Government is continuing its programme of studies of the Lowlands Water Schemes which will supply most of people with potable water and connections. In this context, the proposed funds cover construction of Metolong Dam, starting May, 2011; construction of rural water supplies which the Right Honourable Prime Minister recently launched; and, construction of urban water supplies for consumers and for industry. It is important to note that the Government has allocated over M160 Million for urban and rural water supplies while our Development Partners have provided in excess of M70 Million in grants and soft loans in the amount of M480 Million. These donors include, among others, the International Development Association, European Development Fund, Irish Aid, Kuwait Fund for International Development, South Africa, Millennium Challenge Corporation of the U.S, OPEC Fund for International Development, BADEA, Saudi Fund, European Investment Bank. Though there are many donors in this subsector, the amazing thing is the level of coordination and cooperation among them. This has made our work much easier. I wish to thank and commend them all for their contributions to this vital sector and for their success in implanting the Paris Principles of Government Ownership of development programmes; Alignment of Donor policies behind Government policies and procedures and Coordination among Donors and the Government.

## **Energy and communications**

43. Electricity is critical for household cooking, lighting and for driving machinery that provides water. It runs industries and communication systems. Government is therefore committed to increasing the generation of power; expanding of the grid and the number of household connections in the urban and rural areas. Towards this goal it has allocated M373 Million and is negotiating with the private sector to generate more power from the strong winds in the mountains of Lesotho and from the hot sunshine that we have. The Government plans to seriously address the issue of climate change and clean technologies. The attraction of a global giant, Phillips

Company, to locate in Lesotho and manufacture long life energy saving bulbs is only a first step in this challenging field.

44. With regard to communications, the Government in line with all African states, will change from Analogue to Digital in broadcasting and video in the coming two years. Lesotho is also part of the Fiber Optic project that provides undersea cable from the Horn of Africa round the Cape. This will give our businesses and people high speed connectivity. It will facilitate the transformation of the communication sector as we embrace and build Broadband Technologies.
45. Diamond mining has become the highest contributor to GDP. In the future Government plans to support the sector by providing complementary infrastructure to mines at Kao, Lihobong and Mothae. The Government, in cooperation with the private sector, is discussing plans to establish a diamond cutting academy, a diamond bourse and jewellery hub. This will add value and beneficiation to our diamonds and provide skills to our youth. Beyond this, Government plans to undertake a geological survey of the whole country. It is important to know definitively what lies below our beautiful mountains besides diamonds. This calls for more of our students to study geology and related disciplines connected with minerals and materials.

### **Entrepreneurship Initiative and Small, Micro and Medium-sized Enterprises (SMME)**

Madam Speaker

46. Productive and sustainable jobs cannot be created in the public sector. But government can facilitate and create conditions, frameworks, institutions and facilities that will enable the private sector to be a true engine of growth and creation of jobs especially for the young people whom government plans to equip with skills that will make them internationally competitive in product and labour markets.

47. In this context, Government has placed top priority on making Lesotho competitive with other SACU members in terms of the time it takes to register company, obtain licences, work permits, credit, asset financing or leasing. We will use the Rankings provided by the International Finance Corporation on “Doing Business” to set specific targets to be achieved in the coming year. This, coupled with the Minimum Infrastructure Programme for attracting investment, will address the problems of SMMEs where most jobs can be created.
48. After reviewing many studies that have been done on “Obstacle or Constraints to the Growth of SMMEs”, the Ministry of Finance and Development Planning has decided to propose to Government an Entrepreneurship Initiative aimed at young graduates, women and other self-employed entrepreneurs. This is the establishment of a Partial Credit Guarantee Fund which will be a joint initiative with commercial banks. It is proposed that Government should capitalize the Fund at M50 Million. The Fund will be under the supervision and direction of an independent professional Board and Chief Executive.
49. Before accessing credit from the Fund, the applicants or groups will undergo training on how to start and run a business successfully. They will be taught how to prepare Business Plans and, as part of their study, prepare their own business plans which will be taken to the Bank for financing. The Fund will guarantee 70 percent of the loan in case of failure and the banks will take the remaining 30 percent. It is expected that many young people will take advantage and become their own employers.
50. Last year the Ministry of Finance and Development Planning conducted a Pilot of this approach based on a Training Package obtained from ILO, Zimbabwe. It trained about 850 pupils. The results are promising. We will also approach the African Commission on Growth and Employment for technical assistance.

## **Financial Sector**

51. The Government plans to strengthen the financial sector by strengthening its supervision and regulation by the Central Bank, especially control of Pyramid Schemes, Money Lenders, and Insurance Brokers. It will also bring legislation to modernize and update our life and insurance legislation in order to protect consumers. Legislation to establish a Credit Bureau and to protect the confidentiality of personal information supplied as part of credit application is far advanced.
52. Finally the Government together with the Central Bank plans to consolidate the issuing of Government Bonds and to establish a market for their sale and purchases. This Bond market will be followed immediately by the Stock Exchange. The two institutions require sound legal and regulatory framework, good technical system and well-trained staff. They involve use of public savings and pensions.

## **Social Protection**

53. As I have mentioned, protection of the vulnerable groups of our society remains a priority of Government. But I have also indicated that with the current financial difficulties faced by Government, there now exists a squeeze on the extent to which assistance can be extended to all that require it. Nevertheless, we have increased the social protection budget by 7 percent from M564.5 Million to M605.8 Million.

## **Local and General Elections**

Madam Speaker

54. Before closing let me point out that the present Budget has provided funds of Local Elections and for the National Elections under the IEC. It has also provided for some small increases in the Budgets of the Police, the Army and the Ministry of Local Government and Chieftainship.

## **Estimates of Damage from Recent Rains and Floods**

55. For the last two months, Lesotho has seen unprecedented rains, floods and rock slides that have killed people, destroyed houses washed away animals and crops. For over a week Maseru was without water due to the flood damage to WASA machines at Maqalika.
56. The Ministry of Public Works and Transport and the Disaster Management Agency are still compiling reports on the extent of the damage from these rains and floods. Once these reports are complete I will come back to Parliament to report and propose a way forward.
57. Although we have been hit hard by these floods, we nevertheless wish to express our condolences and solidarity with the people of Australia, Brazil and Pakistan who have had more than their share of these floods.

## **Public Service, Service Delivery and Salaries**

58. The share of public administration as a percentage of GDP has increased rapidly from 2000/01 to 2009/10. It has increased faster



than savings and investment of Government as percentage of GDP. Clearly this is an untenable situation in the medium term. The Government has therefore decided to restrict the growth of recurrent Budget and to expand the growth of Capital Budget in real terms. There will be cases and years when some minor deviations occur. For this year, however, the policy remains true when one takes both Capital and Recurrent Budget.

59. Notwithstanding this, the time has come when we must all learn to do more, with less for the sake of our Country. The time has come for public servants to change their attitudes towards their work and the people they serve. It is these tax payers who pay their salaries. Unless they deliver high quality services for which beneficiaries would be willing to pay, there will be less and less money to pay their salaries. Even more, there must be a change in the culture of using government vehicles and property. Government has decided that immediate changes and harsh penalties and dismissals be instituted for those who misuse Government vehicles and steal and sell Government petrol.
60. With regard to procurement we have tried many initiatives at the suggestion of Chief Accounting Officers. We decentralized procurement and increased the thresholds. We instituted training courses. But, nothing solved the problems of fraud and corruption. Instead, things became worse. I have now decided to explore the route of an independent Board and incentives. For successes we will even consider creation of the "Light Brigade" which they will create a website in which to display cases of fraud and corruption that are before the Courts.
61. Despite these, and considering the difficult budgetary environment for this year, the Government has decided to make a start this year of keeping the growth of public service at zero by freezing all new positions. The funds so saved will then be used to increase the salaries of the few who remain and who will be expected to do more. In this context a 5 percent salary increase will be granted to all public servants without increasing the overall deficit of 15 percent.

## **Summary and Budget Administration**

Madam Speaker

62. The revenue and expenditure proposals I have just outlined have been framed within tough financial ceilings aimed at balancing the imperatives of accelerating growth; creating jobs; protecting the weak and vulnerable; building and repairing roads infrastructure; improving Lesotho's international competitiveness, transforming education and training skills; providing increased access to health services; and, supporting Youth entrepreneurship through access to training and credit. There are complementary imperatives on the revenue side for mobilizing more domestic revenues; removing waste; fraud and corruption; paying our fair share of taxes; and, regenerating the spirit of public service and common destiny.
63. The overall deficit of 15 percent of GDP will be strictly observed in order to avoid plunging this country into bankruptcy and financial chaos.
64. In terms of financing, the deficit will be financed by drawing down on Government Deposits at the Central Bank. But these deposits or foreign reserves cannot be reduced beyond a certain point because they back the pegging of our currency, Loti, to the Rand. Therefore the administration of this Budget does not allow much room for deviations or misuse of Contingency.

## **Conclusion and Acknowledgements**

Madam Speaker

65. Putting together the present Budget was not an easy task. It would not have been possible without the strong support of the Right Honourable the Prime Minister who took time to discuss with me key priorities, strategies and recommendations. I appreciate your support

and keen interest, Ntate, on the financial and economic issues of the Budget.

66. The Honourable Deputy Prime Minister, Leader of the House and Minister of Home Affairs and Public Safety spent long hours chairing the Budget Committee and debating options with me, my colleagues, and Senior Officials of the Ministry of Finance. Thank you, Ntate for your keen insights and guidance.
67. To my Colleagues, Members of the Budget Committee, I appreciate the seriousness with which you discharged your responsibilities. This is what leadership is all about. We joked, laughed, discussed, disagreed and in the end put the interests of Lesotho first. You asked difficult questions and demanded scenarios from Senior Finance Officials. They enjoyed your intellectual and practical policy decision-making.
68. To all my Officials in the Ministry of Finance, whether spending hours and nights in the Finance Boardroom, or running up and down to generate data at Mid-night or banging away at laptop in response to my tough demands, my sincere thanks. I have seen and appreciated your professionalism and commitment to excellence and to this Country. Keep it up.
69. For those Ministry Officials who have always been out in the District to explain the Budget and answer questions and to the District Administrators and the public and school children who have always bombarded me with questions, my thanks and sincere appreciation.
70. To those who have created the power-points of the Budget and the logistics that have carried this Budget across Lesotho and beyond, many thanks. We are truly indebted to you.
71. To LRA and Nedbank, my thanks for always organizing a Budget night where the Private Sector enjoyed criticizing my Budget and “roasting” me, thanks. Other commercial banks have joined to support Budget night too. Thanks.
72. To the Media, many thanks for your contributions and criticisms.

73. Finally, to you, Madam Speaker, thank you for your support and for allowing this August House to be a Place where the destiny of our Nation is decided.

**KHOTSO! PULA! NALA!**

## ANNEX I

### GOVERNMENT BUDGET OPERATIONS FOR THE FISCAL YEAR 2011/2012 - 2013/2014

Budget Item	Outturn 2009/10	Budget 2010/11	Projected Outturn 2010/11	Budget 2011/12	Budget 2012/13	Budget 2013/14
<b>REVENUE</b>	<b>9 554.7</b>	<b>8 183.5</b>	<b>8 906.2</b>	<b>10 038.3</b>	<b>12 115.2</b>	<b>12 561.9</b>
<b>Tax revenue</b>	<b>3 251.5</b>	<b>3 448.8</b>	<b>3 469.0</b>	<b>3 952.6</b>	<b>4 349.2</b>	<b>4 769.1</b>
Taxes on income, profits, and capital gains	1 772.4	2 072.9	1 940.7	2 212.5	2 467.6	2 787.0
Income tax - payable by individuals	866.2	988.6	1 128.3	1 322.1	1 421.2	1 525.2
Income tax - payable by corporations and other enterprises	694.0	842.7	428.3	480.3	564.6	707.7
Income tax - unallocable	212.2	241.6	384.2	410.1	481.7	554.1
Taxes on property	95.7	89.9	100.0	106.1	119.8	132.4
Taxes on goods and services	1 289.0	1 182.4	1 401.1	1 600.7	1 710.2	1 790.2
Value-added tax	1 035.0	1 053.2	1 244.0	1 435.0	1 525.3	1 588.8
Excise taxes	242.7	119.0	131.9	152.2	170.4	186.3
Taxes on specific services	8.2	4.6	20.7	8.4	9.6	10.4
Taxes on the use of goods and on permission to use or perform activities	3.0	5.6	4.5	5.0	4.9	4.7
Taxes on international trade and transactions	90.3	96.2	26.1	30.8	48.2	56.5
Other taxes	4.2	7.4	1.1	2.4	3.3	3.0
<b>Grants</b>	<b>693.4</b>	<b>1 809.1</b>	<b>1 498.4</b>	<b>2 414.5</b>	<b>2 480.3</b>	<b>2 249.6</b>
<b>Other revenue</b>	<b>691.7</b>	<b>763.7</b>	<b>1 310.9</b>	<b>918.6</b>	<b>998.7</b>	<b>1 063.0</b>
Property income	128.6	143.5	640.3	196.3	219.9	242.4
Interest	7.4	7.5	7.5	7.5	8.0	8.2
Dividends	117.5	130.3	630.3	185.4	208.5	230.8
Rent	3.7	5.7	2.6	3.4	3.4	3.4
Sales of goods and services	502.2	580.5	615.2	670.2	719.7	764.2
Electricity Muela	94.3	109.7	102.4	118.2	132.3	144.7
Water Royalties - LHDA	336.6	388.1	435.9	463.3	488.0	511.0
Administrative fees	27.5	32.0	29.4	34.0	38.0	41.6
Incidental sales by nonmarket establishments	43.7	50.8	47.4	54.7	61.3	67.0
Fines & forfeits	6.5	6.5	7.0	7.4	7.8	8.1
Miscellaneous and unidentified revenue	54.5	33.1	48.4	44.7	51.3	48.3
<b>SACU</b>	<b>4 918.0</b>	<b>2 161.9</b>	<b>2 627.9</b>	<b>2 752.6</b>	<b>4 287.0</b>	<b>4 480.1</b>
<b>EXPENSE (Statutory + Non Statutory + Salary Increase)</b>	<b>-6 949.0</b>	<b>-6 675.0</b>	<b>-6 817.1</b>	<b>-8 008.8</b>	<b>-7 837.9</b>	<b>-8 346.5</b>
<b>Compensation of Employees</b>	<b>-2 989.6</b>	<b>-3 048.3</b>	<b>-3 051.9</b>	<b>-3 632.5</b>	<b>-3 778.6</b>	<b>-4 077.2</b>
Wages and salaries	-2 527.3	-2 685.6	-2 570.7	-3 154.1	-3 271.9	-3 532.1
Employer contributions	-462.3	-362.7	-481.2	-478.4	-506.7	-545.0
<b>Use of goods and services</b>	<b>-1 806.5</b>	<b>-1 767.3</b>	<b>-1 724.2</b>	<b>-1 864.6</b>	<b>-1 909.6</b>	<b>-2 017.1</b>
<b>Interest Payments</b>	<b>-117.2</b>	<b>-105.7</b>	<b>-89.6</b>	<b>-240.5</b>	<b>-265.5</b>	<b>-290.5</b>
Nonresidents	-66.1	-63.5	-52.4	-73.7	-73.7	-73.7
Residents other than general government	-51.1	-42.2	-37.2	-166.8	-191.8	-216.8
<b>Subsidies</b>	<b>-267.4</b>	<b>-204.4</b>	<b>-217.3</b>	<b>-95.8</b>	<b>-100.8</b>	<b>-105.7</b>
<b>Grants</b>	<b>-607.2</b>	<b>-267.5</b>	<b>-548.4</b>	<b>-574.2</b>	<b>-604.3</b>	<b>-633.9</b>
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	-13.4	-20.4	-18.5	-19.6	-20.6	-21.6
Extra Budgetary Units	-363.5	-74.2	-290.7	-368.6	-388.0	-407.0
Local Government	-230.2	-172.9	-239.2	-185.9	-195.7	-205.3
<b>Social benefits</b>	<b>-541.7</b>	<b>-573.1</b>	<b>-572.4</b>	<b>-604.8</b>	<b>-582.3</b>	<b>-595.6</b>
<b>Other expense</b>	<b>-619.4</b>	<b>-708.8</b>	<b>-613.3</b>	<b>-996.4</b>	<b>-596.8</b>	<b>-626.6</b>
Student Grants	-588.0	-510.6	-595.1	-717.5	-575.8	-604.0
Other expense	-31.4	-198.1	-18.2	-278.9	-21.0	-22.6
<b>NON FINANCIAL &amp; FINANCIAL ASSETS</b>	<b>-111.9</b>	<b>-24.0</b>	<b>-42.6</b>	<b>-32.7</b>	<b>-34.4</b>	<b>-37.9</b>
<b>Capital Budget</b>	<b>-3 022.3</b>	<b>-3 569.6</b>	<b>-3 351.7</b>	<b>-4 709.1</b>	<b>-5 261.7</b>	<b>-4 974.6</b>
GoL	-2 055.4	-1 688.9	-1 988.0	-1 615.0	-1 699.7	-1 782.8
Donor Grants	-693.4	-1 379.1	-1 097.0	-2 324.5	-2 380.3	-2 149.6
Donor Loans	-273.5	-501.6	-266.7	-769.6	-1 181.6	-1 042.2
<b>CASH SURPLUS / DEFICIT</b>	<b>-528.6</b>	<b>-2 085.1</b>	<b>-1 305.2</b>	<b>-2 712.3</b>	<b>-1 018.7</b>	<b>-797.2</b>
<b>% GDP</b>	<b>-3.5%</b>	<b>-12.6%</b>	<b>-8.2%</b>	<b>-15.0%</b>	<b>-5.1%</b>	<b>-3.7%</b>
<b>GDP</b>	<b>15 041.0</b>	<b>16 565.2</b>	<b>15 909.7</b>	<b>18 067.3</b>	<b>20 015.4</b>	<b>21 686.9</b>
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>	<b>-159.4</b>	<b>2034.1</b>	<b>1221.7</b>	<b>2712.3</b>	<b>1018.7</b>	<b>797.2</b>
<b>FINANCIAL ASSETS</b>	<b>178.6</b>	<b>1765.9</b>	<b>1042.3</b>	<b>1457.0</b>	<b>-380.1</b>	<b>-272.1</b>
Domestic	178.6	1 768.3	1 042.3	1 457.0	-380.1	-272.1
Foreign	0.0	-2.4	0.0	0.0	0.0	0.0
<b>LIABILITIES</b>	<b>-338.0</b>	<b>268.3</b>	<b>179.5</b>	<b>1 255.2</b>	<b>1 398.8</b>	<b>1 069.3</b>
Domestic	-357.5	5.6	-128.8	500.0	244.6	245.5
Securities	-138.5	5.6	255.4	500.0	244.6	245.5
Loans	-219.1	0.0	-384.3	0.0	0.0	0.0
of which Pension Liabilities	-250.0	0.0	-338.1	0.0	0.0	0.0
Foreign	19.5	262.7	308.3	755.2	1 154.2	823.8
Loans	19.5	262.7	308.3	755.2	1 154.2	823.8
Disbursements	273.5	501.6	504.7	1 040.0	1 451.9	1 146.9
Repayments	-254	-239.0	-196.4	-284.7	-297.8	-323.1
Statistical Discrepancy	-688.0	-51.0	-83.5	0.0	0.0	0.0

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

<b>ANNEX II</b>						
<b>REVENUES AND EXPENDITURES AS % GDP FOR FISCAL YEARS 2011/2012 - 2013/2014</b>						
<b>Budget Item</b>	<b>Outturn 2009/10</b>	<b>Budget 2010/11</b>	<b>Projected Outturn 2010/11</b>	<b>Budget 2011/12</b>	<b>Budget 2012/13</b>	<b>Budget 2013/14</b>
<b>REVENUE</b>	<b>63.5</b>	<b>49.4</b>	<b>56.0</b>	<b>55.6</b>	<b>60.5</b>	<b>57.9</b>
<b>Tax revenue</b>	<b>21.6</b>	<b>20.8</b>	<b>21.8</b>	<b>21.9</b>	<b>21.7</b>	<b>22.0</b>
Taxes on income, profits, and capital gains	11.8	12.5	12.2	12.2	12.3	12.9
Income tax - payable by individuals	5.8	6.0	7.1	7.3	7.1	7.0
Income tax - payable by corporations and other enterprises	4.6	5.1	2.7	2.7	2.8	3.3
Income tax - unallocable	1.4	1.5	2.4	2.3	2.4	2.6
Taxes on property	0.6	0.5	0.6	0.6	0.6	0.6
Taxes on goods and services	8.6	7.1	8.8	8.9	8.5	8.3
Value-added tax	6.9	6.4	7.8	7.9	7.6	7.3
Excise taxes	1.6	0.7	0.8	0.8	0.9	0.9
Taxes on specific services	0.1	0.0	0.1	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	0.6	0.6	0.2	0.2	0.2	0.3
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0
<b>Grants</b>	<b>4.6</b>	<b>10.9</b>	<b>9.4</b>	<b>13.4</b>	<b>12.4</b>	<b>10.4</b>
<b>Other revenue</b>	<b>4.6</b>	<b>4.6</b>	<b>8.2</b>	<b>5.1</b>	<b>5.0</b>	<b>4.9</b>
Property income	0.9	0.9	4.0	1.1	1.1	1.1
Interest	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.8	0.8	4.0	1.0	1.0	1.1
Rent	0.0	0.0	0.0	0.0	0.0	0.0
Sales of goods and services	3.3	3.5	3.9	3.7	3.6	3.5
Electricity Muela	0.6	0.7	0.6	0.7	0.7	0.7
Water Royalties - LHDA	2.2	2.3	2.7	2.6	2.4	2.4
Administrative fees	0.2	0.2	0.2	0.2	0.2	0.2
Incidental sales by nonmarket establishments	0.3	0.3	0.3	0.3	0.3	0.3
Fines & forfeits	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous and unidentified revenue	0.4	0.2	0.3	0.2	0.3	0.2
<b>SACU</b>	<b>32.7</b>	<b>13.1</b>	<b>16.5</b>	<b>15.2</b>	<b>21.4</b>	<b>20.7</b>
<b>EXPENSE (Statutory + Non Statutory + Salary Increase)</b>	<b>-46.2</b>	<b>-40.3</b>	<b>-42.8</b>	<b>-44.3</b>	<b>-39.2</b>	<b>-38.5</b>
<b>Compensation of Employees</b>	<b>-19.9</b>	<b>-18.4</b>	<b>-19.2</b>	<b>-20.1</b>	<b>-18.9</b>	<b>-18.8</b>
Wages and salaries	-16.8	-16.2	-16.2	-17.5	-16.3	-16.3
Employer contributions	-3.1	-2.2	-3.0	-2.6	-2.5	-2.5
<b>Use of goods and services</b>	<b>-12.0</b>	<b>-10.7</b>	<b>-10.8</b>	<b>-10.3</b>	<b>-9.5</b>	<b>-9.3</b>
<b>Interest Payments</b>	<b>-0.8</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-1.3</b>
Nonresidents	-0.4	-0.4	-0.3	-0.4	-0.4	-0.3
Residents other than general government	-0.3	-0.3	-0.2	-0.9	-1.0	-1.0
<b>Subsidies</b>	<b>-1.8</b>	<b>-1.2</b>	<b>-1.4</b>	<b>-0.5</b>	<b>-0.5</b>	<b>-0.5</b>
<b>Grants</b>	<b>-4.0</b>	<b>-1.6</b>	<b>-3.4</b>	<b>-3.2</b>	<b>-3.0</b>	<b>-2.9</b>
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Extra Budgetary Units	-2.4	-0.4	-1.8	-2.0	-1.9	-1.9
Local Government	-1.5	-1.0	-1.5	-1.0	-1.0	-0.9
<b>Social benefits</b>	<b>-3.6</b>	<b>-3.5</b>	<b>-3.6</b>	<b>-3.3</b>	<b>-2.9</b>	<b>-2.7</b>
<b>Other expense</b>	<b>-4.1</b>	<b>-4.3</b>	<b>-3.9</b>	<b>-5.5</b>	<b>-3.0</b>	<b>-2.9</b>
Student Grants	-3.9	-3.1	-3.7	-4.0	-2.9	-2.8
Other expense	-0.2	-1.2	-0.1	-1.5	-0.1	-0.1
<b>NON FINANCIAL &amp; FINANCIAL ASSETS</b>	<b>-0.7</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>
<b>Capital Budget</b>	<b>-20.1</b>	<b>-21.5</b>	<b>-21.1</b>	<b>-26.1</b>	<b>-26.3</b>	<b>-22.9</b>
GoL	-13.7	-10.2	-12.5	-8.9	-8.5	-8.2
Donor Grants	-4.6	-8.3	-6.9	-12.9	-11.9	-9.9
Donor Loans	-1.8	-3.0	-1.7	-4.3	-5.9	-4.8
<b>CASH SURPLUS / DEFICIT</b>	<b>-528.6</b>	<b>-2 085.1</b>	<b>-1 305.2</b>	<b>-2 712.3</b>	<b>-1 018.7</b>	<b>-797.2</b>
<b>% GDP</b>	<b>-3.5%</b>	<b>-12.6%</b>	<b>-8.2%</b>	<b>-15.0%</b>	<b>-5.1%</b>	<b>-3.7%</b>
<b>GDP</b>	<b>15 041.0</b>	<b>16 565.2</b>	<b>15 909.7</b>	<b>18 067.3</b>	<b>20 015.4</b>	<b>21 686.9</b>
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>	<b>-1.1</b>	<b>12.3</b>	<b>7.7</b>	<b>15.0</b>	<b>5.1</b>	<b>3.7</b>
<b>FINANCIAL ASSETS</b>	<b>1.2</b>	<b>10.7</b>	<b>6.6</b>	<b>8.1</b>	<b>-1.9</b>	<b>-1.3</b>
Domestic	1.2	10.7	6.6	8.1	-1.9	-1.3
Foreign	0.0	0.0	0.0	0.0	0.0	0.0
<b>LIABILITIES</b>	<b>-2.2</b>	<b>1.6</b>	<b>1.1</b>	<b>6.9</b>	<b>7.0</b>	<b>4.9</b>
Domestic	-2.4	0.0	-0.8	2.8	1.2	1.1
Securities	-0.9	0.0	1.6	2.8	1.2	1.1
Loans	-1.5	0.0	-2.4	0.0	0.0	0.0
of which Pension Liabilities	-1.7	0.0	-2.1	0.0	0.0	0.0
Foreign	0.1	1.6	1.9	4.2	5.8	3.8
Loans	0.1	1.6	1.9	4.2	5.8	3.8
Disbursements	1.8	3.0	3.2	5.8	7.3	5.3
Repayments	-1.7	-1.4	-1.2	-1.6	-1.5	-1.5
<i>Statistical Discrepancy</i>	<i>-4.6</i>	<i>-0.3</i>	<i>-0.5</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>

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

### ANNEX III

#### ANNUAL % CHANGE IN REVENUES AND EXPENDITURES

Budget Item	Budget 2010/11	Budget 2011/12	% Change
<b>REVENUE</b>	<b>8 183.5</b>	<b>10 038.3</b>	<b>22.7</b>
<b>Tax revenue</b>	<b>3 448.8</b>	<b>3 952.6</b>	<b>14.6</b>
Taxes on income, profits, and capital gains	2 072.9	2 212.5	6.7
Income tax - payable by individuals	988.6	1 322.1	33.7
Income tax - payable by corporations and other enterprises	842.7	480.3	-43.0
Income tax - unallocable	241.6	410.1	69.8
Taxes on property	89.9	106.1	18.1
Taxes on goods and services	1 182.4	1 600.7	35.4
Value-added tax	1 053.2	1 435.0	36.3
Excise taxes	119.0	152.2	27.9
Taxes on specific services	4.6	8.4	84.3
Taxes on the use of goods and on permission to use or perform activities	5.6	5.0	-10.3
Taxes on international trade and transactions	96.2	30.8	-68.0
Other taxes	7.4	2.4	-66.9
<b>Grants</b>	<b>1 809.1</b>	<b>2 414.5</b>	<b>33.5</b>
<b>Other revenue</b>	<b>763.7</b>	<b>918.6</b>	<b>20.3</b>
Property income	143.5	196.3	36.8
Interest	7.5	7.5	-0.2
Dividends	130.3	185.4	42.3
Rent	5.7	3.4	-40.5
Sales of goods and services	580.5	670.2	15.4
Electricity Muela	109.7	118.2	7.8
Water Royalties - LHDA	388.1	463.3	19.4
Administrative fees	32.0	34.0	6.2
Incidental sales by nonmarket establishments	50.8	54.7	7.7
Fines & forfeits	6.5	7.4	13.1
Miscellaneous and unidentified revenue	33.1	44.7	35.0
<b>SACU</b>	<b>2 161.9</b>	<b>2 752.6</b>	<b>27.3</b>
<b>EXPENSE</b>	<b>-6 675.0</b>	<b>-8 008.8</b>	<b>20.0</b>
<b>Compensation of Employees</b>	<b>-3 048.3</b>	<b>-3 632.5</b>	<b>19.2</b>
Wages and salaries	-2 685.6	-3 154.1	17.4
Employer contributions	-362.7	-478.4	31.9
<b>Use of goods and services</b>	<b>-1 767.3</b>	<b>-1 864.6</b>	<b>5.5</b>
<b>Interest Payments</b>	<b>-105.7</b>	<b>-240.5</b>	<b>127.6</b>
Nonresidents	-63.5	-73.7	16.1
Residents other than general government	-42.2	-166.8	295.3
<b>Subsidies</b>	<b>-204.4</b>	<b>-95.8</b>	<b>-53.1</b>
<b>Grants</b>	<b>-267.5</b>	<b>-574.2</b>	<b>114.7</b>
To foreign governments	0.0	0.0	
To international organizations	-20.4	-19.6	-3.7
Extra Budgetary Units	-74.2	-368.6	396.6
Local Government	-172.9	-185.9	7.5
<b>Social benefits</b>	<b>-573.1</b>	<b>-604.8</b>	<b>5.5</b>
<b>Other expense</b>	<b>-708.8</b>	<b>-996.4</b>	<b>40.6</b>
Student Grants	-510.6	-717.5	40.5
Other expense	-198.1	-278.9	40.8
<b>Capital Budget</b>	<b>-3 569.6</b>	<b>-4 709.1</b>	<b>31.9</b>
GoL	-1 688.9	-1 615.0	-4.4
Donor Grants	-1 379.1	-2 324.5	68.6
Donor Loans	-501.6	-769.6	53.4
<b>CASH SURPLUS / DEFICIT</b>	<b>-2 085.1</b>	<b>-2 712.3</b>	
% GDP	-12.6%	-15.0%	
<b>GDP</b>	<b>15 909.7</b>	<b>18 067.3</b>	

**ANNEX IV**

Ministry	2010/11					2011/12				
	Recurrent Budget	Capital Budget				Recurrent Budget	Capital Budget			
		GoL	Donor Grants	Donor Loans	Total		GoL	Donor Grants	Donor Loans	Total
Agriculture and Food Security	144.4	41.0	0.0	15.0	56.0	144.2	10.4	0.0	13.0	23.4
Health and Social Welfare	800.6	250.3	203.3	39.0	492.6	1033.5	274.1	347.6	0.0	621.7
Education and Training	1487.0	58.4	113.2	10.0	181.6	1843.5	37.0	79.7	7.0	123.7
Finance & Development Planning	797.0	75.2	491.0	26.3	592.5	1077.4	104.3	1180.4	45.4	1330.1
Trade and Industry, Cooperatives & Marketing	52.2	24.0	20.4	0.0	44.4	46.8	34.0	17.4	75.7	127.1
Justice, Human Rights & Rehabilitation	199.5	19.7	0.0	0.0	19.7	190.2	28.0	0.0	0.0	28.0
Home Affairs & Public Safety	364.4	14.0	0.0	0.0	14.0	373.1	34.5	0.0	0.0	34.5
Prime Minister's Office	99.2	5.0	0.0	0.0	5.0	78.8				
Communications, Science and Technology	75.9	32.0	0.0	0.0	32.0	71.9	105.0	0.0	50.0	155.0
Law & Constitutional Affairs	60.6					56.7				
Foreign Affairs & Intern Relations	283.8	16.0	0.0	0.0	16.0	296.9				
Public Works & Transport	184.1	386.0	163.8	76.1	626.0	163.4	352.2	75.3	97.9	525.4
Forestry & Land Reclamation	40.9	112.0	0.0	0.0	112.0	38.2	100.0	5.5	0.0	105.5
Natural Resources	74.9	156.4	319.0	335.2	810.6	137.5	171.2	568.5	480.7	1220.4
Labour & Employment	35.4					31.3				
Tourism, Environment & Culture	53.2	34.5	0.0	0.0	34.5	53.8	26.4	0.0	0.0	26.4
Auditor General's Office	17.8					18.6	0.0	1.6	0.0	1.6
His Majesty's Office	6.6	20.0	0.0	0.0	20.0	5.8	20.0	0.0	0.0	20.0
Public Service Commission	5.2					5.1				
Lesotho Highlands Development Authority		79.0	0.0	0.0	79.0		5.0	10.0	0.0	15.0
Defence & National Security	349.6	15.0	0.0	0.0	15.0	349.9	24.5	0.0	0.0	24.5
National Assembly	50.7					68.2				
Senate	12.6					12.7	1.0	0.0	0.0	1.0
Ombudsman	5.3					4.6				
Independent Electoral Commission	27.4					285.0				
Local Government & Chieftainship affairs	303.8	0.0	17.2	0.0	17.2	312.1	259.8	21.4	0.0	281.2
Gender, Youth, Sports & Recreation	57.2	272.1	51.1	0.0	323.2	39.6	27.6	17.2	0.0	44.8
Public Service	23.0	78.2	0.0	0.0	78.2	22.0				
<b>Sub Total</b>	<b>5612.2</b>	<b>1688.9</b>	<b>1379.1</b>	<b>501.6</b>	<b>3569.6</b>	<b>6761.0</b>	<b>1615.0</b>	<b>2324.5</b>	<b>769.6</b>	<b>4709.1</b>
Principal Repayment	239.0					284.7				
Interest Charges	178.6					240.5				
Pension & Gratuities	681.7					790.0				
Statutory Salaries & Allowances	22.9					27.9				
Subscriptions to International Organisations	20.4					23.2				
Other	51.3									
Administration Fund (Contingency)	100.0					83.0				
<b>Total</b>	<b>6906.1</b>	<b>1688.9</b>	<b>1379.1</b>	<b>501.6</b>	<b>3569.6</b>	<b>8210.3</b>	<b>1615.0</b>	<b>2324.5</b>	<b>769.6</b>	<b>4709.1</b>



## ANNEX V

### Expenditure by Ministry as % of Total - Capital and Recurrent

Ministry	2010/11					2011/12				
	Recurrent Budget	Capital Budget				Recurrent Budget	Capital Budget			
		GoL	Donor Grants	Donor Loans	Total		GoL	Donor Grants	Donor Loans	Total
Agriculture and Food Security	2.09	2.43	0.00	2.99	1.57	2.11	0.64	0.00	1.69	0.50
Health and Social Welfare	11.59	14.82	14.74	7.77	13.80	15.10	16.97	14.95	0.00	13.20
Education and Training	21.53	3.46	8.21	1.99	5.09	26.94	2.29	3.43	0.91	2.63
Finance & Development Planning	11.54	4.45	35.61	5.24	16.60	15.74	6.46	50.78	5.90	28.25
Trade and Industry, Cooperatives & Marketing	0.76	1.42	1.48	0.00	1.24	0.68	2.11	0.75	9.83	2.70
Justice, Human Rights & Rehabilitation	2.89	1.17	0.00	0.00	0.55	2.78	1.73	0.00	0.00	0.59
Home Affairs & Public Safety	5.28	0.83	0.00	0.00	0.39	5.45	2.14	0.00	0.00	0.73
Prime Minister's Office	1.44	0.30	0.00	0.00	0.14	1.15	0.00	0.00	0.00	0.00
Communications, Science and Technology	1.10	1.89	0.00	0.00	0.90	1.05	6.50	0.00	6.50	3.29
Law & Constitutional Affairs	0.88	0.00	0.00	0.00	0.00	0.83	0.00	0.00	0.00	0.00
Foreign Affairs & Intern Relations	4.11	0.95	0.00	0.00	0.45	4.34	0.00	0.00	0.00	0.00
Public Works & Transport	2.67	22.86	11.88	15.18	17.54	2.39	21.81	3.24	12.72	11.16
Forestry & Land Reclamation	0.59	6.63	0.00	0.00	3.14	0.56	6.19	0.23	0.00	2.24
Natural Resources	1.08	9.26	23.13	66.82	22.71	2.01	10.60	24.46	62.46	25.91
Labour & Employment	0.51	0.00	0.00	0.00	0.00	0.46	0.00	0.00	0.00	0.00
Tourism, Environment & Culture	0.77	2.04	0.00	0.00	0.97	0.79	1.64	0.00	0.00	0.56
Auditor General's Office	0.26	0.00	0.00	0.00	0.00	0.27	0.00	0.07	0.00	0.03
His Majesty's Office	0.10	1.18	0.00	0.00	0.56	0.09	1.24	0.00	0.00	0.42
Public Service Commission	0.07	0.00	0.00	0.00	0.00	0.07	0.00	0.00	0.00	0.00
Lesotho Highlands Development Authority	0.00	4.68	0.00	0.00	2.21	0.00	0.31	0.43	0.00	0.32
Defence & National Security	5.06	0.89	0.00	0.00	0.42	5.11	1.51	0.00	0.00	0.52
National Assembly	0.73	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00
Senate	0.18	0.00	0.00	0.00	0.00	0.19	0.06	0.00	0.00	0.02
Ombudsman	0.08	0.00	0.00	0.00	0.00	0.07	0.00	0.00	0.00	0.00
Independent Electoral Commission	0.40	0.00	0.00	0.00	0.00	4.16	0.00	0.00	0.00	0.00
Local Government & Chieftainship affairs	4.40	0.00	1.25	0.00	0.48	4.56	16.09	0.92	0.00	5.97
Gender, Youth, Sports & Recreation	0.83	16.11	3.70	0.00	9.05	0.58	1.71	0.74	0.00	0.95
Public Service	0.33	4.63	0.00	0.00	2.19	0.32	0.00	0.00	0.00	0.00
Principal Repayment	3.46					4.16				
Interest Charges	2.59					3.51				
Pension & Gratuities	9.87					11.54				
Statutory Salaries & Allowances	0.33					0.41				
Subscriptions to International Organisations	0.30					0.34				
Other	0.74					0.00				
Administration Fund (Contingency)	1.45					1.21				
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>119.96416</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

