



PARLIAMENT OF THE KINGDOM OF LESOTHO

Bringing Back Hope

*(Restoring Good Governance Through Efficiency,
Accountability, Transparency, Effectiveness and Equity)*

Budget Speech to Parliament for the 2015/2016 Fiscal Year

By

Honourable Dr. 'Mamphono Khaketla

**Minister of Finance
*Maseru, Lesotho***

22nd May 2015

Madam Speaker,

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

His Majesty King Letsie III and Head of State
The Right Honourable the Prime Minister and Head of Government
The Honourable President of the Senate
The Honourable Chief Justice
The Honourable Deputy Prime Minister and Leader of the House
My Colleagues, Honourable Ministers
The Hon. Leader of Opposition
Honourable Members of both Houses of Parliament
Excellencies, Heads of Diplomatic Missions and International Organisations
Distinguished members of the Media
The entire Basotho nation
Ladies and Gentlemen

Mr. President

Madam Speaker,

1. I stand before this august house today to deliver the first Budget Speech of Lesotho's second coalition government, which took up office following the February 2015 General Elections.
2. This budget speech is also my first as Minister of Finance. It would thus be remiss of me if I do not begin by acknowledging this great honour bestowed upon me, that of being the first woman Minister of Finance in the history of Lesotho. I take pride in joining those women who have paved the way for us for being "the first" in their positions and have helped to shatter the proverbial "glass ceiling". Madam Speaker, you are one of these women and wish to applaud you for that; I wish to also mention the Chief Justice, her Ladyship Nthomeng Majara; and The Governor of the Central Bank of Lesotho, Dr. Retšelisitsoe Matlanyane, amongst others. Let me digress a bit and say that for me this is a continuation of a legacy that was set by my late mother, Dr. 'Masechele Khaketla, who was the first Mosotho woman to obtain a bachelor's degree way back in 1942. We used to call her a "woman of many firsts", because following that she became a trailblazer by setting several trends of being the first

Mosotho woman to do this and that. I wish to affirm that I will do this job with utmost dedication and humility, in her memory and in honour of the many Basotho women who have paved the road for us.

Madam Speaker,

3. On this same note, I had the privilege of watching our national soccer team, Likuena, last Saturday when they played against South Africa's Bafana Bafana. I was pleasantly surprised to find that the threematch officials were women. They were Madames 'Mathabo Kolokotoane, Puleng Mahomo, and Polotso Maapara. They did a sterling job of refereeing that match. I said to myself, as we make inroads in our various fields, we are creating hope and motivation for a girl in remote Lesotho by saying to her, "If you can set your mind on doing something and work hard at it, you can achieve it". It is in this light that I wish to declare that my intention is to anchor my work as Minister of Finance on the following inspirational Bible verse from the book of the Prophet Isaiah which reads:

As the rain and the snow come down from heaven, and do not return there until they have watered the earth, making it bring forth and sprout, giving seed to the sower and bread to the eater, so shall my word be that goes out from my mouth; it shall not return to me empty but it shall accomplish that which I purpose, and succeed in the thing for which I sent it.

(Isaiah 55:10-11)

Madam Speaker

4. Before turning to today's budget, let me allay the fears of the populace that had been misinformed that this Government is spending money that has not been appropriated by parliament. Honourable Members, this Government assumed office in March, which is normally the tail end of the budgeting process, thus it was impossible to present the budget at that time. Fortunately our constitution is forward looking. It has a provision for instances such as these; Section 113 of the Constitution gives the Minister of Finance authority in instances where parliament has not yet appropriated funds, to withdraw money from the consolidated fund to

meet expenditure necessary to enable the government to function. I utilised this section to enable the Government to continue functioning. It is being mischievous, therefore, for those in the know to mislead those who do not know, that this government is not using authorised monies.

5. It is a common saying that Governments come and go, but the civil service remains. It is in this spirit that this current budget is a transitional budget that we have inherited from the previous government but modified to begin to meet the promises we made to the people during electioneering. This budget has been steered towards meeting the ideals espoused in the Coalition Agreement that formed this government.

Madam Speaker,

Following these preliminary remarks, let me turn to the budget itself;

Introduction

6. From the onset, let me indicate that the 2015/16 Budget has been prepared against a backdrop of declining revenues and rapidly increasing recurrent expenditures. On the other hand influenced by the pressing need to attain peace and political stability in the country. Consequently, the scope for growing the development budget has been greatly compromised. In recognition of the fact that we can only develop, and significantly reduce poverty when we consciously allocate more resources to strategic productive spending while maintaining necessary social and welfare spending, it is a firm intention of Government to turn this stance around in the near future.
7. Government continues to consider macro-fiscal stability as a critical and necessary condition for development. This is clearly outlined in the Agreement signed by the seven Coalition Parties that form government. It states, **“This stability must not only translate into accelerated and sustainable economic growth, but also reduced poverty levels. We can only achieve these important goals through institutional reforms, effective use of our natural resources, infrastructure development, and more foreign and domestic private sector investment”**.

Madam Speaker,

8. The Government's overall policy objectives continue to be guided by the National Vision 2020 and the National Strategic Development Plan (NSDP) and in addition, the Coalition Agreement. Specifically, 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:
 - Facilitating 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.

9. I should hasten to indicate, Madam Speaker that priority has been given to ongoing programmes that to a large extent, address focal areas of the NSDP and the mandate of the Coalition Government as enshrined in the Coalition Agreement, and set in motion the policy and institutional reforms and environment necessary to create the fiscal space required to achieve key and inclusive national objectives.

Madam Speaker,

10. Before I turn to the 2015/16 Budget Strategy, I would like to make a brief comment on theme for this budget: **Bringing Back Hope, Restoring Good Governance through efficiency, accountability, transparency, effectiveness and equity.** This theme says to us all, those who have been charged with the responsibility of utilising this budget should ask ourselves whether every 1 Loti is spent wisely. Before you spent ask yourself the following six questions: Is what I am doing necessary and in the interest of the country and its people?; Is what I am doing being done in the most efficient manner?; How am I going to account for the money spend?How effective will the service that I am providing be?;How transparent am I in what I am doing – will it stand scrutiny? And finally is there equity in the distribution of this Loti?If we can begin to do that, we will go a long way in indeed bringing back hope to the people of Lesotho and restoring good governance.

11. We must bring;
 - Hope to the cattle farmer in Makhalong, in the Qacha's Nek district that his cattlle shall be protected from the night raiders who cross the border to steal livestock.
 - Hope to the small café owner in Ketane who dreams of growing her café into a supermarket and employ more people from her village.
 - Hope to the wool and mohair farmers in Mokhotlong who want beneficiation of their products to earn more money and mitigate the forever changing Dollar: Loti exchange rate.
 - Hope to Mrs. Moletsane who served the government for 30 years as a teacher and is now into the seventh month of her retirement but has not received her terminal benefits. She has asked too many times without help and too broke to ask any further.

12. They all need the hope that today's budget has to rekindle. They need to believe that this government will do things differently.

Madam Speaker,

THE 2015/16 BUDGET STRATEGY

13. Before I turn to the 2015/16 Budget Strategy, allow me to point out a number of key issues that we must underscore and that underpin the proposals that I shall table later;
- While the Vision 2020, the NSDP and the mandate of the Coalition Government underpin the proposals, the extent to which we can finance these strategies is limited by the availability of resources. Government has two main sources of revenue, namely domestic tax revenue and SACU revenue. Of these, SACU revenue, accounts for about 50 percent of the total revenue. It must be noted that this is a source of revenue over which we have no control. Its movement is very volatile and is dictated by external economic and other factors.
 - The current structure of our fiscus is such that recurrent spending significantly outweighs productive or capital spending, leaving too little room for development.
 - The size of the civil service has reached levels that cannot be sustained in the immediate and medium term unless deliberate measures are taken to curb growth of the civil service. The civil service wage bill has grown drastically over the years and it is now consuming close to 50 percent of the recurrent budget.
 - Given the current revenue constraints, which are likely to continue into the medium-term, maintaining the large civil service will force the Government to reduce development spending in order to accommodate the wage bill.

- This will consequently affect the size of development spending and hence the ability of civil servants coming to work in the morning only to sit and do nothing due to lack of the necessary tools for them to perform their duties. We will end up with a situation where the recurrent budget only pays salaries and contributes very little to the advancement of the Government's development agenda.
- To this end, the Government is in discussion with development partners, notably the World Bank, on a governance reform programme that will include civil service reform. The programme will hopefully assist the Government in determining the best option to address the wage bill problem and improve efficiency in, and of the public service.
- It is only when we develop that we can reduce our vulnerability to SACU revenue by strengthening the private sector and accelerating the pace of reforms and improving our doing business ranking so that the private sector can create jobs and help Government to raise more revenue domestically.
- I must point out that in reforming the private sector, there is need to create capacity for the private sector to participate more in production, innovation and leveraging on technology in order to create jobs and add value as opposed to just providing services to Government by way tenders.
- In conclusion, On the other hand, growing our private sector has now become even more urgent and critical than before if we're to remain sustainable. Creating private sector job opportunities will ease the burden on the Government to employ our young graduates who are becoming increasingly desperate and impatient to get employment opportunities. The saying that goes "An idle mind is the devil's playground" may just become a reality for Lesotho unless we create employment opportunities for our youth.

14. Having highlighted these issues, the 2015/16 Budget proposes the following strategies to ensure medium-term fiscal sustainability:

- Enhanced mobilisation of domestic and concessional external resources for investment in productive activities. Successful execution and achievement of this strategic objective will require Government to undertake the following specific initiatives;
- Critical exploration of new revenue sources, without increasing the burden of taxation on the poor. Avenues include increasing selected fees, penalties and charges that have not been revised in the past several years, to bring them closer to the marginal cost of providing the services.
- Also, existing systems should be improved to limit leakages at points of fee and charge collections. These will contribute to government revenues and absorb inflation-induced costs. We are cognisant of the fact that we should not just increase fees without providing services, such as the recent unfortunate situation at the traffic department where people were paying for drivers' licenses but were not receiving them on time. We also need to ensure that in our endeavour to increase the revenue through fee increases, administrative costs should not be similarly increased. Otherwise it would not make economic sense.
- We need to improve financial administration, accounting and auditing in order to eliminate fraud, corruption and resource leakages. This will also entail improving the processing of payments to suppliers in order to avoid artificial inflation of prices by suppliers which are intended to off-set losses resulting from payment delays.
- Specifically Government shall continue with restructuring the Treasury Department, including creating cash

management infrastructure, and integration of IT systems in order to accelerate payments while implementing necessary safeguards and controls.

- Government will begin a process of setting upper limits of what it can and shall pay for various goods and services it receives from the private sector all in the spirit of this year's budget theme.
- This shall also require empowerment and capacitation of line ministries to be able to process payments in time.
- Past experience in the performance of SACU revenue points to the fact that Government now needs to seriously consider restricting the use of SACU revenue for strategic investment infrastructure as a fiscal rule, and building of reserves that serve as a buffer in times of need. To this end, the Development Component of the SACU shares should be ring-fenced for development expenditure. This will be in line with the initial objective of the Development Component under the 2002 SACU Agreement. This imposes an imperative on Government to focus resource allocation in areas that would help promote growth and private sector employment, generate additional revenue and maintain fiscal sustainability;
- We need to enhance efficiency and quality of spending through;
 - A comprehensive review of the size of government's vehicle fleet with the view to reducing the fleet and managing it more prudently;
 - Reducing the cost of local subsistence for all ministries;
 - Pursuing a year-round prioritization of international travel for all government ministries to minimize cost on international fares and subsistence; and

- Restricting external workshops and training. We should rather utilise our local institutions such as LIPAM and IDM.
- We must undertake annual efficiency and effectiveness analyses for both tax and non-tax revenues, and implement corrective measures where necessary as well as identify new sources of revenue; and
 - We must earnestly reform the civil service in order to determine the appropriate, necessary and optimal structure and staff complement for efficient and effective delivery of government development programmes while earnestly implementing the performance management system in the public service. The reform needs to start immediately, but will definitely take a couple of years to complete.
 - Growing our private sector has now become even more urgent than before. Creating private sector jobs opportunities will ease the burden on the Government to employ our young people who are increasingly desperate and impatient to get employed. We have a ticking time bomb in our hands, which we need to defuse as a matter of urgency.

Recent Global and Regional Economic Developments and Prospects

Madam Speaker,

15. Having shared and reflected on the strategic direction that Government will take, I would like to briefly reflect on economic developments and prospects elsewhere in the world and what they bring to bear on Lesotho's economy. I will limit my presentation on the extent to which the global and regional developments will impact on Lesotho's economic outlook.
16. According to the International Monetary Fund, global growth picked up only marginally in 2014, to 2.6 percent, from 2.5 percent in 2013.

17. From 2015 to 2016, global growth is projected at 3.5 and 3.7 percent, projecting a downward revision of 0.3 percent according to January 2015 World Economic Outlook (WEO). The revisions are due to a sharp decline in oil prices that affected major exporters, as well as a decline in the economies of China, Russia, the euro area, and Japan.
18. Growth projections have increased only in the United States in the context of major economies.
19. Over the past six months, oil prices steadily declined by about 45 percent due to a variety of factors, notably: (i) weaker-than-expected global activity, and the resultant weaker demand for oil, (ii) new innovations in the production of oil from other materials; and (iii) greater supply from oil exporting countries. The unexpected demand weakness in some major economies, in particular emerging market economies, has clearly played a role in the decrease in the average oil price.
20. The World Bank predicts continuing weak trade flows in 2015 due to weak demand and lower sensitivity of world trade to changes in global activity. Since the global financial crisis, global trade has slowed significantly, growing by less than 4 percent in 2013 and 2014, well below the pre-crisis average growth of 7 percent per annum. Changes in global value chains and a shifting composition of import demand may have contributed to the decline in responsiveness of trade to growth.

Regional Performance and Prospects

21. The outlook for sub-Saharan Africa remains favorable. Growth is projected to accelerate from about 5 percent in 2013–14 to 5¾ percent in 2015. In many countries, activity will continue to benefit from the sustained demand boost from infrastructure projects, the expansion of productive capacities (particularly in extractive activities and electricity production), buoyant services sectors, and/or a rebound in agricultural production. Whether this generates inclusive growth, however, remains a matter of concern, as poverty rates and inequality are still high across the region. Supporting this favorable outlook, recent revisions in national accounts also point to underlying

growth strength. The services sector, whose growth had been substantially underestimated in the past in Ghana and Nigeria, now accounts for a much larger share in growth, and these economies are far more diversified than previously thought. Growth is forecast to accelerate among low-income countries and fragile states, whereas the outlook is mixed for oil exporters and middle-income countries.

Madam Speaker,

22. Growth in South Africa is projected to remain lacklustre. A muted recovery is expected to take hold only in 2015, with growth rebounding to 2.3 percent after 1.4 percent in 2014. This outlook is based on the assumptions that improving labor relations allow inventory rebuilding, and that gradually improving net exports offset the drag from financial tightening. But this growth is slower than previously expected. Improvement in the net terms-of-trade are expected to be offset by fiscal consolidation and continuing problems in the electricity sector. The electricity constraints are expected to ease gradually starting in 2016 as new power plants come on stream.
23. With continued robust growth, expansionary fiscal positions, and increased investment efforts, current account positions are projected to further deteriorate. Despite the gradual global recovery and the decline in oil prices, the current account deficit is expected to widen from 3.3 percent of GDP in 2014 for the region as a whole, to 4.6 percent of GDP in 2015. Demand for imported goods and services would remain sustained in the context of investment projects and rapid private consumption growth. Meanwhile, exports are projected to decline from 27.6 percent of GDP in 2014 to 25.0 percent of GDP in 2015. Persistent infrastructure bottlenecks are also expected to prevent some countries, particularly South Africa, from taking full advantage of the gradual recovery in advanced economies.
24. Inflation is expected to increase to 7.4 percent in 2015 from 6.1 percent in 2014, mainly as a result of temporary factors, including the pass-through from past exchange rate depreciation (Ghana, South Africa, Zambia), increases in food prices (Nigeria, South Africa), and adjustments to fuel prices (Ghana, Madagascar, Zambia). Some moderation is anticipated in 2016 as some of these factors abate.

25. Finally, with the exception of Botswana, the SACU economies are expected to experience 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. The main challenge confronting the SACU economies is the high youth unemployment, which persists despite the positive economic growth. Furthermore, domestic revenue mobilisation remains a challenge, especially in the smaller members of the Customs Union.

Domestic Economic Performance and Outlook

26. Turning to the domestic economy, real GDP grew at an average of 4.6 percent between 2011/12 and 2013/14, due to strong growth realized in mining, construction, financial intermediation, wholesale and retail trade, health and social welfare. The medium term forecasts indicate an average real GDP growth of 3.6 percent due to moderate growth expected in financial intermediation, transport, communication, and agriculture. Though global economic recovery continues to be weak and uneven, it is expected to have a positive impact on mining.
27. **Mining** registered a growth of 19.7 and 14.5 percent in 2011/12 and 2012/13 respectively as a result of reopening of the Liqhobong and Kao mines. This came as global demand recovered from the 2008 economic and financial crisis influencing prices to become favourable for exports. Furthermore, the exchange rate of Loti against the US dollar continued to depreciate boosting the international export returns. The 5.3 percent dip in 2013/14 came as a consequence of the Letšeng mine operating at a lower scale. However, works at Letšeng have been completed and productivity is projected to improve significantly in the year ahead.
28. **Primary industries** recorded an average growth of 5.3 percent between 2011/12 and 2013/14, largely influenced by mining. Agriculture registered an average growth of 3.2 percent in the same period, with crops experiencing a decline of 6.5 and 16.2 percent due

to drought and flooding experienced in 2011/12 and 2012/13. Even though there was an armyworm attack in 2013/14, the crops output managed to achieve a high of 13.9 percent boosted by government intervention in the sector. This influenced the agricultural sector to register a 13.4 percent growth. Wool and mohair production also contributed to this growth.

29. The **agriculture** sector is projected to grow by 2.4 percent on average between 2014/15 and 2017/18. As the authorities gradually deal with the sector problems, such as small and fragmented landscape, seeds and fertilizers, irrigation, erosion, output marketing, storage facilities and transport, and the need to implement reforms that will propel our farmers from subsistence to commercial agriculture. The Ministry of Agriculture has contributed to this initiative by increasing the area planted through a summer cropping project financed by the Government of Lesotho. As a result, the area planted is expected to positively influence the yield in crops since it is projected to rise by 7.5 percent per annum covering about 50 percent of arable land in the medium term. The medium term forecasts also show that the mining sector will be influenced by ongoing increase in global demand and the depreciation of local currency against the US Dollar which will cause an average rise of 8.8 percent per annum in the sector between 2014/15 and 2017/18.
30. **Mining** registered a growth of 19.7 and 14.5 percent in 2011/12 and 2012/13 respectively as a result of reopening of the Liqhobong and Kao mines. This came as global demand recovered from the 2008 economic and financial crisis influencing prices to become favourable for exports. Furthermore, the exchange rate of Loti against the US dollar continued to depreciate boosting the international export returns. The 5.3 percent dip in 2013/14 came as a consequence of the Letseng mine operating at a lower scale.
31. The **Secondary Industry** improved by 3.9 and 2.2 percent growth in 2012/13 and 2013/14 respectively, after a decline of 3.4 percent in 2011/12. The decline in performance was solely due to manufacturing sector, which saw textile and clothing fall by 9.3 percent, resulting from uncertainties surrounding the renewal of the Third Country Fabric Provision (TCFP), which was ultimately renewed in 2012. Also, a further spectacular decline of 29.5 percent was realized on other

manufacturing in 2011/12, owing to the closing down of a major electronics company. The recovery in 2012/13 and 2013/14 was due to construction, which increased by 23.7 and 21.5 percent in those years respectively, although the manufacturing sector continued to decline in 2013/14. The construction sector was boosted by investment in the Millennium Challenge Account (MCA) projects in the health and water sectors, coupled with government capital expenditure.

32. The secondary industries are expected to grow by an average of 1.1 percent from 2014/15 through 2017/18. While manufacturing is expected to average only 0.8 percent during this period. Construction, on the other hand, is expected to average 0.8 percent in line with the government investment ventures relating to the NSDP. Although it may be regarded as moderate growth, it is however commendable since during this period, relatively large investments relating to Metolong Dam will come to completion. However the Electricity and water sectors are expected to record the highest average growth of 3.1 percent stemming from an eever-increasing demand from the manufacturing industry. It is nevertheless the least influential due to its relatively smaller share of the overall industry.
33. In 2011/12 through to 2013/14, tertiary industries recorded an average growth of 5.8 percent resulting from substantial developments in health and social work, financial intermediation, wholesale and retail trade, and transport and communications. The health sector registered a growth of 28.4 percent on average, attributed to the opening of the new referral hospital. On the other hand, financial intermediation sector grew at an average of 12.4 percent following reforms to improve access to credit as well as the availability of financial services extended to remote areas through the Post Bank. The transport and communication sector grew by 6.0 percent on average, influenced by the post and telecommunications sector, which grew by 6.5 percent at the back of intensive developments in the sector. Public administration, health and education were influenced by developments in the overall compensation of employees in real terms.
34. The tertiary industries are expected to grow at an annual average rate of 3.6 percent from 2014/15 through the medium term once

again stimulated by growth in transport and communication, as well as wholesale and retail trade. Under tertiary industries, most sectors (wholesale and retail trade, hotels and restaurants, transport and communication and real estate and business services) are projected to grow in line with economic activity. Financial intermediation is projected to be influenced by both demand deposits and credit which are estimated to increase due to financial sector reforms in the medium-term. The Public Administration, health and education are estimated to increase in line with expected inflation.

The 2014/15 Budget Performance

Madam Speaker,

I will now turn to the performance of the 2014/15 Budget.

35. Let me preface my remarks in this section by stating that Lesotho's fiscal policy remains the Government's main macro-economic policy instrument. Over the years, public spending has increased and has dominated the economy. What remains disturbing, however, has been the lower than expected impact of the spending in generating adequate economic activity to stimulate growth. As indicated earlier, Government spending has unfortunately fuelled large government employment and consumption, leading to a large allocation of the annual budget towards the recurrent expenditure, thus compromising the resources required for service delivery and public investment. In the same vein, the increased Government consumption has created an incentive for the private sector to engage in providing goods and services to government, the bulk of which are not produced locally and do not translate into capacities for productive job creation.
36. It remains critical for the Government to restructure public expenditure - to shift focus from recurrent expenditure to development expenditure. The Government continues to implement programmes, with the support of development partners, to improve the investment climate to trigger greater private sector involvement and reduce the dominance of the public sector in the economy.

Madam Speaker,

37. Performance of the 2014/15 approved Budget is as follows;
38. The Total revenue target approved by Parliament was M14,859.8 million, of which recurrent and capital appropriations amounted to M10,821.1 million and M5,001.5 million, respectively. The allocation translated to a total approved budget of M15,822.6 million, and a fiscal surplus of 1.2 percent of GDP.
39. During the course of the year, the tax revenue target was revised down from M5,745 million to M5,132 million. However, actual tax collections at the end of the fiscal year performed slightly higher than the revised target, amounting to M5,183 million. Consequently, total revenue collections amounted to M14,546 million, reflecting a reduction in tax revenue. The actual recurrent and expenditure was M10,588.9 million (as opposed to the approved M10,821.1 million) whilst the capital expenditure was M3,728.4 million (as opposed to the M5,001.5 million appropriated), respectively. This reflects a 98 percent spending of the recurrent budget and 80 percent of the capital budget. The overall actual expenditure recorded M14,317.3 million, which constitutes 90 percent of the approved budget.

Madam Speaker,

40. During the 2014/15 Fiscal Year, there were a number of unplanned, but unavoidable developments that had a negative impact on the performance of the budget. These included the National Elections held in February, 2015, which were funded by Government to a tune of M200 million and a number of outstanding bills for the running of the Government fleet amounting to M120 million. These were compounded by the police salaries that were introduced in July 2014. These developments were not part of the approved budget and will require supplementary estimates to be presented to this Honourable House later in the year.

Sectoral Issues

41. Government, through the Central Bank continues to implement financial sector reforms to address challenges of access to finance and enhance the role of the financial sector in development and growth in line with the Financial Sector Development Strategy. We recognise the need for development financing and promotion of small and medium enterprises. These enterprises are largely in the informal sector and support a large part of the population. In recognition of this fact, Government shall consider strategies to catalyse financing of these enterprises and large corporate with efforts to develop capital and equity markets as an alternative avenue to access financing for long term public and private investment. In this regard, Government shall consider to gradually offloading its shareholding in selected corporate bodies to allow active participation, growth and new opportunities for the private sector.

Budget Allocations for 2015/16

Madam Speaker,

42. Before I turn to budget allocations for the 2015/16 fiscal year, I wish to comment on the civil service, which cuts across all sectors, and in particular the wage bill. Hard truths must be told. As Abraham Lincoln said ***“I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crises. The great point is to bring them the real facts”***
43. The size of the civil service has reached levels that cannot be sustained in the medium term unless deliberate measures are taken to curb growth of the civil service. The civil service wage bill has grown drastically over the years and it is now consuming close to 50 percent of the recurrent budget. Given the current revenue constraints, which are likely to continue into the medium-term, maintaining the large civil service will force the Government to reduce development spending in order to accommodate the wage bill. This will consequently affect the size of development spending and hence the ability of civil servants coming to work in the morning only to sit and do nothing due to lack of the necessary tools of their trade.. We will end up with a situation where the recurrent budget only pays salaries and contributes very little to the advancement of the Government’s development agenda. The Government is in

discussion with development partners, notably the World Bank, on a governance reform programme that will include civil service reform. The programme will hopefully assist the Government in determining the best option to address the wage bill problem.

44. On the other hand, growing our private sector has now become even more urgent than before. Creating private sector job opportunities will ease the burden on the Government to employ our young people who are becoming increasingly desperate and impatient to get employment opportunities. The saying that goes “An idle mind is the devil’s playground” may just become a reality for Lesotho unless we create employment opportunities for our youth.
45. As I indicated earlier, the 2015/16 Budget has been prepared against a challenge of declining revenue. The SACU revenue, which finances a large proportion of our budget is projected to decline as a percentage of total revenue from 48 percent in 2014/15 to 42 percent in 2015/16. Government recognises the volatility in SACU receipts, a phenomenon that remains a serious fiscal risk and exposure. It therefore, remains crucial that, while government continues to identify other sustainable and less risky domestic revenue sources, deliberate actions are taken to reduce the size and improve in the quality of public expenditure, by directing allocations to more strategic areas with high economic returns.
46. The budget that I am presenting today is the result of extensive consultations within government. It is directed towards the implementation of the National Strategic Development Plan (NSDP) and the signed Coalition agreement. In preparing this budget, we have taken into account the limited resources and the need to live within our means. While the country’s development needs go beyond the proposed allocations, we would need to appreciate that we cannot fulfil our needs all at once. The Government’s needs will have to be approached in a staggered fashion. But it is also very critical that we get the sequencing of government’s priorities and programmes right to be able to achieve the desired outcomes over the medium to long term.
47. For the 2015/16 fiscal year, the proposed total expenditure is M 16,349.5 million. The expenditure is divided into M11,461.6 for

recurrent expenditure, representing an increase of 6 percent over the 2014/15 budget of M 10,821.1 million, and capital expenditure of M4, 887.9 million, representing a decrease of 2.3 percent compared to the 2014/15 budget of M5, 001.5million. The decline in capital expenditure is primarily a result of a decline in Government financing and donor loans. Government contribution to capital spending is expected to be M3,005.9 million and external financing is M1, 882 million.

48. The proposed financing for the budget is estimated at M15,321.4 million. Of this amount, Government is expected to collect M7,967.3 million, of which M6,517.2 million will be tax revenue and M1,450.1 million non-tax revenue. The proposed expenditure allocations will result in a fiscal deficit of 3.9 percent of GDP that shall be financed in various ways, in the main, concessional and other borrowing.

Madam Speaker,

49. As indicated earlier, the bulk of the Government contribution to the budget goes towards the financing of recurrent expenditure, while capital expenditure remains relatively low. I wish to reiterate that while we recognize that this allocation is not adequate to address our developmental goals, we wish to emphasize that specific and targeted measures will be implemented this year to turn around this stance to help allocate more resources to developmental activities rather than the persistently growing recurrent budget, which takes the bigger share of the national budget. The initiatives I highlighted earlier shall ensure that the implementation of the National Strategic Development Plan (NSDP) remains the priority of government in light of the need to achieve inclusive, broad-based and sustainable economic growth. This is even more critical than ever before considering the soaring annual unemployment levels, especially among the youth. The government recognises the importance of increasing annual capital expenditure over the medium to long term to be able to achieve high economic growth and sustainable national development. However, this will require a robust programme to mobilize both domestic and foreign funding, including gradually shifting the share of the annual resource allocation from the recurrent to the capital budget. It is also very urgent that implementation of the

annual capital spending is seriously and aggressively addressed, as it would be pointless to increase the budgetary allocation without the corresponding absorptive capacity, hence the need to improve efficiency in and of the public service so that it delivers.

50. Madam Speaker, let me also point out that financing of the projected deficit will require Government to draw down existing reserves, sell bonds or borrow from the private sector. Government will apply its mind in deciding which option to take.

Madam Speaker,

The 2015/16 Budget has considered the following continuing priorities:

51. **Agriculture** continues to play a crucial role in the life of our economy. It does not only provide food and raw materials but also employs a very large proportion of our nation. Government will continue to strengthen agricultural development through support to subsistence and commercial farming. Government proposes an allocation of M224.3million of which M120 million is the continued support towards the Summer Cropping Programme.
52. **Health:** The health sector continues to claim a large proportion of Government spending, while quality of services provided remains highly unsatisfactory. Of particular concern is the growing contribution of the Government to the operations of the Queen 'Mamohato Memorial Hospital. During 2014/15, Government made an additional payment of M 74 million for extra services provided by the hospital over and above the annual unitary payment agreed with the private partner. This trend, Madam Speaker, is a reflection of the lower than expected quality of services provided by filter clinics and district hospitals, which if operated adequately would reduce the need for referrals to QMMH. During the medium term, the Government's priority for this sector should therefore be to improve primary health service delivery in order to ease the burden on the Budget. The Government is already weighing its options towards the construction of a Maseru District Hospital as a further measure to reduce self-referrals at QMMH.

53. **Government will get into negotiations with the PPP partners to resolve the problems that beset QMMH.**
54. **Health;**A few weeks ago I had the good fortune of listening to Larry Summers when he gave advise on health financing. Larry Summers is a Harvard professor of economics, who set the record of being the youngest tenured professor at Harvard at the age of 29. He was also the Treasury Secretary during President Clinton’s administration. His legacy is that he is the only US Treasury Secretary in the last 50 years to have left office with the US budget in surplus. So when Larry Summers speaks, we have to pay attention. His take on health financing is that **“improving the health of citizens will pay for itself many times over, with benefits outstripping costs by a ratio of between 9:1 and 20:1. Moreover people who are healthier are more productive and people who are healthier are smarter”**. It is with this in mind that the Ministry of Health has been allocated an amount of M1, 761.9 the second largest allocation after education. As indicated earlier, the biggest challenge in the sector pertains to access to primary health services and shortage of drugs. While Government takes measures to address these challenges, the Budget proposes M73 million to cater for extra services to be provided by QMMH and an additional M60 million for the purchase of drugs at health centres.
55. The Ministry of Health will embark on an intensified outreach service and door-to-door campaign on HIV testing and counselling and TB screening as a way of curbing these deadly scourges. Non communicable diseases, especially cancer, are rearing their ugly head. To combat this the ministry will establish a cancer centre, thus reducing the huge amounts government spends referring patients to South Africa.
56. Expenditure on health is expected to grow gradually, contributing to a better life expectancy and improved welfare of orphans and vulnerable children. The proposed Development Budget of M265.5 million has been earmarked for programmes and projects in the sector.

57. The **Education Sector** takes a large portion of this year's budget amounting to M2, 814.1 million. This is in line with government objective of supporting Free and Compulsory Primary Education, support to the school feeding programme, purchases of books for both primary and secondary schools and increased support for the construction of science laboratories and technical education workshops.
58. Government recognises that focusing on primary education should not be at the expense of secondary education. During this financial year, the Ministry of Education and Training will take steps to reduce fees at the secondary level, and to increase access.
59. Increased funding for Tertiary Education is becoming a cause for concern. The ministry will take steps to ensure that the tertiary institutions account for monies allocated to them, and that they also create means of raising funds for their institutions without raising fees; rather they should embark on more research and consulting
60. **Public Financial Management:** To continue deepening the Public Financial Management Programme (PFM), an amount of M70.5 million has been allocated to the Ministry of Finance. Robust PFM Reforms will promote efficiency and quality in the administration of public resources. PFM reforms will contribute significantly to eradicating corruption and fuelling private sector growth and development. This second phase of the PFM reform programme will focus on enhancing the regulatory and legislation framework, budget reforms, building internal audit capacity across the Government, enhancing financial reporting and accounting, procurement reforms and external oversight. Cash management has been introduced under the PFM programme and it is an important element of internal control, ensuring that spending commitments are matched to the timing of revenue receipts. In addition, the Central Bank of Lesotho together with the four local banks recently introduced a cheque clearing system that reduced clearing from three days to one day.
61. **Small Business Development:** Unemployment and poverty remain the greatest economic and social challenge to the Country.

Government aims at making the micro, small, and medium enterprises (MSMEs) sector the backbone of our economy. The creation of the Small Business Development, Cooperatives and Marketing Ministry was precisely to promote competitiveness and business development. The government will continue to provide an enabling environment in support of both foreign and domestic investment through; improving legislative framework and industrial infrastructure development amongst others. A sum of M210.1 million is proposed for this sector.

Madam Speaker,

62. Turning to **Social Protection**, the Ministry of Social Development will continue to reduce the risk of poverty amongst marginalised groups through social protection, which is critical if we are to strengthen the resilience of children, the disabled, destitute families and communities. The ministry will continue providing bursaries for orphans and vulnerable children in secondary and high schools; child grants for households caring for vulnerable children, and subventions to institutions caring for the elderly, vulnerable children and the disabled. There is an increase in dementia in the elderly. This ministry should take steps to assist those afflicted by this condition. To this end a sum of M226.7 million is being proposed for the ministry.
63. The **Ministry of Trade and Industry** has a huge challenge of creating an enabling environment for trade, industrial and commercial development conducive for job creation and poverty reduction. The ministry will continue to provide infrastructure for industrial development through the Tikoe Industrial Infrastructure Phase 2 Project, with 9 of the 11 factory shells allocated to investors who are expected to begin operations in this fiscal year, with a potential of creating 4788 new jobs.
64. The imminent extension of the African Growth and Opportunity Act (AGOA) beyond 2015/16 has brought a new sense of hope for our manufacturing sector. It is my hope that the private sector will take full advantage of this opportunity and diversify products that could be

traded with the United States of America. An allocation of M138.3 million Maloti is proposed for this ministry.

65. **Local Government** remains the corner stone of the country's development. During the 2015/16 financial year, functions will be transferred from the following ministries to local councils: health, forestry, water, social development, mining, and local government itself. The ministry will continue with the construction of urban and rural roads. 23 council offices will be constructed with assistance from the German Government. Included in the estimates is the design of Mohale'sHoek and Semonkong bus stops. The proposed budget allocation for the Ministry of Local Government is M 852.01 million.
66. **Home Affairs:** The Ministry of Home Affairs still faces challenges with regard to the maintenance of NIKKUV contract, which costs M37 million per year, and the purchase of E-passports. It is therefore proposed that amount of M151.7 million to mitigate these challenges.
67. **The Independent Electoral Commission** is to prepare and conduct the Local Council Elections during the 2015/16. An amount of M15 million has been earmarked to carry out this important constitutional right. To this end, a sum of M50.1 million is being proposed for the IEC.
68. The **mining sector** has become one of the major contributors into the Government revenue pool in recent years. Its contribution in 2014/15 amounted to M424.3 million and is projected to grow to M599.9million in 2015/16, an increase of M175.6million. It is also worth mentioning that the final draft of the minerals and mining policy has been completed and about to be tabled before Cabinet for approval. The policy will provide a strategic direction for the development of the country's mineral resources and will ensure that the sector contributes to socio-economic development and transformation. An allocation of M29.5million is proposed to support the mining industry.

Madam Speaker,

69. Developed and well phased-out basic infrastructure remains one of the priorities for this Government. Poor infrastructure hinders

Lesotho's economic growth and international competitiveness. The Government proposes an allocation of M2, 520.9 million towards infrastructure development. This development will entail the expansion and rehabilitation of the national roads network - urban and rural, and bridges. An allocation of M160 million is proposed for the Mokhotlong-Sani-Pass Road, which will support tourism and regional integration. Furthermore, an allocation of M70 million is proposed for the Oxbow-Mokhotlong Road. Government will continue to upgrade urban and rural roads, and M180.0 million and M100.0 million, respectively, is proposed for this purpose.

70. The Coalition Government also gives priority to rural and urban electrification as well as increasing accessibility to clean water throughout the country. This budget proposes an allocation of M80.0 million for rural electrification, while BADEA will provide support for electrification of the northern districts, to the tune of M48.5 million in 2015/16.
71. **Fight against Corruption and Fraud:** Corruption and fraud have become a daunting challenge for the Government and the law enforcement agencies in the country. A large amount of money that could be used for development is lost to corruption. Fighting corruption should not only be the responsibility of the Government, but should be tackled by the entire nation. Our institutions need to be supported to carry out their mandate of dealing with this cancer that is killing our economy. To this end, the Budget proposes an allocation of M25.5 million to the Directorate on Corruption and Economic Offences (DCEO), part of which will go towards acquiring forensic equipment and IT infrastructure. This should help speed up the investigation processes. Priority must and will be given to fighting corruption and criminal cases.
72. One area that needs special attention is the rehabilitation of offenders. In this vein, the Ministry of Justice will introduce vocational skills training programmes in all correctional facilities; intensify formal and non-formal basic education programmes offered to inmates. Correctional facilities will be gradually be refurbished, starting with the Maseru and Mafeteng correctional facilities this financial year.

73. HIV and other diseases continue to plague inmates. The ministry will continue providing health care for inmates and providing them with food supplements. A budget allocation of M240.7 Million is proposed for this ministry.

Madam Speaker,

74. Several reforms, which were highlighted by His Majesty the King when he opened Parliament are to be initiated during this financial year. These include constitutional and parliamentary reforms, reforms in the armed forces and in the public service in general. A sum of two million Maloti has been set aside for these reforms, spread within the relevant ministries.
75. Enhancing our national safety and security will remain key to economic prosperity. The success of our economic endeavours depends much on the ability to safeguard the successes that we have already made.

Population Census

76. Population census is a special wide range activity which takes place once a decade in the entire country. Its purpose is to gather information about general population, in order to present a full and reliable picture of the population in the country – its housing conditions and demographics, social and economic characteristics and allows us to plan properly. An amount of M45.6 million is proposed towards this important activity for the 2015/16 financial year.
77. With proper statistics, planning will be more focused. Once the census has been completed, the Independent Electoral Commission will be able to start voter registration afresh.

Madam Speaker,

78. Before I conclude, I wish to remind the Honourable Members that during the presentation of the 2014/15 Budget, a number of policies that were intended to enhance tax collection and ease the burden on

tax payers were proposed and approved by this Honourable House. These included adjustment to Personal Income Tax, Corporate Income Tax and Value Added Tax on alcohol and tobacco. To curb abuse of alcohol and tobacco, as a result of the reduction in VAT from 15 percent to 14 percent, it was further proposed that a levy of 4 percent be imposed on the purchase of these items. All the tax proposals were approved at that time. With the exception of the alcohol and tobacco levy, the requisite laws were passed by the Eighth Parliament. I therefore put it to this Honourable House that the Alcohol and Tobacco levy Bill is being drafted and will be presented during the course of 2015/16.

Madam Speaker,

79. It has been Government's policy to gradually adjust Old Age Pensions, to limit the rate of depletion of the value of the pensions and bring them closer to the minimum income required for a decent living. It is therefore proposed that the Old Age Pensions be increased from M500 to M550 and pension for ACP and LLA pensioners also increased by M50.00. Cabinet has resolved that over and above exploring other options of higher increases in the future, these pensioners, shall like other public sector income earners, receive an annual inflation adjustment starting with the 2016/17 fiscal year. However, Government is concerned that there seems to be increasing corruption and pilferage in the old age pensions scheme. Plans are underway to audit the scheme during this financial year
80. I wish to appeal to our civil servants to re-dedicate themselves to their calling by providing service without fear nor favour and be real servants of the people. It has been Government's policy to ensure that the value of take home salaries is maintained constant in real terms. For this reason, therefore, it is proposed that in 2015/16 salaries and wages be adjusted by 6 percent across-the-board, to maintain salaries and wages constant in real terms. To protect the lower income levels, it is proposed that the tax credit be adjusted upwards to from M6,100.00 to M6,466.00. This will translate into an adjustment of the minimum annual taxable income from M30,500.00 to M32,330.00. This will ensure that low-income earners remain outside the tax bracket.

Conclusions

Madam Speaker,

81. Let me conclude by reiterating that the proposed Budget for 2015/16 has been prepared against a backdrop of declining revenues, while expenditures, particularly the recurrent expenditure, continues to grow. This set the country on a very unsustainable fiscal path, which if not harnessed will leave very little resources available for development. The only way this economy can generate the required jobs for poverty reduction is to enhance growth, which on its own requires a great injection of resources in infrastructure development. It is time to earnestly focus on reforms that will improve public service delivery, create the necessary fiscal space for economic growth and enhance public financial management. The programmes that Government has already started implementing should be fast-tracked and enhanced.
82. Annexed to this statement are detailed figures for revenue, recurrent and capital estimates for the various sectors and the mid-term fiscal framework.
83. Let me reiterate the commitment of Government to restore the integrity of our country and economy, and caution that financing is only a part of the ingredients of development. Therefore, successful implementation and achievement of our goals will require collective and individual commitment and dedication to service delivery, discipline and consciously fulfilling our obligations. Allow me Madam Speaker to remind the House and the nation that Lesotho will celebrate 50 years of independence in 2016. At 50, the expectation is that we should have matured and have made demonstrable progress in development. We owe it to our Basotho (the current and future generations), to our country and to ourselves to develop this country.
84. I wish to thank the entire staff in the Ministry of Finance, other public servants and policy institutions for the hard work they put in preparing and contributing to this budget; Cabinet under the stewardship of the Rt. Hon the Prime Minister for their wise counsel and policy direction, the Budget Committee under the chairmanship of the Deputy Prime

Minister and the many ordinary citizens of this country who shared their vision and aspirations with me.

85. I wish to express my deepest gratitude to our Development Partners who have continued to support the Government in the pursuit of its development agenda. It is our hope that they will continue to provide this support.
86. Madam Speaker, Honourable Members, I thank you for your attention.

KHOTSO! PULA! NALA!

ANNEX I

GOVERNMENT BUDGET OPERATIONS FOR THE FISCAL YEAR 2015/2016 - 2017/2018							
Budget Item	Outturn 2012/13	Outturn 2013/14	Budget 2014/15	Outturn 2014/15	Budget 2015/16	Budget 2016/17	Budget 2017/18
REVENUE	13,144.9	13,274.4	15,754.0	14,546.5	15,321.4	14,773.6	16,499.0
Tax revenue	4,596.3	5,147.6	6,361.5	5,715.2	6,517.2	7,374.1	8,206.2
Taxes on income, profits, and capital gains	2,348.6	2,680.2	3,529.3	3,058.6	3,315.3	3,766.1	4,251.3
Income tax - payable by individuals	1,445.7	1,563.3	2,201.3	1,651.9	1,767.3	1,954.5	2,153.5
Income tax - payable by corporations and other enterprises	453.1	665.3	722.1	878.1	940.0	1,100.1	1,273.9
Income tax - unallocable	449.8	451.6	606.0	528.6	608.0	711.5	824.0
Taxes on property	149.8	127.7	166.0	139.0	162.2	177.6	193.2
Taxes on goods and services	1,818.8	1,886.6	2,431.4	2,339.0	2,758.2	3,034.4	3,338.4
Value-added tax	1,640.4	1,732.3	2,209.1	2,116.8	2,363.3	2,602.8	2,871.4
Excise taxes	163.3	132.6	206.0	206.7	376.8	412.6	449.2
Taxes on specific services	7.8	9.7	6.7	7.5	8.2	8.1	8.3
Taxes on the use of goods and on permission to use or perform	7.2	11.9	9.6	8.0	10.0	10.8	9.6
Taxes on international trade and transactions	277.4	451.1	227.7	177.3	276.1	391.4	420.2
Other taxes	1.7	2.0	7.1	1.3	5.4	4.5	3.0
Grants	1,703.5	1,047.4	1,043.9	495.7	955.8	1,008.2	1,061.4
Other revenue	878.8	1,024.8	1,314.5	1,301.6	1,450.1	1,797.6	1,655.8
Property income	109.4	164.2	357.4	412.8	489.1	783.0	585.4
Interest	0.4	24.0	5.3		7.4	7.4	7.8
Dividends	97.7	106.1	283.8	377.3	454.7	748.7	550.5
Rent	11.2	34.1	68.3	35.6	27.0	26.9	27.1
Sales of goods and services	765.9	855.6	905.3	882.9	941.2	1,000.8	1,060.3
Electricity Muela	44.0	56.2	81.0	61.6	68.6	75.1	81.8
Water Royalties - LHDA	635.8	717.1	744.9	740.1	782.4	826.8	870.9
Administrative fees	17.3	21.7	22.4	21.3	23.7	25.9	28.2
Incidental sales by nonmarket establishments	68.7	60.6	57.0	59.9	66.6	73.0	79.4
Fines & forfeits	0.5	1.6	1.4	1.6	1.7	1.8	1.9
Miscellaneous and unidentified revenue	3.1	3.4	50.4	4.2	18.1	12.0	8.2
SACU	5,966.3	6,054.6	7,034.1	7,034.1	6,398.2	4,593.8	5,575.6
EXPENSE (Statutory + Non Statutory + Salary Increase)	-8,794.5	-10,472.6	-11,606.7	-11,022.9	-12,676.5	-13,184.1	-14,087.8
<i>of which: Recurrent Expense</i>	<i>-7,904.1</i>	<i>-9,413.5</i>	<i>-10,468.5</i>	<i>-9,843.3</i>	<i>-11,461.6</i>	<i>-11,990.1</i>	<i>-12,826.2</i>
Compensation of Employees	-3,748.8	-4,588.7	-5,208.5	-5,210.9	-5,978.2	-6,573.2	-7,184.4
Wages and salaries	-3,242.7	-3,951.4	-4,477.3	-4,467.2	-5,223.7	-5,698.0	-6,231.1
Employer contributions	-506.1	-637.3	-731.2	-743.8	-754.5	-875.2	-953.3
Use of goods and services	-2,385.0	-3,026.3	-3,337.8	-2,908.3	-3,526.7	-3,334.6	-3,501.0
Interest Payments	-165.9	-192.3	-240.1	-227.1	-283.6	-314.8	-319.0
Nonresidents	-81.3	-108.3	-128.1	-130.9	-172.2	-184.7	-188.8
Residents other than general government	-84.6	-84.0	-112.0	-96.2	-111.4	-130.0	-130.2
Subsidies	-252.9	-232.2	-275.4	-198.5	-281.3	-250.6	-260.5
Grants	-881.8	-898.8	-702.9	-1,014.7	-784.2	-833.0	-883.4
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	-13.2	-17.6	-37.4	0.0	-25.6	-27.0	-28.4
Extra Budgetary Units	-499.1	-521.5	-468.3	-754.8	-550.6	-580.9	-611.7
Local Government	-213.6	-220.1	-31.0	-35.4	-31.0	-32.7	-34.4
Capital	-155.8	-139.6	-166.2	-224.5	-177.0	-192.4	-208.8
Social benefits	-613.0	-762.5	-886.6	-669.6	-937.3	-987.8	-1,041.4
Other expense	-747.0	-771.7	-955.3	-793.8	-885.2	-890.2	-898.1
Student Grants	-694.7	-683.8	-661.6	-661.6	-661.6	-663.1	-663.3
Other expense	-52.3	-87.9	-293.8	-132.3	-223.6	-227.1	-234.7
NON FINANCIAL & FINANCIAL ASSETS	-44.5	-112.7	-59.9	-41.8	-98.7	-140.7	-140.7
Capital Budget	-4,532.3	-4,133.4	-5,001.6	-4,166.2	-4,726.3	-4,750.0	-4,962.3
<i>of which: Non-financial Assets</i>	<i>-3,351.4</i>	<i>-3,297.1</i>	<i>-3,798.7</i>	<i>-3,363.3</i>	<i>-3,569.9</i>	<i>-3,587.7</i>	<i>-3,748.1</i>
GoL	-2,376.4	-2,534.3	-2,984.5	-2,400.7	-2,844.3	-3,000.7	-3,159.8
Donor Grants	-1,507.1	-898.3	-893.9	-491.5	-951.8	-1,004.2	-1,057.4
Donor Loans	-648.9	-700.8	-1,123.2	-1,274.0	-930.2	-745.1	-745.1
CASH SURPLUS / DEFICIT	912.5	-759.1	284.0	84.8	-1,028.1	-2,094.8	-1,428.3
<i>% GDP</i>	<i>4.6%</i>	<i>-3.6%</i>	<i>1.2%</i>	<i>0.4%</i>	<i>-4.0%</i>	<i>-7.5%</i>	<i>-4.7%</i>
GDP	19,832.9	21,006.7	24,535.6	22,918.3	25,387.1	27,792.7	30,235.4
NET CASH INFLOW FROM FINANCING ACTIVITIES	-1047.0	184.3	-284.0	47.1	1028.1	2094.8	1429.3
FINANCIAL ASSETS	-1940.8	-335.8	-1030.8	-816.1	502.6	1782.1	1176.7
Domestic	-1,940.8	-336.8	-1,030.8	-816.1	502.6	1,782.1	1,175.7
Foreign	0.0	1.0	0.0	0.0	0.0	0.0	1.0
LIABILITIES	893.8	520.2	746.8	863.3	525.6	312.8	252.6
Domestic	247.0	130.1	-4.4	-101.9	-0.5	0.1	1.7
Securities	-10.2	-80.4	-4.4	-108.7	-0.5	0.1	1.7
Loans	299.2	320.2	0.0	6.7	0.0	0.0	0.0
<i>of which Pension Liabilities</i>	<i>-42.0</i>	<i>-109.7</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Foreign	646.8	390.1	751.2	965.2	526.1	312.7	250.8
Loans	646.8	390.1	751.2	965.2	526.1	312.7	250.8
Disbursements	866.4	700.8	1123.2	1,274.0	931.2	747.1	748.1
Repayments	-219.7	-310.7	-372.0	-308.8	-405.1	-434.4	-497.3
Statistical Discrepancy	-134.5	-574.8	0.0	131.9	0.0	0.0	1.0
Months of Import Coverage	4.3		4.2	4.2	4.4	4.6	4.6

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

ANNEX II

REVENUES AND EXPENDITURES AS % GDP FOR FISCAL YEARS 2012/2013 - 2017/2018							
Budget Item	Outturn 2012/13	Outturn 2013/14	Budget 2014/15	Outturn 2014/15	Budget 2015/16	Budget 2016/17	Budget 2017/18
REVENUE	66.3	63.2	64.2	63.5	60.4	53.2	54.6
Tax revenue	23.2	24.5	25.9	24.9	25.7	26.5	27.1
Taxes on income, profits, and capital gains	11.8	12.8	14.4	13.3	13.1	13.6	14.1
Income tax - payable by individuals	7.3	7.4	9.0	7.2	7.0	7.0	7.1
Income tax - payable by corporations and other ente	2.3	3.2	2.9	3.8	3.7	4.0	4.2
Income tax - unallocable	2.3	2.1	2.5	2.3	2.4	2.6	2.7
Taxes on property	0.8	0.6	0.7	0.6	0.6	0.6	0.6
Taxes on goods and services	9.2	9.0	9.9	10.2	10.9	10.9	11.0
Value-added tax	8.3	8.2	9.0	9.2	9.3	9.4	9.5
Excise taxes	0.8	0.6	0.8	0.9	1.5	1.5	1.5
Taxes on specific services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on the use of goods and on permission to use	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Taxes on international trade and transactions	1.4	2.1	0.9	0.8	1.1	1.4	1.4
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	8.6	5.0	4.3	2.2	3.8	3.6	3.5
Other revenue	4.4	4.9	5.4	5.7	5.7	6.5	5.5
Property income	0.6	0.8	1.5	1.8	1.9	2.8	1.9
Interest	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Dividends	0.5	0.5	1.2	1.6	1.8	2.7	1.8
Rent	0.1	0.2	0.3	0.2	0.1	0.1	0.1
Sales of goods and services	3.9	4.1	3.7	3.9	3.7	3.6	3.5
Electricity Muela	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Water Royalties - LHDA	3.2	3.4	3.0	3.2	3.1	3.0	2.9
Administrative fees	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Incidental sales by nonmarket establishments	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Fines & forfeits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous and unidentified revenue	0.0	0.0	0.2	0.0	0.1	0.0	0.0
SACU	30.1	28.8	28.7	30.7	25.2	16.5	18.4
EXPENSE (Statutory + Non Statutory + Salary Incre	-44.3	-49.9	-47.3	-48.1	-49.9	-47.4	-46.6
Compensation of Employees	-18.9	-21.8	-21.2	-22.7	-23.5	-23.7	-23.8
Wages and salaries	-16.3	-18.8	-18.2	-19.5	-20.6	-20.5	-20.6
Employer contributions	-2.6	-3.0	-3.0	-3.2	-3.0	-3.1	-3.2
Use of goods and services	-12.0	-14.4	-13.6	-12.7	-13.9	-12.0	-11.6
Interest Payments	-0.8	-0.9	-1.0	-1.0	-1.1	-1.1	-1.1
Nonresidents	-0.4	-0.5	-0.5	-0.6	-0.7	-0.7	-0.6
Residents other than general government	-0.4	-0.4	-0.5	-0.4	-0.4	-0.5	-0.4
Subsidies	-1.3	-1.1	-1.1	-0.9	-1.1	-0.9	-0.9
Grants	-4.4	-4.3	-2.9	-4.4	-3.1	-3.0	-2.9
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	-0.1	-0.1	-0.2	0.0	-0.1	-0.1	-0.1
Extra Budgetary Units	-2.5	-2.5	-1.9	-3.3	-2.2	-2.1	-2.0
Local Government	-1.1	-1.0	-0.1	-0.2	-0.1	-0.1	-0.1
Social benefits	-3.1	-3.6	-3.6	-2.9	-3.7	-3.6	-3.4
Other expense	-3.8	-3.7	-3.9	-3.5	-3.5	-3.2	-3.0
Student Grants	-3.5	-3.3	-2.7	-2.9	-2.6	-2.4	-2.2
Other expense	-0.3	-0.4	-1.2	-0.6	-0.9	-0.8	-0.8
NON FINANCIAL & FINANCIAL ASSETS	-0.2	-0.5	-0.2	-0.2	-0.4	-0.5	-0.5
Capital Budget	-22.9	-19.7	-20.4	-18.2	-18.6	-17.1	-16.4
GoL	-12.0	-12.1	-12.2	-10.5	-11.2	-10.8	-10.5
Donor Grants	-3.3	-4.3	-4.6	-5.6	-3.7	-2.7	-2.5
Donor Loans	-7.6	-3.3	-3.6	-2.1	-3.7	-3.6	-3.5
CASH SURPLUS / DEFICIT	912.5	-759.1	284.0	84.8	-1,028.1	-2,094.8	-1,428.3
% GDP	4.6%	-3.6%	1.2%	0.4%	-4.0%	-7.5%	-4.7%
GDP	19,832.9	21,006.7	24,535.6	22,918.3	25,387.1	27,792.7	30,235.4
NET CASH INFLOW FROM FINANCING ACTIVI	-5.3	0.9	-1.2	0.2	4.0	7.5	4.7
FINANCIAL ASSETS	-9.8	-1.6	-4.2	-3.6	2.0	6.4	3.9
Domestic	-9.8	-1.6	-4.2	-3.6	2.0	6.4	3.9
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LIABILITIES	4.5	2.5	3.0	3.8	2.1	1.1	0.8
Domestic	1.2	0.6	0.0	-0.4	0.0	0.0	0.0
Securities	-0.1	-0.4	0.0	-0.5	0.0	0.0	0.0
Loans	1.5	1.5	0.0	0.0	0.0	0.0	0.0
of which Pension Liabilities	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0
Foreign	3.3	1.9	3.1	4.2	2.1	1.1	0.8
Loans	3.3	1.9	3.1	4.2	2.1	1.1	0.8
Disbursements	4.4	3.3	4.6	5.6	3.7	2.7	2.5
Repayments	-1.1	-1.5	-1.5	-1.3	-1.6	-1.6	-1.6
<i>Statistical Discrepancy</i>	<i>-0.7</i>	<i>-2.7</i>	<i>0.0</i>	<i>0.6</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Months of Import Coverage							

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

ANNEX III

ANNUAL % CHANGE IN REVENUES AND EXPENDITURES			
Budget Item	Budget 2014/15	Budget 2015/16	% Change
REVENUE	15,754.0	15,321.4	-2.7
Tax revenue	6,361.5	6,517.2	2.4
Taxes on income, profits, and capital gains	3,529.3	3,315.3	-6.1
Income tax - payable by individuals	2,201.3	1,767.3	-19.7
Income tax - payable by corporations and other ente	722.1	940.0	30.2
Income tax - unallocable	606.0	608.0	0.3
Taxes on property	166.0	162.2	-2.2
Taxes on goods and services	2,431.4	2,758.2	13.4
Value-added tax	2,209.1	2,363.3	7.0
Excise taxes	206.0	376.8	82.9
Taxes on specific services	6.7	8.2	23.2
Taxes on the use of goods and on permission to use	9.6	10.0	3.8
Taxes on international trade and transactions	227.7	276.1	21.3
Other taxes	7.1	5.4	-24.7
Grants	1,043.9	955.8	-8.4
Other revenue	1,314.5	1,450.1	10.3
Property income	357.4	489.1	36.8
Interest	5.3	7.4	38.9
Dividends	283.8	454.7	60.2
Rent	68.3	27.0	-60.5
Sales of goods and services	905.3	941.2	4.0
Electricity Muela	81.0	68.6	-15.4
Water Royalties - LHDA	744.9	782.4	5.0
Administrative fees	22.4	23.7	5.8
Incidental sales by nonmarket establishments	57.0	66.6	16.9
Fines & forfeits	1.4	1.7	21.0
Miscellaneous and unidentified revenue	50.4	18.1	-64.1
SACU	7,034.1	6,398.2	-9.0
EXPENSE	-11,606.7	-12,676.5	9.2
Compensation of Employees	-5,208.5	-5,978.2	14.8
Wages and salaries	-4,477.3	-5,223.7	16.7
Employer contributions	-731.2	-754.5	3.2
Use of goods and services	-3,337.8	-3,526.7	5.7
Interest Payments	-240.1	-283.6	18.1
Nonresidents	-128.1	-172.2	34.4
Residents other than general government	-112.0	-111.4	-0.5
Subsidies	-275.4	-281.3	2.1
Grants	-702.9	-784.2	11.6
To foreign governments	0.0	0.0	
To international organizations	-37.4	-25.6	
Extra Budgetary Units	-468.3	-550.6	17.6
Local Government	-31.0	-31.0	0.0
Social benefits	-886.6	-937.3	5.7
Other expense	-955.3	-885.2	-7.3
Student Grants	-661.6	-661.6	0.0
Other expense	-293.8	-223.6	-23.9
Capital Budget	-5,001.6	-4,726.3	-5.5
GoL	-2,984.5	-2,844.3	-4.7
Donor Grants	-893.9	-930.2	4.1
Donor Loans	-1,123.2	-951.8	-15.3
CASH SURPLUS / DEFICIT	284.0	-1,028.1	
% GDP	1.2%	-4.0%	
GDP	24,535.6	25,387.1	

ANNEX IV

REVENUES AND EXPENDITURES AS % OF TOTAL FOR FISCAL YEARS 2012/2013 - 2017/2018							
Budget Item	Outturn 2012/13	Outturn 2013/14	Budget 2014/15	Outturn 2014/15	Budget 2015/16	Budget 2016/17	Budget 2017/18
REVENUE	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tax revenue	35.0	38.8	40.4	39.3	42.5	49.9	49.7
Taxes on income, profits, and capital gains	17.9	20.2	22.4	21.0	21.6	25.5	25.8
Income tax - payable by individuals	11.0	11.8	14.0	11.4	11.5	13.2	13.1
Income tax - payable by corporations and other ente	3.4	5.0	4.6	6.0	6.1	7.4	7.7
Income tax - unallocable	3.4	3.4	3.8	3.6	4.0	4.8	5.0
Taxes on property	1.1	1.0	1.1	1.0	1.1	1.2	1.2
Taxes on goods and services	13.8	14.2	15.4	16.1	18.0	20.5	20.2
Value-added tax	12.5	13.0	14.0	14.6	15.4	17.6	17.4
Excise taxes	1.2	1.0	1.3	1.4	2.5	2.8	2.7
Taxes on specific services	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Taxes on the use of goods and on permission to use	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on international trade and transactions	2.1	3.4	1.4	1.2	1.8	2.6	2.5
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	13.0	7.9	6.6	3.4	6.2	6.8	6.4
Other revenue	6.7	7.7	8.3	8.9	9.5	12.2	10.0
Property income	0.8	1.2	2.3	2.8	3.2	5.3	3.5
Interest	0.0	0.2	0.0	0.0	0.0	0.1	0.0
Dividends	0.7	0.8	1.8	2.6	3.0	5.1	3.3
Rent	0.1	0.3	0.4	0.2	0.2	0.2	0.2
Sales of goods and services	5.8	6.4	5.7	6.1	6.1	6.8	6.4
Electricity Muela	0.3	0.4	0.5	0.4	0.4	0.5	0.5
Water Royalties - LHDA	4.8	5.4	4.7	5.1	5.1	5.6	5.3
Administrative fees	0.1	0.2	0.1	0.1	0.2	0.2	0.2
Incidental sales by nonmarket establishments	0.5	0.5	0.4	0.4	0.4	0.5	0.5
Fines & forfeits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous and unidentified revenue	0.0	0.0	0.3	0.0	0.1	0.1	0.0
SACU	45.4	45.6	44.6	48.4	41.8	31.1	33.8
EXPENSE (Statutory + Non Statutory + Salary Incre	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Compensation of Employees	42.6	43.8	44.9	47.3	47.2	49.9	51.0
Wages and salaries	36.9	37.7	38.6	40.5	41.2	43.2	44.2
Employer contributions	5.8	6.1	6.3	6.7	6.0	6.6	6.8
Use of goods and services	27.1	28.9	28.8	26.4	27.8	25.3	24.9
Interest Payments	1.9	1.8	2.1	2.1	2.2	2.4	2.3
Nonresidents	0.9	1.0	1.1	1.2	1.4	1.4	1.3
Residents other than general government	1.0	0.8	1.0	0.9	0.9	1.0	0.9
Subsidies	2.9	2.2	2.4	1.8	2.2	1.9	1.8
Grants	10.0	8.6	6.1	9.2	6.2	6.3	6.3
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	0.2	0.2	0.3	0.0	0.2	0.2	0.2
Extra Budgetary Units	5.7	5.0	4.0	6.8	4.3	4.4	4.3
Local Government	2.4	2.1	0.3	0.3	0.2	0.2	0.2
Social benefits	1.8	1.3	1.4	2.0	1.4	1.5	1.5
Other expense	7.0	7.3	7.6	6.1	7.4	7.5	7.4
Student Grants	8.5	7.4	8.2	7.2	7.0	6.8	6.4
Other expense	7.9	6.5	5.7	6.0	5.2	5.0	4.7
NON FINANCIAL & FINANCIAL ASSETS	100.0	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	100.0
GoL	52.4	61.3	59.7	57.6	60.2	63.2	63.7
Donor Grants	33.3	21.7	17.9	11.8	20.1	21.1	21.3
Donor Loans	14.3	17.0	22.5	30.6	19.7	15.7	15.0

ANNEX V

Ministry	2014/15					2015/16				
	Recurrent Budget	Capital Budget				Recurrent Budget	Capital Budget			
		GoL	Donor Grants	Donor Loans	Total		GoL	Donor Grants	Donor Loans	Total
Agriculture and Food Security	166.2	165.9	6.1	37.1	209.1	165.5	153.0	5.6	65.7	224.3
Health and Social Welfare	1,698.0	21.5	112.0	-	133.5	1,761.9	50.1	183.8	-	234.0
Education and Training	2,034.6	15.0	202.8	11.7	229.5	2,152.6	28.0	58.0	-	86.0
Finance	484.6	417.7	209.2	7.0	633.9	502.2	378.5	245.0	-	623.5
Trade and Industry, Cooperatives & Marketing	93.1	63.5	33.9	72.4	169.8	53.7	36.0	48.5	-	84.6
Development Planning	789.7	22.0	1.2	-	23.2	814.0	47.6	4.2	-	51.9
Justice, Human Rights & Rehabilitation	182.4	26.0	-	-	26.0	186.7	54.0	-	-	54.0
Home Affairs & Public Safety	103.0	118.0	-	-	118.0	151.7	120.0	-	-	120.0
Prime Minister's Office	107.4	-	-	-	-	118.3	-	-	-	-
Communications, Science and Technology	96.6	260.0	-	-	260.0	136.2	188.4	10.1	11.3	209.7
Law & Constitutional Affairs	61.3	-	-	-	-	72.5	-	-	-	-
Foreign Affairs & Intern Relations	341.8	-	-	-	-	354.6	-	-	-	-
Public Works & Transport	152.3	676.0	255.0	112.0	1,043.0	151.5	613.3	220.0	-	833.3
Forestry & Land Reclamation	55.8	157.0	-	-	157.0	54.5	150.0	-	-	150.0
Energy, Meteorology and Water Affairs	167.5	414.3	25.1	829.8	1,269.2	54.8	93.0	11.3	36.6	140.9
Labour & Employment	59.4	-	-	-	-	50.2	-	-	-	-
Tourism, Environment & Culture	97.4	49.0	13.9	-	62.9	94.3	62.0	16.1	-	78.1
Auditor General's Office	27.4	-	-	-	-	26.1	-	-	-	-
His Majesty's Office	5.7	25.0	-	-	25.0	6.0	72.0	-	-	72.0
Public Service Commission	7.4	-	-	-	-	7.6	-	-	-	-
Defence & National Security	478.9	56.0	-	-	56.0	539.3	16.0	-	-	16.0
National Assembly	91.9	-	-	-	-	77.7	-	-	-	-
Senate	20.3	20.0	-	-	20.0	17.5	-	-	-	-
Ombudsman	6.4	-	-	-	-	6.3	-	-	-	-
Independent Electoral Commission	71.1	-	-	-	-	50.1	-	-	-	-
Local Government & Chieftainship affairs	422.0	346.5	26.4	-	372.9	445.6	324.8	81.7	-	406.5
Gender, Youth, Sports & Recreation	65.6	38.0	2.5	53.3	93.8	82.5	48.0	0.8	-	48.8
Public Service	39.6	-	-	-	-	35.2	3.0	-	-	3.0
Judiciary	99.4	20.0	-	-	20.0	95.8	40.0	-	-	40.0
Social Development	181.3	5.0	5.7	-	10.7	195.1	10.0	21.6	-	31.6
Directorate of Corruption and Economic Offences	15.6	-	-	-	-	22.9	-	-	-	-
Mining	20.4	8.1	-	-	8.1	25.5	4.0	-	-	4.0
Police and Public Safety	449.8	60.0	-	-	60.0	634.9	53.0	-	-	53.0
Small Business Development, Cooperatives and Marketing	-	-	-	-	-	50.8	21.0	-	-	21.0
Water Affairs	-	-	-	-	-	93.1	278.5	45.1	816.6	1,140.3
Sub Total	8,693.9	2,984.5	893.9	1,123.2	5,001.6	9,287.3	2,844.3	951.8	930.2	4,726.3
Principal Repayment	372.6					468.7				
Interest Charges	240.1					283.6				
Pension & Gratuities	1,262.3					1,293.2				
Statutory Salaries & Allowances	33.8					38.6				
Subscriptions to International Organisation	37.4					35.5				
Refund to erroneous Receipts	3.0					3.0				
Centralised Items	90.5					184.3				
Administration Fund (Contingency)	100.0					100.0				
Total	10,833.6	2,984.5	893.9	1,123.2	5,001.6	11,694.2	2,844.3	951.8	930.2	4,726.3

