LESOTHO

PARLIAMENT OF THE KINGDOM OF LESOTHO

Beyond Stability Towards Economic Transformation That Works

(Addressing Implementation)

Budget Speech to Parliament for the

2014/2015 Fiscal Year

By

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Maseru, Lesotho

20th February 2014

Mr 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
The Chief Justice and Judges of the High Court
My Colleagues, Honourable Ministers of His Majesty's Government
Honourable Members of both Houses of Parliament
Excellencies Heads of Diplomatic Missions and International Organisations present here
Distinguished members of the Media
The entire Basotho nation here in Lesotho and abroad
Ladies and Gentlemen

Mr Speaker,

1. The budget speech I am delivering today is the second since the coalition government took over office in 2012. It carries in it a legitimate expectation to report on the performance of the 2013/14 Budget. I shall provide the report later in the speech. At this point, I just want to mention that there have been achievements over the last year, but there have also been challenges that require persisting political courage in order to make meaningful progress in attaining an inclusive and broad-based economic growth. Such growth must embrace demonstrable improvements in the livelihoods of the people. You will agree with me it is only when they observe and achieve this fundamental purpose that national budgets begin to make sense and thus become relevant.

Mr Speaker,

Introduction

2. As indicated in last year's budget, the coalition government continues to consider macro-fiscal stability as a critical condition for development. We will continue to pursue this objective. But such stability must

translate into necessary infrastructure and an enabling legal framework that promote private sector-led economic growth which creates productive jobs; it must translate into income generation and food security; it must translate into decent health services and national security; it must translate into a rollout of relevant education and skills to our people; it must translate into protection of the vulnerable segments of our society; and it must translate into reduction of crime and corruption. And indeed, it must translate into respect and freedom for our people. Thus, Mr Speaker, it is imperative to go beyond stability and tirelessly fight for visible improvements in these areas in a manner that positively changes the lives of the citizens.

Mr Speaker,

3. In pursuit of the preceding overall policy objectives, during the month of January, the government, in partnership with the International Monetary Fund (IMF), held a one day dialogue on the transformation of Lesotho's economy. This provided an instructive precursor for this budget. The dialogue concluded that Lesotho has succeeded in preserving stability, following the 2008 global financial and economic crisis. What is now urgently needed is provision of adequate resources to finance our national development programmes as defined in the National Strategic Development Plan (NSDP). This will practically be done over the medium term given our resource constraints and in order to allow for improvements in the quality of our programmes and expenditures. Equally, of great importance here, is the need to strengthen the implementation capacity of the annual capital budgets. For a long time now, we have been talking about capacity weaknesses of the public sector to implement planned programmes, but without decisive corrective measures. The time for correcting this situation must start now.

4. Thus, Mr Speaker, in the months leading to the preparation of this budget, Cabinet advised itself on intensifying the link between policy, planning and budgeting. Following a recognition of this important link, we must report that improvements have been made to the new Budget Strategy Paper to help impose hard budget decisions focusing on staggered national priorities over the medium term. What remains a compelling challenge though is a gradual elimination of certain relatively low priority activities and outsourcing of selected activities to

the private sector as well as determining the optimum size of the public sector in a manner that will not be abrupt and disruptive. For the latter to happen, a well spelled-out implementation plan is highly crucial, which should include the role of the private sector.

5. But one critical issue for this budget that I should mention at the outset, is the plan to legislate annual Midterm Budget Reviews (MBRs) which will enable the Government to subject annual budget allocations to frequent scrutiny in order to improve the responsiveness of the annual resource allocation to the purpose for which funds would have been allocated in the first place. We have to effectively impose full accountability by ministries and agencies for resources under their respective responsibilities so that there are ongoing improvements of budget outcomes year-on-year. This is what development is all about. These reviews can also go a long way to improving and strengthening annual budget implementation, including effecting timely adjustments in our implementation plans, where necessary.

Mr Speaker,

6. Before moving to the key objectives of this year's budget, let me make a brief comment on the Southern African Customs Union (SACU) revenue shares, which form a major part of our revenues. The SACU revenue shares have dominated our speeches and public discussions over more than a decade. This source of revenue has been and continues to be a very important part of our budget and development, even as I stand here today. However, we need to reach a definitive national position on the future of SACU given the volatility surrounding this source of revenue and the uncertainty regarding SACU as an institution. The most pertinent question is, have we maximised and taken full advantage of past SACU revenues by investing them strategically so that they do not only serve as a 'retrospective glory' that has contributed immensely to our total revenues? The answer is probably a no. And if not, how can we best transform the allocation of current and possible future SACU receipts in a manner that they provide a concrete foundation for growth when they still remain the biggest contributor to government's total revenues? Our proposal is that to the extent possible, SACU receipts are restricted to the investment budget and only allocate any remaining balance to the recurrent budget.

7. On the other hand, while it is extremely important that we must do everything possible to mobilise additional domestic revenues to reduce dependence on SACU in order to avoid the impending doom should SACU go, we should equally consider very seriously how such additional revenues might be used in a manner that yields high returns, including making improvements to our implementation capacity.

8. Mr Speaker, these revenue issues, as well as the efficiency and the effectiveness of public service delivery, need a nationwide commitment where everyone contributes meaningfully.

Mr Speaker,

9. The broad objectives of this year's budget, the specifics of which I shall detail later in the sections covering *Policy Priorities for 2014/15* and *Sectoral Issues and Allocations for 2014/15,* are anchored on the NSDP and the National Vision 2020. As a reiteration, the overarching goal of the NSDP is to create productive jobs, to reduce poverty and achieve sustainable development through the pursuit of the following goals in the short to medium term:

- Providing conditions necessary for high, shared and employment creating economic growth;
- Developing key infrastructure across all economic sectors, especially in support of private sector investment and development;
- Enhancing the skills base, technology adoption and foundation for innovation;
- Improving health and its services, combating HIV and AIDS, and reducing vulnerability;
- Reversing environmental degradation and adapting to climate change; and
- Promoting peace, democratic governance and building effective institutions.

10. Therefore, in determining the 2014/15 budget proposals for consideration and approval by *Parliament*, the government adopted the following policy targets, which are derived from the above goals, as priorities and a basis for proposed resource allocation:

- Identifying sectors with the high potential for contributing to growth levels of between 5 and 7 percent per annum, including creation of 10,000 jobs per year on average;
- Reducing food insecurity by 25 percent by 2017;
- Reducing child and maternal mortality by at least 25 percent by 2017;
- Reducing incidence of HIV by at least 15 percent and increasing coverage for anti-retroviral treatment (ART) to at least 80 percent of the population that needs it by 2017;
- Broadening the skills base to take into account the needs of the labour market;
- Reducing environmental degradation and preserving heritage; and
- Promoting peace and security.

11. Mr Speaker, to be able to provide adequate funding within the scope of these policy targets, proposals for 2014/15 budget allocations have to the extent possible, been restricted to the priority programmes and interventions which are considered to have potential to contribute towards; i) facilitating job creation, inclusive growth and economic diversification; ii) reducing economic and social vulnerabilities; and iii) improving public sector delivery and efficiency. It is expected that in the coming years, our budgets will continue to be refined and become tighter and tighter, as we weed out low priority activities not falling within these priority list so that we realise the optimum annual budget outcomes that will enable us to achieve sustainable development.

12. But, Mr Speaker, as noted earlier in the statement, to succeed in these critical areas, we need to make decisive improvements in the implementation capacity of the public sector, including developing an aggressive and robust monitoring and evaluation framework. This requires an unbending resolve across all levels of government, supported by both Houses of Parliament. If implementation remains weak as has been the case in the past, we are exposed to the risk of losing out in our reform agenda and experiencing slippages in attaining the goals of the NSDP, including the Vision 2020. We must avoid such slippages at all cost. The Government is considering legislating establishment of an Independent National Monitoring and Evaluation Authority (INMEA) to assist government to gradually improve its

implementation capacity. But this will require a very serious reflection, as a concept.

13. The other extremely important area, which is core to the administration and development of this country, is the Public Financial Management and Accountability. For years, public financial management in Lesotho has remained weak, and consequently undermined the efficiency and effectiveness of public policy. Delays in payments to the suppliers, who provide goods and services to government, have also continued to undermine the efforts of the same government to develop and support the private sector, in the quest for sustainable economic growth and development. We cannot allow this to go on unabated. This budget proposes stiff measures, including engagement of external assistance with international experience to help turn around the situation, insisting on concrete evidence of positive changes by the end of the budget year. There is also a PFM Reform Programme that is about to be implemented to address this problem and other bottlenecks.

14. Finally, after these long introductory remarks, I would like to note that it is the extent to which we diligently execute our respective responsibilities that achievements in the priority areas I have just enunciated will be possible. But thought it appropriate to start the way I did by setting the tone of this year's budget, which emphasises **implementation**. This goes both for the public and private sectors. We all have a stake in Lesotho's development.

Recent Global and Regional Economic Developments and Prospects

Mr Speaker,

15. Let me quickly reflect on economic developments and prospects elsewhere in the world and summarise their bearing on Lesotho's economy. I will limit this to the extent of its impact on Lesotho's development.

16. Continuing slow growth and uncertainties in the global economy are not good signs for our economy. Low global demand for Lesotho's exports resulting from persistently high unemployment rates in

developed countries has serious implications for our economy. For example, slow economic growth and recent developments in the South African mining industry, continue to undermine the scope of SACU receipts and employment of the Basotho mineworkers, from whom rural household incomes are derived. A combination of all these factors has an undesirable effect for our economy. Reduced migrant remittances is not good for Lesotho's current account balance. This will put even more pressure on us to take bold policy actions, including drastically improving the effectiveness of our annual budget implementation.

International Performance and Prospects

17. At the international level, we would like to note that following the global financial crisis, the world economy continues to struggle to recover. According to Global Outlook 2013, during 2012, global economic growth weakened further, recording growth rate of 2.2 percent in 2012 compared to 2.7 percent in 2011. Developed countries, with high debt levels, moved even deeper into recession, experiencing high unemployment rates, weak aggregate demand resulting from contracted fiscal policies and weaknesses in their financial sectors. Most low-income countries on the other hand, continued to enjoy immense growth during the same period, but prospects indicate that they are faced with intensified adverse spill-over from the slowdown in both developed and major middle-income countries.

18. For the year 2013, the picture is mixed. Growth in the United States has shown positive indications, increasing from 2.5 percent in the third quarter of 2013 to 4.1 percent during the fourth quarter. Equally, China and India continue to show relatively higher growth rates averaging 7.6 percent and 4.6 percent in 2013, respectively even though these too slowed down from averages of 9 percent and 6 percent, respectively, which could have negative implications for Lesotho's diamond exports. However, in the Euro area growth remains weak, recording a decline of 0.6 and 0.4 percent in the second and third quarter of 2013, respectively, according to the World Economic Outlook, 2013.

19. Unemployment in the US during fourth quarter of 2013 contracted to 6.7 percent compared to 7.8 percent in the same period in 2012, while Europe's unemployment continues to show serious signs, registering

12.1 percent in the third quarter of 2013 compared to 11.8 percent in the same period in 2012. Even though there has been an improvement in the US's employment, including increases in personal consumption expenditure, a combination of which has a positive effect on our textile exports, unemployment rates at these levels have undesirable consequences for Lesotho's exports compared to the period prior to the 2008 crisis.

20. The next two years continue to be challenging, with substantial uncertainties and risks to growth. The IMF 2013 preliminary data indicate that world growth is expected to register 2.4 percent and 3.4 percent in 2013 and 2014, respectively. Any possible expansion in the world economy is expected to be underpinned by continued policy support and accelerated economic recovery in the emerging economies. A most likely possibility could emanate from China, which has initiated an economic programme aimed at stimulating its own domestic demand.

Regional Performance and Prospects

21. In Sub-Saharan Africa, while growth remained relatively strong, it slowed down from 4.9 percent in 2012 to 4.2 percent in 2013. This region's growth is underpinned by strong private and public investment. For example growth in gross fixed capital formation in Sub-Saharan Africa has steadily increased from about 16.4 percent of GDP in 2000 to about 20.4 percent in 2011. This recovery in investment has not only contributed to growth directly, but has also helped boost the productive capacity of the region's economy.

22. The 2013 IMF report also indicates that low interest rates have resulted in mobilisation of additional domestic investment. This has resulted in the exploitation of natural resources, which were mostly discovered in recent years. But the services sector is also attracting increased earnings, as consumer incomes rise and consequently increase economic activity in service sub-sectors, such as, telecommunications, retail, real estate, and transportation. Between 2010 and 2011, the services and manufacturing sectors attracted some 33.6 percent and 41.2 percent of all FDI into Africa while the primary sector accounted for only 13.2 percent. This development continues to confirm that with

improvements in efficiencies, the services sector can contribute immensely to Africa's economic growth.

Mr Speaker,

23. Coming closer home, in South Africa, growth has continued to slow down, recording only 1.8 percent in the third quarter of 2013 compared to 2.3 percent in the same period in 2012. Equally, unemployment rate registered 25.6 percent in third quarter of 2013 compared to 25.5 percent in the same period in 2012. On the other hand, prices, defined in periodic inflation rates, have improved slightly from 5.7 percent in the fourth quarter of 2012 to 5.4 percent in the fourth quarter of 2013. This tells us that given our economy's interrelatedness with that of South Africa, these developments have far-reaching implications for Lesotho. For example, with regard to interest rates, although it might have been a necessary policy action by the South African Reserve Bank to adjust rates, the recent increase of the lending rate (repo rate) from 5.0 to 5.5 percent also means that credit for investment by the private sector has become expensive and restrictive.

24. Finally, in line with the Sub-Saharan African economic growth, SACU economies have experienced positive growth, mainly supported by growth in consumer demand. This growth was also supported by accommodative macroeconomic policies, high commodity prices and structural reforms. Four of the SACU Member States, including Lesotho, are also members of the Common Monetary Area (CMA) and to some extent, pursued similar monetary policies. Consequently, inflation rates remained low and stable. But the main challenge confronting the SACU economies is the translation of economic growth to inclusive growth, particularly among the youth. Another challenge is the ability to improve and sustain domestic revenue, especially in the smaller members of the Customs Union.

Domestic Economic Performance and Outlook

25. Turning now to the home front, following severe weather conditions which affected agricultural production and suppressed growth to 3.8 in 2011/12, domestic economic growth recovered to an estimated 6.8 percent in 2012/13 boosted by policy interventions in the agricultural sector, together with strong performance in the diamond mining and

construction sectors. Transport, communication and financial sectors also continue to contribute strongly to the overall growth, resulting from increased coverage of telecommunication and mobile services, and postal services infrastructure as well as improvements in access to credit supported by reforms in the financial sector.

26. But in the years ahead, in spite of ongoing public investments, such as construction of the Metolong Dam and road network around the country, our economic prospects remain challenging. The textiles sub-sector and diamond mining face uncertainties in the global markets due to competition from other regions of the world and weak global demand. For example, the uncertainties surrounding the extension of trade preferences under African Growth and Opportunity Act (AGOA) beyond 2015 pose challenges for the textile manufacturing, which has largely benefitted from the US market access under the Act. As for the diamond mining, huge investments are required to guarantee electricity supply to the potential mining areas in the country and this require substantial financial resources which might not be readily available.

Mr Speaker,

27. Turning to the external sector, our balance of payments position remains vulnerable to external shocks. Over the last four years the current account deficit widened as a result of a slowdown in our exports, together with a decline in both the SACU receipts and income account. It improved during the 2013/14 due to a recovery in SACU receipts and improvements in the trade balance, and it is expected to improve further to a surplus of 1.3 percent of GDP in 2014/15 due to expected improvement in exports, income account and current transfers. But the forecasts beyond 2014/15 are that it will relapse to the average deficit of 6.7 percent of GDP between 2015/16 and 2016/17. This will stem from the broadened trade deficit emanating from investment activities related to Phase II of the Lesotho Highlands Development Project (LHWP) and the anticipated implementation of the NSDP. Beyond this period the deficit is expected to narrow down, as most construction activities are completed and the LHWP starts generating royalty and electricity revenue.

28. With regard to the official international reserves, there has been substantial improvement, following the government’s fiscal consolidation under the IMF Extended Credit Facility (ECF) Program and the recovery of the SACU receipts. The reserves are expected to reach 5.5 months of import cover by end-March 2013/14 – from 4.9 at end-March 2012/13 – and to decline to an average of 5.0 months in 2014/15 through the medium term as government starts to implement the NSDP. However, as noted earlier, we will continue to protect our reserves for macro-fiscal stability, while at the same time providing adequate funding for the achievement of our development goals.

29. On the other hand, inflation and price developments in Lesotho have continued and are expected to continue to move in line with those in South Africa over the short to medium term. Lesotho’s inflation averaged 5.6 percent in the last three years, and forecasts are that it will average 6.1 percent in 2013/14 through the medium term, but will slightly increase as a result of supply shocks in agricultural output and the continuing high price of oil coupled with weak domestic currency.

30. Prime lending interest rates have remained stable over the last one year to February 2014 at around 9.9 percent having come down from around 12.0 percent in the last three years. This is despite an increase of the repo rate by South African Reserve Bank from 5.0 to 5.5 percent in January 2014. This means that following the recent global financial crisis, lending rates have remained relatively attractive for private sector borrowing and investment.

31. With regard to the exchange rate, the Loti remained weak, around M10 to the US dollar, throughout 2013 relative to an average of M7.9 between 2009/10 and 2012/13. It has since stabilised even though the current uncertainties in the South African labour market pose future risks to the currency in light of the peg with the rand.

32. Finally, here, the other challenge, which is one of the basic thrusts of this budget speech is that the pace of our reforms has been very slow over several years. This means that even where we should have taken advantage for having started earlier, we are outpaced by other countries which are moving faster. It is therefore, extremely important that the capital projects that Parliament will approve are urgently implemented in 2014/15 so that they provide basis for a meaningful

involvement of the private sector as a critical role player in economic growth and creation of jobs.

Mr Speaker,

33. Before I leave this section, it is important to note that all the numbers I have talked about have meaning to development only if they translate into reduction of poverty and improvements in the lives of the people. It remains a huge challenge that as we start implementing this budget, we are concerned about what positive impact this budget will bring to the lives of the citizens. It will end up not making a lot of sense if annual budgets are just a constitutional formality without any meaningful transformation to our lives as a nation. The biggest challenge here is that we do not have adequate statistical measures to precisely capture the impact. Therefore, going forward, our government will direct its efforts towards building the required statistical capacity to be able to generate data that would better demonstrate on an annual basis, the extent to which these economic indicators impact the lives of Basotho. This will require a large investment in creating ministerial statistical units as well as the enhancement of the statistical capacity of the Bureau of Statistics. Work towards the development of a detailed plan of action will be commenced during 2014/15 for implementation over the coming years.

Fiscal Policy and 2013/14 Budget Performance

Mr Speaker,

34. As noted on several occasions in the past, Lesotho's fiscal policy has and continues to be the main macro-economic policy instrument. Yet while public spending has continued to dominate the economy, the question is whether it has and continues to yield the desired results, including creating a useful platform for private sector participation. Our evidence is that it has unfortunately been characterised by large government employment and consumption, leading to a large allocation of the annual budget towards the recurrent expenditure. Consequently, resources required for service delivery and public investment have been compromised. Equally, the incentive for the private sector to engage in productive activities that also create jobs, is also compromised. As a result, the private sector has largely become

a supplier of goods and services, the bulk of which are not produced locally and do not translate into capacities for productive job creation.

35. While efforts are being made to restructure public expenditure, the speed at which the desired outcome can be achieved also depends on the ability of the private sector to rise up to the challenge. To this extent, the Government is pursuing a number of initiatives aimed at improving the investment climate to trigger greater private sector involvement and in turn reduce the pervasiveness of the public sector in the economy.

Mr. Speaker,

36. As I proceed into reporting on the performance of the 2013/14 Budget as promised in my opening remarks, let me remind the House that in 2013/14 Parliament approved M14,561.8 million in revenue and M14,566.5 million in expenditure for implementation of public policy in sectors identified as priority areas. Of the total approved expenditure, M9,724.0 million was recurrent and M4842.5 million capital. The appropriated budget had proposed a fiscal deficit of M97 million or 0.4 percent of GDP.

37. Based on performance to date, it is projected that to the end of the Fiscal Year M14,566.5 million will have been collected in revenue, which translates into 100 percent of estimated annual collections. With regard to expenditure, the projections are that M9,541.2 million will have been spent on recurrent expenditure while M3,972.2 million will have been spent on capital expenditure. This translates in to 98.1 percent and 82.0 percent of appropriated expenditure for recurrent and capital, respectively. The projected performance will result in a fiscal surplus of M915.0 million or 4.2 percent of GDP. As I already indicated earlier in the speech, there continues to be low absorption of resources by ministries, especially in respect of the capital budget, in spite of the dire investment need for Lesotho's development. Therefore, there is a need to work tirelessly to reverse this trend so that public resources result in the achievement of the objectives for which they were allocated.

38. In 2013/14, specific sectoral allocations were approved by this House to achieve certain results. I wish to now provide what has been achieved, including the remaining challenges that we need to tackle in the coming year to continue to make necessary improvements in the lives of the citizens.

39. In **agriculture**, it is equally known now that there had been persisting decline in production. I wish to report that in 2012/13 there was a near turnaround of this trend as the Government's subsidy for summer cropping that started in 2012/13 resulted in total grain production of 154,000 metric tonnes compared to an average of 42,000 metric tonnes in previous years, and that in 2013/14, Government continued and intensified the support to the farmers. While we are yet to receive full reports for this year, forecasts predict that the yield could even be higher than the previous year. This means that the policy intervention aimed at improving food security and therefore reducing hunger is yielding positive results. I should however indicate that in the long run, the programme should be aimed at helping the farmers to be self-sufficient as this kind of financing might not be sustainable and in principle, subsidies are not intended to be permanent. Also, assistance in the sector through the subsidies should also focus on the diversification of value chains.

40. With regard to the **industrial sector**, in 2013/14, the Government through the Ministry of Trade and Industry, Cooperatives and Marketing included in its plans activities to continue improving the investment climate and expanding industrial infrastructure as well as supporting SMMEs. To this end, during 2013/14 Government secured financing for the second phase of the Private Sector Competitiveness and Economic Diversification Project amounting to US$15.0 million, equivalent to M150 million. The objective of the intervention is to support non-textile sectors and growth in manufacturing, as well as job creation. Through this project, the Government will implement reforms aimed at easing investment procedures and assisting potential SMMEs. To date, eleven factory shells have been completed at Ha Tikoe Industrial Estate to accommodate new investors and those that want to expand their investments. The LNDC has been able to attract full occupancy of the shells. But to further improve the investment climate, the Industrial Licensing Bill has been revised and submitted to Parliament for consideration. Once enacted, the legislation will speed

up the process for obtaining industrial licences. The above developments during the current year are an indication of the progress that Government continues to make in the involved process of industrial development. Government will intensify the programme over the medium term as a means of developing Lesotho's industrial base.

41. Turning to the **tourism** sector, in 2013/14 Government had planned to develop a tourism master plan to facilitate implementation of the circuit routes to better link the different tourist places in the country. Proposals for doing the work were invited but two companies that responded did not qualify, and a fresh advertisement will be issued in the coming months. With regard to development of strategies for effective management of existing tourism structures and the review of tourism licensing procedures, the final 'Tourism Licensing Review and Reform Recommendations' Report as well as the draft 'Legal Implementation Report' outlining the legal amendment to the tourism licensing procedures in Lesotho have been received, and the process is underway for drafting of the recommended legal amendments.

42. In the **mining** sector, on the other hand, progress has been made towards the development of a policy for minerals and mining. A draft policy is under review and is expected to be finalised during the first half of 2014. Also with the assistance of the International Monetary Fund (IMF), the Government reviewed the fiscal regime governing the mining sector and recommendations have been made on the required amendments to the relevant pieces of legislation. The expectation here is that a new tax regime for the mining sector will be finalised as part of a wider review of the mining code. Furthermore, to update Lesotho's geological information, forty-two geochemical map sheets have been generated. A Memorandum of Understanding and scope of work for remote sensing exploration has been signed between the Government and a Japanese company, which will be followed by ground truth to ascertain the existence of mineral resources in the country. On the production and beneficiation side, on the other hand, construction of the Letšeng cutting and polishing centre has been completed and awaits agreement with Government on its operation. Government will continue to implement mining reforms to optimise benefits accruing from the sector.

43. With regard to infrastructure development (both hard and soft) construction of **road infrastructure** was achieved at two levels. At the national level, the Government continued various road constructions across the country covering approximately 255 kilometres. The major roads that continued during 2013/14 are the Roma-Ramabanta-Semonkong-Sekake, Mokhotlong-Sani Pass, Oxbow-Mapholaneng, most of which are expected to be completed during the coming financial year. The Mantšonyane-Lesobeng road covering 40 kilometres was completed in July 2013. At the local government level, 58 Kilometres of urban roads have been constructed in Mokhotlong, Butha Buthe and Maseru while a total of 850 kilometres of rural community roads have been constructed across the country. This can be regarded as considerable progress, but road infrastructure continues to be an important challenge throughout the country. The situation has been worsened by the recent heavy rains, which have destroyed some of the newly constructed roads. Therefore, the government will redouble its efforts to ensure accessibility of all parts of the country to facilitate and integrate economic activity in the country.

Mr Speaker,

44. In line with the 2013/14 budget announcements for improving **water supply** and **sanitation** in the urban and rural areas, a lot of progress has been achieved in these areas. Works around the construction of Metolong Dam are nearing completion, with 95 percent of advance infrastructure of phase II completed, 75 percent of construction of dam and raw water pumping station done, 95 percent of construction of water treatment completed and 50 percent of construction of downstream conveyance systems completed. The dam is expected to be completed in September 2014 to supply Roma, Mazenod, Morija, Maseru and Teyateyaneng. In addition, 6,000 households were connected to potable water in the urban areas. Ninety-seven water supply systems were constructed and 500 hand pumps maintained in the rural areas, serving 60,738 people. With regard to sanitation, 8,000 VIP latrines were constructed serving 58,000 people in the rural areas, while there were 600 sewer line connections in the urban areas. Through Local Authorities, water systems were maintained in 64 community councils and 11 urban councils. However, as communities grow, especially in the urban areas, the Government will continue to

face the challenge of increasing access to both water and sanitation. In the meantime, we are all aware that provision of basic utilities in the rural areas will continue to be a priority as we address rampant inequalities between urban and rural areas.

45. In the **energy** sector, 15,000 new connections country-wide were made, covering both households and institutions. 280Kw solar electricity is being constructed at Moshoeshoe I International Airport with the assistance of the Japanese Government. On the other hand, solar street lighting covering Mount Moorosi, Ha Ntsi and Pitseng, funded by the Government of the People's Republic of China, was completed. The Mantšonyane Mini-hydropower Station has been rehabilitated while the pre-feasibility study on Monontša Pump Storage Scheme has been completed.

Mr Speaker,

46. **Electricity supply** is key for the growth of this economy. As indicated earlier, diamond mining has contributed immensely to the growth of this economy since the reopening of the Letšeng mine in 2004. We have seen the emergence of other mines, some of which regrettably have had to suspend operation due to lack of power supply in their respective areas. To sustain the mining sector, an aggressive expansion of the existing power grid will have to form part of the Government's medium-term investment programme. This will naturally bring infrastructure closer to the otherwise remote areas of our country.

47. Finally on infrastructure, the major focus of the Government's **Information Communication and Technology systems** has been on migration from analogue to digital transmission, which is at an advanced stage. The plan is to have attained full migration by April 2015, in time to meet the deadline set by SADC. This will modernise and improve the quality of transmission of radio and television programmes. To take full advantage of this development, Lesotho will have to develop the local entertainment industry and artistic talent.

Mr Speaker,

48. In my speech last year, I noted that as part of the **financial sector** reforms, the Central Bank was developing a Financial Sector

Development Strategy (FSDS) with the assistance of the IMF and the World Bank. This strategy was duly done and tabled in Cabinet and adopted as a working policy document during 2013/14. It is expected that the strategy will improve access to credit by augmenting financial inclusion and promoting a savings culture in the country. These are critical elements for investment and therefore growth. The strategy also encompasses improvements in the settlement of transactions and will assist in speeding up the process of SADC regional integration, and thereby facilitate trade in the region. Equally, private sector development will be greatly enhanced by the implementation of this strategy.

49. Other developments in the financial sector include promulgation of the Money Transfer and Forex Regulations as well as Credit Reporting Regulations, which have led to the licensing of a money transfer operator which started operations during 2014 and licensing of a credit bureau institution which is expected to start operations in June 2014, respectively. Meantime, the Insurance and the National Payment Systems bills are being considered in Parliament and expected to become laws by end of 2014.

50. Under the **education** sector, 58 classrooms and 150 latrines were constructed for primary schools. Furthermore, under the Primary School Feeding Programme, food was provided to 556,000 pupils. An additional Sixty-six Early Childhood Care and Development (ECCD) teachers graduated in 2013/14, resulting in a total of 90 ECCD teachers under the Teaching Service Department (TSD) of the Ministry of Education and Training. A new curriculum and assessment policy for primary school grades 1 to 3 and a pilot package for grade 4 were introduced and are under implementation. At the secondary level, 79 classrooms, 9 science laboratories, 16 teacher houses and one multi-purpose hall have been constructed. The Lesotho General Certificate of Secondary Education (LGCSE) for maths, science, history, geography, English and development studies was introduced starting at the beginning of the 2013 school year.

51. In the **health sector**, as mentioned in my last Budget Speech, the challenge in the provision of health services had been the shortage and retention of trained technical staff. During 2013/14, the Ministry of Health launched a retention programme for nurses and midwives

working in remote areas of the country. The programme is proving successful, though it is important that it is closely monitored to avoid any slippages going forward. The government has also continued to train more medical doctors, with a third cohort of students having been sent to Zimbabwe and approximately thirty-nine nurses sent for advanced midwifery training to address maternal mortality. Going forward, the Government intends to intensify the provision of quality health services and to address sustainability in the sector for what remains a long-term challenge is the ability to establish and sustain sufficient numbers for the existing health centres across the country.

52. And lastly, first steps towards reopening of the Queen Elizabeth (QEII) Hospital were taken during this year by opening part of the hospital for limited health services. While studies are being undertaken to design a replacement hospital for QEII, Government will enhance the capacity of satellite filter clinics in Maseru and surrounding areas to alleviate the patient load on the Queen 'Mamohato Memorial Hospital.

53. With regard to **social development**, a draft National Social Policy has been prepared and is ready for approval by Cabinet. The National Information System for Social Assistance (NISSA) is under review to update the formula for targeting social benefits and to determine low cost options for rolling out the system throughout the country. The Ministry of Social Development is also in the process of developing a National Mainstreaming Strategy for the disabled, which will be concluded during the second half of 2014.

54. Finally, Mr Speaker, the Government has designed a **Public Financial Management (PFM)** Reform Programme, whose aim is to improve efficiency and effectiveness in the use of public resources. Specifically, the programme seeks to provide strategic direction for the government to address capacity constraints in managing and controlling the use of public financial resources. It also empowers relevant government officials to implement and monitor the progress in PFM Reform Agenda in a manner that it delivers expected outcomes. To this end, a PFM Reform Action Plan was developed in 2013 in response to identified challenges faced by the Lesotho Government in PFM. In addition to this, in 2013/14, a number of reforms were introduced, namely the development of Treasury Regulations; establishment of a Cash Management Unit within the treasury; revision

of the Audit Act; and establishment of Procurement Tribunal and with the support of development partners, the Government's accounting system (IFMIS) is being upgraded to enhance the Government's payments system.

Mr Speaker,

55. The performance I have just provided testifies that a lot has been achieved during 2013/14. However, I am convinced that we have not achieved as much as we should. There remain challenges going forward, which require that we intensify implementation in 2014/15. It is through verifiable improvements, year-on-year, that we will be able to ascertain progress that will lead us to the achievement of our development goals in the long run. This, as I have earlier indicated, requires cooperation and unbending persistence as development is never reached overnight.

Policy Priorities for 2014/15

Mr Speaker,

56. As I indicated earlier, our policy priorities for 2014/15 will continue to focus on the implementation of the NSDP, with particular emphasis on economic transformation that will bring about sustainable and broad-based growth and poverty reduction. The selection of interventions in 2014/15 and onwards, has to the extent possible been based on their contribution to these fundamental objectives through employment creation, increased productivity, economic diversification, trade facilitation, ensuring food security and reduction of economic and social vulnerability. Through an intensive engagement in the Cabinet, four specific areas have been identified as critical in achieving growth and sustainable development.

First, <u>Facilitating Job Creation, Inclusive Growth and Economic Diversification</u>

Mr Speaker,

57. A major challenge for the Government is to develop and empower the private sector as a necessary instrument for high and sustainable

growth. This will involve expansion and diversification of the economic base and expansion of the productive capacity in key growth sectors and in the green economy. For this to happen, Government must engage with the private sector on an ongoing basis in a manner that brings about tangible improvements throughout the year.

58. In order to maximise on the growth potential of the private sector in the medium term, the NSDP identifies certain initiatives grouped around five main sectors. **(a) Development and support of Commercial Agriculture**, focusing on measures to increase agricultural productivity, improve and facilitate productive technology in agriculture including diversification into high value crops. Agricultural production in Lesotho has thus far been constrained by lack of diversification, modernisation and marketing. Government's strategy is to improve agricultural supply chains as well as marketing infrastructure. The subsidy programme support by the government will be broadened across all agricultural subsectors.

59. (b) The Government recognises that our **manufacturing** is currently dominated by the textiles subsector. The strategy is to transform this subsector by diversifying and promoting alternative industrial and services clusters and improving linkages between Foreign Direct Investment (FDI) and local SMMEs, both in the rural and urban areas. Such a strategy should also take advantage of the domestic market given that Lesotho is a net importer.

60. (c) We are also aware that a well-developed **Tourism** sector is important for generating foreign exchange and sustainable incomes at all economic levels. While Lesotho has the potential to develop tourism, the development of the sector is constrained by the lack of infrastructure and strategies to support the sector. The government's strategy is to promote the development of existing tourism products and selected circuits to their full potential, including community based tourism projects that are integrated with other sectors and effective marketing of Lesotho as a preferred tourist destination.

61. (d) The **Mining** sector continues to substantially contribute to economic growth, but with limited employment creation due to its highly mechanised nature. Therefore, to maximise the national benefit from the sector, it is critical to consolidate the mining policy and modernise

the regulatory framework, including completing geochemical mapping and the development of downstream industries, commonly referred to as mining beneficiation.

62. Finally, **Green economy** remains central to environmental and resource protection which is at the core of long term economic growth. The strategy is to increase production capacity of clean energy for local consumption and export, and to promote sustainable and labour-intensive land management programmes.

Second, <u>Enabling Investment Climate and Regulatory Framework</u>

63. Mr Speaker, the second critical area for achieving economic growth and attaining sustainable development is creating an enabling investment climate for private sector investment and ensuring that a proper regulatory framework is in place. Thus for the government, investment climate reforms are regarded as the foundation for attracting private investment, with an impact of more than 2 per cent of GDP over the next 5 years, through efficiency gains. The NSDP seeks to improve the investment climate in Lesotho and to remove the most binding constraints to growth and job creation at the macro and micro levels. To achieve these, it is imperative that Government implements reforms that should focus on:

- Simplifying procedures for starting and doing business.
- Improving access to finance through consolidation and improvement in the performance of established facilities such as the existing credit guarantee schemes and the development of the financial markets;
- Improving access to technology and simplifying the operations of institutions that support Micro, Small and Medium enterprises (MSMEs), especially intended to support community-based commercial projects; and
- Exploring further options for land reforms to support commercial agriculture and private investment in industrial infrastructure.

Third, <u>Development of a Minimum Infrastructure Platform</u>

Mr. Speaker,

64. Infrastructure (both hard and soft) is critical for provision of basic public services and attracting private sector investment. Thus, the current and immediate challenge is for Government to provide minimum infrastructure in the identified strategic sectors under the NSDP. In particular improvements in the road network, electricity and water supply, telecommunications, and education and health facilities will be required to stimulate and integrate private investment.

Finally, <u>Improving Public Sector Efficiency and effectiveness</u>

65. Effective public service remains central to Government's ability to implement the ongoing reforms required to transform the economy. To the extent that the reforms, especially around the investment climate, have moved at a slow pace, Lesotho's private sector competitiveness has not improved as expected. This means that other countries are making progress and taking advantage of the global markets while Lesotho lags behind. Various reforms have been initiated in an attempt to address issues such as poor service culture, weak administration and management, limited technical capacity and accountability, but little progress has been made. It has now become urgent for the government to put in place a performance management system. In addition to this, the Government must also take steps to reduce the size of the Public Service so that it focuses on the core business of the public sector while allowing the private sector to absorb the excess labour. But this can only happen if the private sector is also ready to create the requisite jobs. As part of the verification of the size of the Public Service establishment, a pilot head count was started in the Ministries of Health, Education and Local Government. The exercise will be rolled out to the rest of Government during the coming year. It is expected that the exercise will provide a more accurate basis on which Government will make a decision on the appropriate size of the Public Sector.

Sectoral Issues and Allocations for 2014/15

Mr Speaker,

66. Let me now move to the 2014/15 sectoral issues and allocations, but start off by providing the summary of the proposed expenditures, including the proposed financing.

67. The proposed total expenditure is M15,465.2 million, excluding principal repayments. This is divided into M10,465.3 million for recurrent and M5,001.6 million for capital. The proposed budget represents an increase of 7.6 percent over the 2013/14 budget, of which recurrent and capital have increase by 19 percent and 3.3 percent, respectively.

68. The proposed financing of this budget is estimated at M15,754.0 million. Of this, the Government is expected to raise revenue amounting to M14,710.1 million, of which domestic tax revenue will be M6,361.2 million, non-tax revenue M1,314.5 million and the remaining M7,034.1 million from the Southern African Customs Union (SACU). The expected domestic revenue represents an increase of 12.0 percent, while the expected SACU revenue share has grown by 16.2 percent compared to 2013/14. In addition, M1,043.9 million, of which M150 million is in budget support, and M1,123.2 million will come from donor grants and loans, respectively. Putting these figures together, the proposed overall fiscal balance is a surplus of M284.0 million or 1.2 percent of GDP.

Mr. Speaker,

69. You will note that Government spending continues to incline towards the recurrent budget, while the share of capital spending remains relatively low. This does not augur well for our development needs given the infrastructure gap that can only be filled through increased capital spending. The growth of the wage bill is alarming, with the gap between this and spending on goods and services increasing each year. Thus, the implementation of public service reforms has now become critical if government expenditure is to remain sustainable. The decisive expenditure reforms which government may have to

implement may appear drastic in the short run, but will pay high dividends in the long run.

70. Now let me briefly highlight the sector allocations of the proposed budget. As indicated earlier, private sector development and in particular development of **industry** will be key in promoting sustainable growth. Further development of the Tikoe Industrial Estate is planned during 2013/14. In addition and to this and in order to support agro-industry development, market centres, slaughter houses for piggery and poultry, standards and quality assurance infrastructure as well as silos and storage facilities for farmers' produce will be constructed. M19.0 million has been earmarked for this infrastructure. But as noted earlier, our investment climate is a major constraint for affecting both foreign and local investment in Lesotho. Lesotho's 'Doing Business' ranking is still very low at 136 out of 189 countries, which compares unfavourably with the rest of the sub-region. To improve the investment climate, Government intends to pursue legislative and regulatory reforms through the enactment of several laws including development of an investment policy.

71. Equally, to continue deepening the **financial sector** reforms, the CBL will implement the Financial Sector Development Strategy during 2014/15. In particular, reforms will continue to intensify around financial inclusion, financial resources mobilisation through the development of capital markets and promotion a savings culture. But to further improve the speed and efficiency of financial transactions, the new National Payments Systems law due for enactment during 2014 will enable the CBL to exercise oversight of the payment systems and to provide modernised methods of payments to ensure safety, security and stability in the financial system.

72. Regarding the **agricultural** sector, Government intends to continue the subsidy programme and has therefore, earmarked M166.0 million to support subsidies to farmers. While the focus has in the past been on crop production, the 2014/15 subsidies will be extended to other subsectors to support diversification. In addition, M11.0 million is proposed to support irrigated agriculture and procurement of agricultural machinery. Livestock production will be supported through the construction of wool and mohair shearing sheds and support for smallholder agriculture development. For the latter, an allocation of

M56.0 million is proposed, of which M43.1 million will be sourced from development partners.

73. Mr Speaker, **Roads and footbridges** are important for linking different parts of the country and for promoting economic activity in otherwise economically inactive areas. In 2014/15, the Ministry of Public Works and Transport will continue with the on-going construction of main trunk roads and bridges, as well as proposed new projects to complement the existing investments. On the other hand, the Ministry of Local Government will focus on urban and rural roads and well as footbridges under the local authorities. The budget proposes an allocation of M811.0 million for road construction and M97.0 million for the construction of footbridges. An additional M40.0 million is also proposed for rehabilitation of the Moshoeshoe I International Airport runway and the Maseru Container Terminal.

74. In the **energy** sector, the Government plans to develop a comprehensive energy policy framework which will result in a systematic approach towards responding to the national energy needs. In the meantime, it is envisaged that a total of 16,000 households and institutions will be connected to the national electricity grid nationwide. This will include rural electrification covering Butha Buthe and Leribe districts, while construction of solar street lighting covering a distance of eight kilometres will be undertaken in Mapholaneng, Peka and Mapoteng. It is proposed that M80.0 million be allocated for the implementation of these projects. It is also expected that preparations for construction of the Kobong Pump Storage under Phase II of the Lesotho highland Water Project will commence, including negotiation of the long-term power supply contract with South Africa.

75. In the **water supply and sanitation** sector, a long-term strategy will be developed during the coming year to address the challenge of increasing service coverage and ensuring sustainable management and development of water resources. Ninety water supply systems and eight thousand ventilated pit latrines will be constructed in the rural areas, serving a total 58,000 people. 6,070 households will be connected to potable water and 200 sewer line connection will be made in the urban areas. Also, as indicated in the earlier sections of this speech, and as part of the improvement of urban water supply, construction of the Metolong Dam will be completed in September

2014. Equally, the preservation of our wetlands remains extremely important for sustaining our resources. To this end, the Government intends to rehabilitate and restore the wetlands at Khubelu in Mokhotlong. The proposed 2014/15 allocation for the water and sanitation sector is M1,344.8 million of which M157.0 million is for watershed management.

76. **Information, Communication and Technology (ICT)** remains one of the strategic areas for supporting economic growth and development. During 2014/15, Government will continue implementing digital migration, which will involve an installation of new FM and TV transmission as well as acquisition of equipment for both radio and TV studios. To intensify and improve government services, the Ministry of Communication will rollout government on-line service, which among others will support and speed up provision of identification cards, birth certificates and passports where applications will be done and paid for on-line. To this end, an allocation of M260.0 million is proposed for 2014/15.

77. Now turning to the mining sector, the government recognises that to enhance potential of the **mining** sector to contribute to the growth of Lesotho's economy, it is important to complete the development of a mining and minerals policy and review the existing legal framework. Also a geological survey, which started in the current year will be advanced, to determine the country's potential mineral resources and a feasibility study will be conducted in 2014/15 for the establishment of a diamond centre, which will provide facilities for the sale of raw diamonds, cutting and polishing. A total allocation of M8.1million is proposed in 2014/15 to support these initiatives.

Mr. Speaker,

78. The **education** sector continues to be confronted with a number challenges emanating from poor quality of education, and low pass rates at the basic education level, as well as limited infrastructure to absorb new entrants into the education system. To address these challenges, a National Strategic Development Plan for the education sector has been developed. The 2014/15 priorities are to decentralize the education inspectorate for the purpose of intensifying support to schools, to re-vamp the Technical and Vocational Education Training,

and to implement the Curriculum and Assessment Policy introduced in 2013/14, including localization of the Senior Secondary Curriculum. M229.5 million is proposed to support programmes in the education sector. In addition M661.6 million is proposed to support the National Manpower Development Secretariat Loan Bursary Scheme. The proposed allocation is a reduction of 3.2 percent from the 2013/14 allocation. The reduction in the allocation has been made possible by improved repayments of past student loan bursaries, which offsets what would otherwise be an increased allocation. This is a good sign as it releases resources to other priorities.

79. Provision of **Health** services is faced with numerous challenges, which for the most part result from the need to bring primary health care, including retention of health professionals in the remote areas of the country. Equally, the sustainability of the health care centres and the containment of the cost of providing these services remain a major challenge. In 2014/15, it is proposed that the allocation for the health sector be M687.5 million, which includes financing for the Queen ‘Mamohato Memorial Hospital at M 554 million.

80. Finally, during 2014/15, **Public Financial Management** reforms will continue to focus on activities aimed at strengthening the quality and efficiency of public resource management. The key activities will include capacity building in the Ministry of Finance and line ministries in budget formulation to help improve the quality of public spending. The government fiscal forecasting will also be strengthened to address associated risks, including developing mitigating measures. In addition, the internal audit function across ministries will be enhanced through risk based audit. Procurement procedures will also be streamlined to ensure transparency and eliminate corrupt practices, which will in turn improve value-for-money in the use of public financial resources. The 2014/15 budget proposes an allocation of M60 million to achieve these objectives.

Mr Speaker,

81. The need for greater participation in the economy, which must include the rural communities, requires that government should urgently explore other funding alternatives over and above the initiatives in the ongoing financial sector reforms. During 2014/15, Government plans

to study a possibility of a comprehensive approach, involving consolidation of the existing partial credit guarantee schemes to create a unified investment for local investors. We will recall that in the past, there existed the Lesotho Fund for Community Development (LFCD) that focused on and supported the local community projects. We need to revisit that arrangement and advise ourselves if that could not be resuscitated. But we will also have to make some evaluation of that arrangement so that any weaknesses that might have led to its closure are addressed and come up with strategies that will make it effective. You will agree with me that being able to create economic opportunities at the grassroots will have a quicker impact on poverty, narrow the development gap between the urban and rural areas, and to a large extent curb the rate of urbanization and minimize the challenges that come with urban migration.

82. I cannot conclude this section without a comment on the important issue of youth unemployment. This is a huge challenge for Lesotho. The above proposed sectoral allocations have taken into consideration, the necessity to involve youth in the implementation of our economic growth and development objectives. It is important, therefore, that as we implement this budget, special attention should be paid to the cross cutting nature of youth in our policies and the need for effective coordination among sectors.

New Policy Proposals for 2014/15

Mr Speaker,

83. Where necessary and possible, the government will continue to make changes as a measure to continually make improvements to Lesotho's public policy in order to uplift the lives of our citizens.

84. In my speech last year, I noted that the Government is committed to improving the old age pensions when the financial situation permits so that our elderly are protected and as well as assisted to take care of their grandchildren, as we are all witnesses to the latest developments where old people are mostly sole providers to their orphaned dependents. Although the financial situation is still challenging, government proposes that the old age monthly pension be increased from M450.00 to M500.00. This still falls below what this vulnerable

group of our society requires for a decent living. In the meantime the government is weighing and exploring the options and financial implications of either increasing the old age pension by inflation or continuing with a deliberate policy to increase these pensions in absolute terms.

85. Mr Speaker, in a similar effort during 2013/14 fiscal year, government effected an across-the-board salary review as a means of improving public service remuneration to boost morale and improve service delivery. This was a big exercise after a period of ten years or so, and as such it has not been completely finalised, with some discrepancies and anomalies existing between and among groups and individuals, which will need to be addressed in the future. The key objectives therefore, may not have been fully achieved. Nonetheless, preliminary observations are that the public service morale has improved, but we are not at a point where we can confirm the extent to which there have been improvements in service delivery. But the government will continue to closely monitor this, with the view to ensuring that there are commensurate improvements in how we serve our people. In line with this, 2014/15 it is proposed that salaries and wages be adjusted by 4 percent across-the-board in an effort to maintain the value of the take home pay. This is below the projected inflation rate of 6 percent. But given the already high wage bill, the Government can only afford a modest adjustment to restrain further growth of the wage bill.

Mr Speaker,

86. Over the years, Lesotho's effective tax rate on personal incomes has remained one of the highest in Sub-Saharan Africa. This has burdened tax payers and even encouraged tax avoidance – probably evasion in some cases. To reduce the tax burden and encourage tax compliance, this budget proposes reduction in both the lower and upper personal income tax rates, from 22 to 20 and 35 to 30 percent, respectively. This will give back an estimated M271.0 million to the tax payers. It is also estimated that through the additional consumption emanating from increased incomes, Value-Added Tax will be increased by M80.9 million.

87. Equally, best practice of a Value-Added Tax (VAT) dictates that a single rate is used to avoid distortions, ensure tax efficiency and reduce administration and compliance costs. In Lesotho, there are four

(4) VAT rates - the zero rate on mainly essential and basic items, the 5 percent on telecommunication and electricity, the standard rate of 14 percent and the 15 percent on alcoholic and tobacco products. It is proposed that the 15 percent rate on alcohol and tobacco be abolished. With the exception of the zero-rated items, electricity and telecommunications, all items be taxed at the standard rate of 14 percent. But to curb abuse of alcohol and tobacco that could possibly arise from a reduction in the cost to consumers, and therefore affect the general health of the population, it is proposed that an additional 4 percent levy be imposed on purchases of these two items. The expected revenue gain from these adjustments is M163.6 million

88. The difference represents tax expenditure of M26.9 million which will boost economic activity and consequently growth. But the important aspect of this proposal is that the livelihoods of households will also be improved.

Mr. Speaker,

89. To promote textile manufacturing in Lesotho, Government introduced a zero rate on corporate income tax from proceeds on exports destined outside SACU in 2006/07. However, this tax exemption is inconsistent with Lesotho's commitment under international and regional agreements to remove very low tax rates as a step towards regional integration and to eliminate unfair competition that could arise from differentiated tax applicable to other domestic producers exporting within SACU. It is therefore proposed that the zero corporate tax on extra-SACU export be abolished and the standard 10 percent rate be applicable to all manufacturers.

Mr. Speaker,

90. The scope for further changes in our tax system is dependent on the actual outcomes of these proposals. Other countries in the world have implemented much more radical changes, and because their citizens supported the changes, the impacts have been positive and consequently contributed to economic growth and national development and provide further scope for tax rate reductions. It is also important to note that policy making should be dynamic and that reforms should remain an ongoing process that if we hope to compete

with and match other countries as well as developments elsewhere around the world. The most critical area about these changes is that both the public and private sectors will be expected to improve their respective performances so that the impact is consistent with anticipated outcomes.

Conclusions

Mr Speaker,

91. Like last year's budget speech, this year's budget is equally ambitious. But this time, the advantage is that we have instructive lessons from implementing the 2013/14 Budget, which provide a concrete platform for making considerable improvements in the year ahead. I have proposed certain legislative and institutional changes, which will require diligent approval by both the legislature and executive, so that implementation of the 2014/15 Budget is substantially improved. It is the extent of doing things differently and better that going forward we can expect to see positive changes that are critical for inclusive growth and development. Public sector performance through competent and committed public servants will always be central to our reforms. The private sector too, has to come on board so that we forge effective partnerships which help to empower and develop it as an engine for growth and development. This is more critical than ever before.

Mr Speaker,

92. Finally, let me thank the support of the Cabinet, through the leadership of the Right Honourable the Prime Minister and the Honourable Deputy Prime Minister in preparing this budget that has proven to be one of the most difficult, given the urgency for Lesotho's development. I am also grateful to the staff of the Ministry of Finance as well as the rest of the public servants for their useful inputs in making this budget possible. I wish to also express, on behalf of the people and Government of the Kingdom of Lesotho, our deepest appreciation to our Development Partners for their continued support in our quest for development. Their contribution has always come in neatly where we would have had serious shortages in funding our budget.

KHOTSO! PULA! NALA!

ANNEX I

GOVERNMENT BUDGET OPERATIONS FOR THE FISCAL YEAR 2014/2015 - 2016/2017						
Budget Item	**Outturn 2012/13**	**Budget 2013/14**	**Projected Outturn 2013/14**	**Budget 2014/15**	**Budget 2015/16**	**Budget 2016/17**
REVENUE	**13,149.9**	**14,561.8**	**14,197.4**	**15,754.0**	**16,887.4**	**17,838.0**
Tax revenue	**4,595.2**	**5,800.0**	**5,848.1**	**6,361.5**	**7,068.4**	**8,011.7**
Taxes on income, profits, and capital gains	2,348.6	3,147.8	3,147.7	3,529.3	4,030.1	4,580.3
Income tax - payable by individuals	1,445.7	1,914.0	1,914.0	2,201.3	2,480.8	2,790.7
Income tax - payable by corporations and other enterprises	453.1	716.7	716.7	722.1	805.7	862.6
Income tax - unallocable	449.8	517.0	517.0	606.0	743.6	927.0
Taxes on property	149.8	191.2	195.9	166.0	182.5	200.3
Taxes on goods and services	1,818.8	2,160.9	2,161.0	2,431.4	2,626.7	2,904.3
Value-added tax	1,640.4	1,919.0	1,953.9	2,209.1	2,384.7	2,620.4
Excise taxes	163.3	223.2	191.7	206.0	226.0	267.4
Taxes on specific services	7.8	9.1	6.4	6.7	6.3	6.1
Taxes on the use of goods and on permission to use or perform	7.2	9.6	9.0	9.6	9.7	10.4
Taxes on international trade and transactions	277.4	293.0	336.2	227.7	221.7	318.8
Other taxes	0.6	7.2	7.3	7.1	7.4	7.9
Grants	**1,703.5**	**1,631.1**	**1,198.3**	**1,043.9**	**1,090.2**	**1,145.7**
Other revenue	**884.9**	**1,076.2**	**1,096.5**	**1,314.5**	**1,352.6**	**1,416.5**
Property income	109.4	194.3	206.6	357.4	352.1	354.3
Interest	0.4	7.4	6.2	5.3	4.9	4.4
Dividends	97.7	130.3	143.7	283.8	286.9	296.4
Rent	11.2	56.6	56.7	68.3	60.3	53.4
Sales of goods and services	771.9	839.7	846.5	905.3	964.0	1,028.2
Electricity Muela	50.1	56.6	72.6	81.0	88.9	97.3
Water Royalities - LHDA	635.8	713.9	702.9	744.9	788.0	835.6
Administrative fees	17.3	14.8	20.0	22.4	24.5	26.8
Incidental sales by nonmarket establishments	68.7	54.5	51.0	57.0	62.5	68.5
Fines & forfeits	0.5	0.3	1.3	1.4	1.5	1.6
Miscellaneous and unidentified revenue	3.1	41.8	42.1	50.4	35.1	32.4
SACU	**5,966.3**	**6,054.6**	**6,054.6**	**7,034.1**	**7,376.2**	**7,264.2**
EXPENSE (Statutory + Non Statutory + Salary Increase)	**-8,764.1**	**-9,724.0**	**-10,344.3**	**-11,606.7**	**-12,467.5**	**-13,390.0**
Compensation of Employees	**-3,748.8**	**-4,787.1**	**-4,389.8**	**-5,208.5**	**-5,671.3**	**-6,191.1**
Wages and salaries	-3,242.7	-4,138.3	-3,786.0	-4,477.3	-4,937.5	-5,400.4
Employer contributions	-506.1	-648.8	-603.8	-731.2	-733.8	-790.6
Use of goods and services	**-2,356.4**	**-2,423.3**	**-2,987.4**	**-3,337.8**	**-3,613.9**	**-3,859.3**
Interest Payments	**-165.9**	**-231.4**	**-207.6**	**-240.1**	**-252.2**	**-276.3**
Nonresidents	-81.3	-93.2	-99.4	-128.1	-122.2	-146.3
Residents other than general government	-84.6	-138.3	-108.2	-112.0	-129.9	-130.0
Subsidies	**-252.9**	**-220.3**	**-236.3**	**-275.4**	**-266.5**	**-274.5**
Grants	**-881.8**	**-622.4**	**-928.0**	**-702.9**	**-752.2**	**-803.3**
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	-13.2	0.0	-18.0	-37.4	-39.6	-41.9
Extra Budgetary Units	-499.1	-407.4	-514.7	-468.3	-495.9	-525.2
Local Government	-213.6	-215.0	-250.0	-31.0	-32.8	-34.8
Capital	-155.8		-145.3	-166.2	-183.8	-201.4
Social benefits	**-611.2**	**-723.3**	**-773.7**	**-886.6**	**-919.4**	**-965.3**
Other expense	**-747.0**	**-716.1**	**-821.5**	**-955.3**	**-992.1**	**-1,020.3**
Student Grants	-694.7	-683.8	-683.8	-661.6	-665.6	-669.6
Other expense	-52.3	-32.3	-137.7	-293.8	-326.5	-350.7
NON FINANCIAL & FINANCIAL ASSETS	**-44.5**	**-92.3**	**-116.2**	**-59.9**	**-140.3**	**-140.7**
Capital Budget	**-4,137.3**	**-4,842.5**	**-3,972.2**	**-5,001.6**	**-5,323.4**	**-5,876.9**
of which: Non-financial Assets	*-3,351.4*		*-3,052.4*	*-3,798.7*	*-3,894.7*	*-4,300.8*
GoL	-1,981.3	-2,548.5	-2,022.0	-2,984.5	-3,327.6	-3,529.8
Donor Grants	-1,507.1	-1,331.1	-898.3	-893.9	-940.2	-995.7
Donor Loans	-648.9	-962.9	-1,052.0	-1,123.2	-1,055.7	-1,351.4
TOTAL EXPENDITURE	**-12,160.0**		**-13,536.8**	**-15,465.2**	**-16,503.6**	**-17,821.3**
+Capital Subscriptions	*0.0*		*-0.4*	*-4.8*	*-4.5*	*-4.5*
CASH SURPLUS / DEFICIT (GoL)	**947.8**	**-97.0**	**915.0**	**284.0**	**379.3**	**12.1**
% GDP	***4.9%***	***-0.4%***	***4.2%***	***1.2%***	***1.4%***	***0.0%***
GDP	**19,465.9**	**23,542.7**	**22,004.1**	**24,535.6**	**26,954.4**	**29,545.0**
NET CASH INFLOW FROM FINANCING ACTIVITIES	**-248.3**	**97.5**	**-752.7**	**-284.0**	**-379.3**	**-12.1**
FINANCIAL ASSETS	**-1263.5**	**-484.1**	**-2139.5**	**-1030.8**	**-1093.4**	**-981.8**
Domestic	-1,263.5	-484.1	-2,139.5	-1,030.8	-1,093.4	-981.8
Foreign	0.0	0.0	0.0	0.0	0.0	0.0
LIABILITIES	**1,015.2**	**581.5**	**1,386.8**	**746.8**	**714.1**	**969.7**
Domestic	199.6	-67.0	24.6	-4.4	-0.5	0.1
Securities	-10.2	-128.9	-41.3	-4.4	-0.5	0.1
Loans	251.8	61.9	175.5	0.0	0.0	0.0
of which Pension Liabilities	*-42.0*	*-109.8*	*-109.6*	*0.0*	*0.0*	*0.0*
Foreign	815.6	648.5	1362.2	751.2	714.5	969.6
Loans	815.6	648.5	1362.2	751.2	714.5	969.6
Disbursements	866.4	962.9	1052.3	1,123.2	1,056.7	1,353.4
Repayments	-50.9	-314.4	309.9	-372.0	-342.2	-383.8
Months of Import Coverage	**4.9**	**4.2**	**5.5**	**5.1**	**5.2**	**4.9**

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

ANNEX II

REVENUES AND EXPENDITURES AS % GDP FOR FISCAL YEARS 2011/2012 - 2015/2016						
Budget Item	**Outturn 2012/13**	**Budget 2013/14**	**Projected Outturn 2013/14**	**Budget 2014/15**	**Budget 2015/16**	**Budget 2016/17**
REVENUE	**67.6**	**61.9**	**64.5**	**64.2**	**62.7**	**60.4**
Tax revenue	**23.6**	**24.6**	**26.6**	**25.9**	**26.2**	**27.1**
Taxes on income, profits, and capital gains	12.1	13.4	14.3	14.4	15.0	15.5
Income tax - payable by individuals	7.4	8.1	8.7	9.0	9.2	9.4
Income tax - payable by corporations and other enterprises	2.3	3.0	3.3	2.9	3.0	2.9
Income tax - unallocable	2.3	2.2	2.3	2.5	2.8	3.1
Taxes on property	0.8	0.8	0.9	0.7	0.7	0.7
Taxes on goods and services	9.3	9.2	9.8	9.9	9.7	9.8
Value-added tax	8.4	8.2	8.9	9.0	8.8	8.9
Excise taxes	0.8	0.9	0.9	0.8	0.8	0.9
Taxes on specific services	0.0	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	1.4	1.2	1.5	0.9	0.8	1.1
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0
Grants	**8.8**	**6.9**	**5.4**	**4.2**	**4.0**	**3.9**
Other revenue	**4.5**	**4.6**	**5.0**	**5.4**	**5.0**	**4.8**
Property income	0.6	0.8	0.9	1.5	1.3	1.2
Interest	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.5	0.6	0.7	1.2	1.1	1.0
Rent	0.1	0.2	0.3	0.3	0.2	0.2
Sales of goods and services	4.0	3.6	3.8	3.7	3.6	3.5
Electricity Muela	0.3	0.2	0.3	0.3	0.3	0.3
Water Royalities - LHDA	3.3	3.0	3.2	3.0	2.9	2.8
Administrative fees	0.1	0.1	0.1	0.1	0.1	0.1
Incidental sales by nonmarket establishments	0.4	0.2	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	0.0	0.2	0.2	0.2	0.1	0.1
SACU	**30.7**	**25.7**	**27.5**	**28.7**	**27.4**	**24.6**
EXPENSE (Statutory + Non Statutory + Salary Increase)	**-45.0**	**-41.3**	**-47.0**	**-47.3**	**-46.3**	**-45.3**
Compensation of Employees	**-19.3**	**-20.3**	**-19.9**	**-21.2**	**-21.0**	**-21.0**
Wages and salaries	-16.7	-17.6	-17.2	-18.2	-18.3	-18.3
Employer contributions	-2.6	-2.8	-2.7	-3.0	-2.7	-2.7
Use of goods and services	**-12.1**	**-10.3**	**-13.6**	**-13.6**	**-13.4**	**-13.1**
Interest Payments	**-0.9**	**-1.0**	**-0.9**	**-1.0**	**-0.9**	**-0.9**
Nonresidents	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5
Residents other than general government	-0.4	-0.6	-0.5	-0.5	-0.5	-0.4
Subsidies	**-1.3**	**-0.9**	**-1.1**	**-1.1**	**-1.0**	**-0.9**
Grants	**-4.5**	**-2.6**	**-4.2**	**-2.9**	**-2.8**	**-2.7**
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	-0.1	0.0	-0.1	-0.2	-0.1	-0.1
Extra Budgetary Units	-2.6	-1.7	-2.3	-1.9	-1.8	-1.8
Local Government	-1.1	-0.9	-1.1	-0.1	-0.1	-0.1
Social benefits	-3.1	**-3.1**	**-3.5**	**-3.6**	**-3.4**	**-3.3**
Other expense	-3.8	**-3.0**	**-3.7**	**-3.9**	**-3.7**	**-3.5**
Student Grants	-3.6	-2.9	-3.1	-2.7	-2.5	-2.3
Other expense	-0.3	-0.1	-0.6	-1.2	-1.2	-1.2
NON FINANCIAL & FINANCIAL ASSETS	**-0.2**	**-0.4**	**-0.5**	**-0.2**	**-0.5**	**-0.5**
Capital Budget	**-21.3**	**-20.6**	**-18.1**	**-20.4**	**-19.7**	**-19.9**
GoL	-10.2	-10.8	-9.2	-12.2	-12.3	-11.9
Donor Grants	-3.3	-5.7	-4.8	-4.6	-3.9	-4.6
Donor Loans	-7.7	-4.1	-4.1	-3.6	-3.5	-3.4
CASH SURPLUS / DEFICIT	**947.8**	**-97.0**	**915.0**	**283.7**	**379.3**	**12.1**
% GDP	***4.9%***	***-0.4%***	***4.2%***	***1.2%***	***1.4%***	***0.0%***
GDP	**19,465.9**	**23,542.7**	**22,004.1**	**24,535.6**	**26,954.4**	**29,545.0**
NET CASH INFLOW FROM FINANCING ACTIVITIES	**-1.3**	**0.4**	**-3.4**	**-1.2**	**-1.4**	**0.0**
FINANCIAL ASSETS	**-6.5**	**-2.1**	**-9.7**	**-4.2**	**-4.1**	**-3.3**
Domestic	-6.5	-2.1	-9.7	-4.2	-4.1	-3.3
Foreign	0.0	0.0	0.0	0.0	0.0	0.0
LIABILITIES	**5.2**	**2.5**	**6.3**	**3.0**	**2.6**	**3.3**
Domestic	1.0	-0.3	0.1	0.0	0.0	0.0
Securities	-0.1	-0.5	-0.2	0.0	0.0	0.0
Loans	1.3	0.3	0.8	0.0	0.0	0.0
of which Pension Liabilities	-0.2	-0.5	-0.5	0.0	0.0	0.0
Foreign	4.2	2.8	6.2	3.1	2.7	3.3
Loans	4.2	2.8	6.2	3.1	2.7	3.3
Disbursements	4.5	4.1	4.8	4.6	3.9	4.6
Repayments	-0.3	-1.3	1.4	-1.5	-1.3	-1.3
Statistical Discrepancy	*3.6*	*0.0*	*0.7*	*0.0*	*0.0*	*0.0*
Months of Import Coverage						

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

ANNEX III

ANNUAL % CHANGE IN REVENUES AND EXPENDITURES			
Budget Item	**Budget 2013/14**	**Budget 2014/15**	**% Change**
REVENUE	**14,561.8**	**15,754.0**	**8.2**
Tax revenue	**5,800.0**	**6,361.5**	**9.7**
Taxes on income, profits, and capital gains	3,147.8	3,529.3	12.1
Income tax - payable by individuals	1,914.0	2,201.3	15.0
Income tax - payable by corporations and other enterprises	716.7	722.1	0.7
Income tax - unallocable	517.0	606.0	17.2
Taxes on property	191.2	166.0	-13.2
Taxes on goods and services	2,160.9	2,431.4	12.5
Value-added tax	1,919.0	2,209.1	15.1
Excise taxes	223.2	206.0	-7.7
Taxes on specific services	9.1	6.7	-26.7
Taxes on the use of goods and on permission to use or perform activities	9.6	9.6	0.2
Taxes on international trade and transactions	293.0	227.7	-22.3
Other taxes	7.2	7.1	-1.3
Grants	**1,631.1**	**1,043.9**	**-36.0**
Other revenue	**1,076.2**	**1,314.5**	**22.1**
Property income	194.3	357.4	84.0
Interest	7.4	5.3	-27.5
Dividends	130.3	283.8	117.7
Rent	56.6	68.3	20.7
Sales of goods and services	839.7	905.3	7.8
Electricity Muela	56.6	81.0	43.2
Water Royalities - LHDA	713.9	744.9	4.3
Administrative fees	14.8	22.4	51.5
Incidental sales by nonmarket establishments	54.5	57.0	4.7
Fines & forfeits	0.3	1.4	327.0
Miscellaneous and unidentified revenue	41.8	50.4	20.5
SACU	**6,054.6**	**7,034.1**	**16.2**
EXPENSE	**-9,724.0**	**-11,606.7**	**19.4**
Compensation of Employees	**-4,787.1**	**-5,208.5**	**8.8**
Wages and salaries	-4,138.3	-4,477.3	8.2
Employer contributions	-648.8	-731.2	12.7
Use of goods and services	**-2,423.3**	**-3,337.8**	**37.7**
Interest Payments	**-231.4**	**-240.1**	**3.7**
Nonresidents	-93.2	-128.1	**37.5**
Residents other than general government	-138.3	-112.0	**-19.0**
Subsidies	**-220.3**	**-275.4**	**25.0**
Grants	**-622.4**	**-702.9**	**12.9**
To foreign governments	0.0	0.0	
To international organizations	0.0	-37.4	
Extra Budgetary Units	-407.4	-468.3	14.9
Local Government	-215.0	-31.0	-85.6
Social benefits	**-723.3**	**-886.6**	**22.6**
Other expense	**-716.1**	**-955.3**	**33.4**
Student Grants	-683.8	-661.6	-3.3
Other expense	-32.3	-293.8	809.5
Capital Budget	**-4,842.5**	**-5,001.6**	**3.3**
GoL	-2,548.5	-2,984.5	17.1
Donor Grants	-1,331.1	-893.9	-15.6
Donor Loans	-962.9	-1,123.2	-7.2
CASH SURPLUS / DEFICIT	-97.0	284.0	
% GDP	*-0.4%*	*1.2%*	
GDP	23,542.7	24,535.6	

ANNEX IV

REVENUES AND EXPENDITURES AS % OF TOTAL FOR FISCAL YEARS 2011/2012 - 2015/2016						
Budget Item	**Outturn 2012/13**	**Budget 2013/14**	**Projected Outturn 2013/14**	**Budget 2014/15**	**Budget 2015/16**	**Budget 2016/17**
REVENUE	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Tax revenue	**34.9**	**39.8**	**41.2**	**40.4**	**41.9**	**44.9**
Taxes on income, profits, and capital gains	17.9	21.6	22.2	22.4	23.9	25.7
Income tax - payable by individuals	11.0	13.1	13.5	14.0	14.7	15.6
Income tax - payable by corporations and other enterprises	3.4	4.9	5.0	4.6	4.8	4.8
Income tax - unallocable	3.4	3.6	3.6	3.8	4.4	5.2
Taxes on property	1.1	1.3	1.4	1.1	1.1	1.1
Taxes on goods and services	13.8	14.8	15.2	15.4	15.6	16.3
Value-added tax	12.5	13.2	13.8	14.0	14.1	14.7
Excise taxes	1.2	1.5	1.4	1.3	1.3	1.5
Taxes on specific services	0.1	0.1	0.0	0.0	0.0	0.0
Taxes on the use of goods and on permission to use or perfo	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on international trade and transactions	2.1	2.0	2.4	1.4	1.3	1.8
Other taxes	0.0	0.0	0.1	0.0	0.0	0.0
Grants	**13.0**	**11.2**	**8.4**	**6.6**	**6.5**	**6.4**
Other revenue	**6.7**	**7.4**	**7.7**	**8.3**	**8.0**	**7.9**
Property income	0.8	1.3	1.5	2.3	2.1	2.0
Interest	0.0	0.1	0.0	0.0	0.0	0.0
Dividends	0.7	0.9	1.0	1.8	1.7	1.7
Rent	0.1	0.4	0.4	0.4	0.4	0.3
Sales of goods and services	5.9	5.8	6.0	5.7	5.7	5.8
Electricity Muela	0.4	0.4	0.5	0.5	0.5	0.5
Water Royalities - LHDA	4.8	4.9	5.0	4.7	4.7	4.7
Administrative fees	0.1	0.1	0.1	0.1	0.1	0.2
Incidental sales by nonmarket establishments	0.5	0.4	0.4	0.4	0.4	0.4
Fines & forfeits	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous and unidentified revenue	0.0	0.3	0.3	0.3	0.2	0.2
SACU	**45.4**	**41.6**	**42.6**	**44.7**	**43.7**	**40.7**
EXPENSE (Statutory + Non Statutory + Salary Increase)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Compensation of Employees	**42.8**	**49.2**	**42.4**	**44.9**	**45.5**	**46.2**
Wages and salaries	37.0	42.6	36.6	38.6	39.6	40.3
Employer contributions	5.8	6.7	5.8	6.3	5.9	5.9
Use of goods and services	**26.9**	**24.9**	**28.9**	**28.8**	**29.0**	**28.8**
Interest Payments	**1.9**	**2.4**	**2.0**	**2.1**	**2.0**	**2.1**
Nonresidents	0.9	1.0	1.0	1.1	1.0	1.1
Residents other than general government	1.0	1.4	1.0	1.0	1.0	1.0
Subsidies	**2.9**	**2.3**	**2.3**	**2.4**	**2.1**	**2.0**
Grants	**10.1**	**6.4**	**9.0**	**6.1**	**6.0**	**6.0**
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	0.2	0.0	0.2	0.3	0.3	0.3
Extra Budgetary Units	5.7	4.2	5.0	4.0	4.0	3.9
Local Government	2.4	2.2	2.4	0.3	0.3	0.3
Social benefits	1.8	**0.0**	**1.4**	**1.4**	**1.5**	**1.5**
Other expense	7.0	**7.4**	**7.5**	**7.6**	**7.4**	**7.2**
Student Grants	8.5	7.4	7.9	8.2	8.0	7.6
Other expense	7.9	7.0	6.6	5.7	5.3	5.0
NON FINANCIAL & FINANCIAL ASSETS	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Capital Budget	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
GoL	47.9	52.6	50.9	59.7	62.5	60.1
Donor Grants	36.4	27.5	22.6	17.8	17.7	16.9
Donor Loans	15.7	19.9	26.5	22.5	19.8	23.0

ANNEX V

Ministry	2013/14					2014/15				
	Recurrent Budget	Capital Budget				Recurrent Budget	Capital Budget			
		GoL	Donor Grants	Donor Loans	Total		GoL	Donor Grants	Donor Loans	Total
Agriculture and Food Security	141.6	172.5	-	21.2	193.7	166.2	165.9	6.1	37.1	209.1
Health and Social Welfare	1,339.9	155.0	248.7	-	403.7	1,698.0	21.5	112.0	-	133.5
Education and Training	1,813.1	40.0	108.3	5.0	153.3	2,034.6	15.0	202.8	11.7	229.5
Finance	441.5	170.0	242.7	5.0	417.7	484.6	417.7	209.2	7.0	633.9
Trade and Industry, Cooperatives & Marketin	67.3	75.7	10.4	78.0	164.1	93.1	63.5	33.9	72.4	169.8
Development Planning	792.1	16.4	6.6	-	23.0	789.7	22.0	1.2	-	23.2
Justice, Human Rights & Rehabilitation	145.2	13.0	-	-	13.0	182.4	26.0	-	-	26.0
Home Affairs & Public Safety	75.6	167.8	-	-	167.8	103.0	118.0	-	-	118.0
Prime Minister's Office	84.3	9.0	-	-	9.0	107.4	-	-	-	-
Communications, Science and Technology	80.8	61.5	-	-	61.5	96.6	260.0	-	-	260.0
Law & Constituitional Affairs	48.7	-	-	-	-	61.3	-			-
Foreign Affairs & Intern Relations	290.7	-	-	-	-	341.8	-	-	-	-
Public Works & Transport	140.0	641.3	292.1	59.1	992.5	152.3	676.0	255.0	112.0	1,043.0
Forestry & Land Reclamation	45.4	107.6	3.4	-	111.0	55.8	157.0	-	-	157.0
Energy, Meteorology and Water Affairs	148.4	300.7	328.9	794.7	1,424.2	167.5	414.3	25.1	829.8	1,269.2
Labour & Employment	51.9	-	-	-	-	59.4				-
Tourism, Environment & Culture	69.2	25.5	-	-	25.5	97.4	49.0	13.9	-	62.9
Auditor General's Office	23.3	-	-	-	-	27.4				-
His Majesty's Office	5.9	56.0	-	-	56.0	5.7	25.0	-	-	25.0
Public Service Commission	6.6	-	-	-	-	7.4				-
Defence & National Security	440.7	25.0	-	-	25.0	478.9	56.0	-	-	56.0
National Assembly	73.6	-	-	-	-	91.9		-		-
Senate	18.0	10.0	-	-	10.0	20.3	20.0	-	-	20.0
Ombudsman	5.2	-	-	-	-	6.4				-
Independent Electoral Commission	34.9	-	-	-	-	71.1				-
Local Government & Chieftainship affairs	363.7	331.9	60.4	-	392.3	422.0	346.5	26.4	-	372.9
Gender, Youth, Sports & Recration	52.9	64.5	4.2	-	68.7	65.6	38.0	2.5	53.3	93.8
Public Service	32.8	-	-	-	-	39.6				-
Judiciary	88.3	15.4	-	-	15.4	99.4	20.0			20.0
Social Development	111.7	5.5	25.4	-	30.9	181.3	5.0	5.7	-	10.7
Directorate of Corruption and Economic Offe	11.4	-	-	-	-	15.6				-
Mining	21.1	10.0	-	-	10.0	20.4	8.1			8.1
Police and Public Safety	404.6	60.0	-	-	60.0	449.8	60.0			60.0
Sub Total	7,470.8	2,534.3	1,331.1	962.9	4,828.3	8,693.9	2,984.5	893.9	1,123.2	5,001.6
Principal Repayment	444.4					372.6				
Interest Charges	231.5					240.1				
Pension & Gratuities	1,081.1					1,262.3				
Statutory Salaries & Allowances	34.3					33.8				
Subscriptions to International Organisations	40.2					37.4				
Refund to erroneous Receipts	3.0					3.0				
Centralised Items						90.5				
Administration Fund (Contingency)	100.0					100.0				
Total	**9,405.1**	2,534.3	1,331.1	962.9	**4,828.3**	**10,833.6**	2,984.5	893.9	1,123.2	**5,001.6**

ANNEX VI

Expenditure by Ministry as % of Total - Capital and Recurrent										
	2013/14					2014/15				
Ministry	Recurrent Budget	Capital Budget				Recurrent Budget	Capital Budget			
		GoL	Donor Grants	Donor Loans	Total		GoL	Donor Grants	Donor Loans	Total
Agriculture and Food Security	1.5	6.8	0.0	2.2	4.0	1.5	5.6	0.7	3.3	4.2
Health and Social Welfare	14.2	6.1	18.7	0.0	8.4	15.7	0.7	12.5	0.0	2.7
Education and Training	19.3	1.6	8.1	0.5	3.2	18.8	0.5	22.7	1.0	4.6
Finance & Development Planning	4.7	6.7	18.2	0.5	8.7	4.5	14.0	23.4	0.6	12.7
Trade and Industry, Cooperatives & Marketing	0.7	3.0	0.8	8.1	3.4	0.9	2.1	3.8	6.4	3.4
Development Planning	8.4	0.6	0.5	0.0	0.5	7.3	0.7	0.1	0.0	0.5
Justice, Human Rights & Rehabilitation	1.5	0.5	0.0	0.0	0.3	1.7	0.9	0.0	0.0	0.5
Home Affairs & Public Safety	0.8	6.6	0.0	0.0	3.5	1.0	4.0	0.0	0.0	2.4
Prime Minister's Office	0.9	0.4	0.0	0.0	0.2	1.0	0.0	0.0	0.0	0.0
Communications, Science and Technology	0.9	2.4	0.0	0.0	1.3	0.9	8.7	0.0	0.0	5.2
Law & Constituitional Affairs	0.5	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0
Foreign Affairs & Intern Relations	3.1	0.0	0.0	0.0	0.0	3.2	0.0	0.0	0.0	0.0
Public Works & Transport	1.5	25.3	21.9	6.1	20.6	1.4	22.7	28.5	10.0	20.8
Forestry & Land Reclamation	0.5	4.2	0.3	0.0	2.3	0.5	5.3	0.0	0.0	3.1
Energy, Meteorology and Water Affairs	1.6	11.9	24.7	82.5	29.5	1.5	13.9	2.8	73.8	25.4
Labour & Employment	0.6	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Tourism, Environment & Culture	0.7	1.0	0.0	0.0	0.5	0.9	1.6	1.6	0.0	1.3
Auditor General's Office	0.2	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
His Majesty's Office	0.1	2.2	0.0	0.0	1.2	0.1	0.8	0.0	0.0	0.5
Public Service Commission	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Defence & National Security	4.7	1.0	0.0	0.0	0.5	4.4	1.9	0.0	0.0	1.1
National Assembly	0.8	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.1	0.0
Senate	0.2	0.4	0.0	0.0	0.2	0.2	0.7	0.0	0.0	0.4
Ombudsman	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Independent Electoral Commission	0.4	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0
Local Government & Chieftainship affairs	3.9	13.1	4.5	0.0	8.1	3.9	11.6	3.0	0.0	7.5
Gender, Youth, Sports & Recration	0.6	2.5	0.3	0.0	1.4	0.6	1.3	0.3	4.7	1.9
Public Service	0.3	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Judiciary	0.9	0.6	0.0	0.0	0.3	0.9	0.7	0.0	0.0	0.4
Social Development	1.2	0.2	1.9	0.0	0.6	1.7	0.2	0.6	0.0	0.2
Directorate of Corruption and Economic Offenc	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Mining	0.2	0.4	0.0	0.0	0.2	0.2	0.3	0.0	0.0	0.2
Police and Public Safety	4.3	2.4	0.0	0.0	1.2	4.2	2.0	0.0	0.0	1.2
Principal Repayment	4.7	0.0	0.0	0.0	0.0	3.4	0.0	0.0	0.0	0.0
Interest Charges	2.5	0.0	0.0	0.0	0.0	2.2	0.0	0.0	0.0	0.0
Pension & Gratuities	11.5	0.0	0.0	0.0	0.0	11.7	0.0	0.0	0.0	0.0
Statutory Salaries & Allowances	0.4	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Subscriptions to International Organisations	0.4	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Refund for Erroneous receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Centralised Items	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0
Administration Fund (Contingency)	1.1	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

A Patriotic Pride: Addendum to the 2014/15 Budget Speech

National development, anywhere in the world, is a concerted effort requiring contribution of everyone involved in such a noble aspiration. It requires honest and persisting political drive by the legislature, honest protection and delivery of justice by the judiciary, and on top of all, honest and effective service delivery by the executive, through a highly competent and committed public service. It equally requires an honest engagement of the civil society and private sector with government. In Lesotho there is very little of this honest engagement. Our methods, approaches and attitudes towards development leave something to be desired.

On the other hand, we have continued to receive incredible support from our various development partners, for which we are very grateful. We are hoping that this will continue as we implement this budget. But development partners can only support us to a certain extent, beyond which the responsibility for Lesotho’s development lies squarely with us as individual and collective citizens.

Yet if we cannot change our ways and attitudes towards how we approach and achieve development, we will gain nothing, but persisting poverty, backwardness and a disgruntled population resulting from underperformance. Public policy has to be confronted head-on and implemented in earnest.

Through the speech that I have just delivered on behalf of the entire Basotho nation – across Lesotho and abroad – let us today collectively make a historic vow to do everything in our power, to change Lesotho into a land that we shall remain proud of in innumerable years to come.

We need to all agree on bold and concrete measures for turning around the efficacy of our resources for the betterment of our livelihoods. But someone has to courageously give it a go. And I think I am right that regarding the budget, the Ministry of Finance is the legitimate candidate. I also know that as I deliver this message, I am already receiving your unwavering support.

I could have easily said the content of this addendum in one of the boardrooms elsewhere, but I suspect that saying it in the ambience of a ‘Budget Speech Day’, gives it the whole aura that will permanently and affectionately stay in our minds and souls. May it sustain!

Khotso! Pula! Nala!