



PARLIAMENT OF THE KINGDOM OF LESOTHO

Continuing to build Foundations for Sustainable Delivery of Services to the People

Budget speech to Parliament for the

2004/2005 Fiscal Year

By

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Maseru, Lesotho

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Madam Speaker
His Majesty King Letsie III and Head of State
The Right Honourable the Prime Minister and Head of Government
The Honourable President of Senate
My Colleagues, Honourable Ministers of His Majesty's Government
Honourable Members of both Houses of Parliament
Distinguished Senior Government Officials
Your Excellencies Heads of the Diplomatic Corps and International Organizations
Distinguished Members of the Media
The Entire Basotho Nation Across Lesotho and Abroad
Ladies and Gentlemen

Allow me to pay my respects to His Majesty King Letsie III,
The Right Honourable Prime Minister
The Deputy Prime Minister and Leader of the House

Introduction

1. It is a pleasure once again to stand before this Joint Session of the National Assembly and the Senate to fulfil three functions:
 - First, to give account of the Government's stewardship on the use of the funds Parliament appropriated for the fiscal year that is about to end;
 - Second, to outline the direction, strategies and actions that the Government plans to pursue in the coming years in order to fight HIV and AIDS; create jobs, reduce poverty and improve the quality of life for all Basotho;
 - Third, to present spending and funding proposals for the coming financial year for Parliament's disposal.
2. Budget is important to the life of any nation. The public must therefore hear and discuss it and the officials explain as much as possible how it will affect them. I am pleased to report that this year the public can watch the proceedings at the National Convention Centre in Maseru and in Mafeteng and Leribe. They can listen to the radio broadcast of the speech at special community halls in Mokhotlong, Qacha's Nek, Mohale's Hoek and Thaba Tseka. Our excellent staff of professionals who helped me put this Budget together will be present at these locations to answer questions and provide explanations afterwards.
3. Again, I will go to the Convention Centre after this speech to answer questions and queries from the public and the media. **This is in keeping with the Government's philosophy to involve the people in the decisions that affect their lives and to bring services nearer to them.**

The World Takes Notice

4. We live in a globalised world. What we do and how we manage our economy is noticed by friend and foe, the international financial investors, and capital markets. The policies we pursue and the professionalism and integrity of our public servants are watched the world over. International Financial Institutions such as the IMF, The World Bank and others constantly review the Government's economic and financial policies for the short and medium term. The international capital markets also have other independent rating agencies that assess the country's policies, risks of default and general creditworthiness.

5. These assessments are used by the officials of co-operating Development Partners that provide grants and soft loans, the private capital market participants who assist countries to borrow on international capital markets, and foreign investors.

6. During the past year, Lesotho has undergone ratings and the outcome is positive. The international rating firm of "**FITCH RATINGS**" has upgraded Lesotho's investment rating from B+ Stable outlook to B+ Positive Outlook. **The Institutional Investor** has also upgraded Lesotho from position No. 94 to No. 88. These ratings signal to our Development Partners and foreign investors that Lesotho is a country in which they can invest with confidence; a country which, despite its poverty, services its debts and manages its economic affairs well; and a country where political risk is low.

7. The ratings place Lesotho in the same peer group of countries as Iran, Ukraine and Dominican Republic, just above large economies such as Brazil, Indonesia, Mozambique and Turkey.

8. The main factors that justify these ratings are: reduced political risk, continued AGOA-related investment and export growth, and implementation of fiscal reforms such as LRA and the introduction of VAT which will counter revenue declines from the Southern African Customs Union (SACU) in the medium term. Fitch Ratings has further noted that "Lesotho's reasonably sound macro-economic environment, historically low net external debt, strong external liquidity and high fiscal revenues continue to offer support for the rating."

9. The financial support of the United States Government is greatly appreciated for supporting us to go through this demanding exercise by the international rating agencies.

Towards Greater Focus on Delivery of Services to the People

Madam Speaker

10. A budget does not only explain how money was used and how it is to be used in the coming year. It must also provide a medium-term framework and direction which the Government is following. I would like to say a few words about such a framework.

11. The foundation of this framework lies in the recognition by the Government that development is not only about money, important though it is; it is not only about growth in Gross Domestic Product, necessary though it is. Development is about people and the quality of their lives. Therefore, people should be the focus of Government policies and how they impact on the quality of people's lives. This focus should apply equally to the actions of the private sector and NGOs including churches and various organizations of civil society.

12. Putting people at the centre of development policy requires each group that provides services to them, including Government, to identify carefully:

- All the services it provides;
- The people to whom these service are provided;
- How these services are delivered (efficiency);
- The people who are responsible for ensuring that services actually reach the intended beneficiaries rather than being siphoned along the way;
- How the intended beneficiaries can give feedback (voice) on whether or not the services actually reach them.

13. The Government regards this focus on people and the delivery of services to them central to the achievement of our national goal of a better life for all and the attainment of Millennium Development Goals. For the Government, this means bringing services closer to the people. It means restructuring of the system of governance and introduction of local Government structures with elected representatives at community, district and municipal level. Elected district representatives will provide valuable inputs in the determination of what services are needed in their areas; how they can be met given the country's limited financial resources; and feedback on how well they are being provided by public or private agencies. This oversight function of the public is very important and must be encouraged.

Partnerships for Delivery of Services

14. Delivery of services to the people, particularly the poor requires strong partnerships between a number of groups:

- Policy-makers and elected representatives, on the one hand, and the beneficiaries or citizens or clients, on the other;
- Policy-makers and private or parastatal service providers, on one hand, and the beneficiaries, or citizens or clients, on the other; and,
- Private or NGO service providers and clients or beneficiaries.

Madam Speaker

15. This is not a change of policy but a clarification of a framework for facilitating delivery of services to the people and an articulation of issues to consider as implementation of decentralization through local government proceeds. While legal structures are the first step in the process, people and their service needs must be at the

centre of decentralization of functions. There will be many other issues of accountability and results on the ground which will need to be considered. Suffice it to say that a start is being made through some proposals in this year's budget.

16. It is important that as we march down the decentralization road, we keep our visions and imagination in view so that we explore opportunities for realizing them. For example,

- Can we imagine a single, multiple story building in every district where all financial services, all police and immigration services, all licence renewals, payments for motor registration, pensions etc. are found on various floors of the same building?
- Can we imagine in the same building people sitting together to plan the development of the entire district and monitoring the implementation of those programmes that have been funded?
- Can we imagine further vibrant cooperative partnerships between Government, the private sector, NGOs, faith-based organizations and public recipients of services? In such partnerships, Government could play a role of a financier and service provider of last resort provided private businesses and NGOs play their part in providing services on their own or on contract to Government?

17. The reorganization of public administration that combines partnerships between Government, private sector and NGOs in the provision of basic services to the people will not be easy but it will move us closer to expanding access to services for most people. We have carved our own homegrown democratic model. We can develop our own model for delivery of basic services to all our people, particularly the poor. The path will not be easy but a good foundation has been laid. Let us have courage to build on it.

The Fight Against Economic and Financial Crimes Intensifies

18. Last year I stated that the Government was laying foundations for sustainable development. As in all construction work, one starts by digging the ground until a solid patch or rock is found. We began the year by doing just that, but we did not know in advance what was in the ground other than mud and soil.

19. During the course of our work, we discovered in the ground a maze of hidden tracks, unorthodox procedures, and channels where unsavoury characters operate to advance their purpose of wanton self-enrichment at the expense of poor taxpayers of this country. We found networks of thieves and fraudsters operating in Lesotho and South Africa by using banks, insurance and private companies. We discovered cells of government officials operating in syndicates in various ministries including the Treasury, Sub-Accountancies, and local, central and magistrate courts. We found court cases that never come to final judgments because of continuous postponements that are being granted by the courts. We discovered some ambulances being used to transport contraband instead of patients.

20. Of even more concern was the discovery of two companies operating in a manner that is tantamount to economic sabotage. The first is a case of a company called Silverside Textiles (Pty) Ltd whose warehouse and garments were seized by LRA late

last year. This company imported bulk materials in bond for manufacture and export to United States under AGOA. Instead of exporting the garments, it diverted them into retail shops in Lesotho and South Africa, contrary to AGOA and the SACU Agreements. These actions are aimed at destroying Lesotho's integrity and credibility as a dependable economic partner for years to come.

21. The second company involves a travel agency called Millennium Travel and Tours, which over-invoiced Government for international travel and freight. The initial cost of this over-invoicing has been estimated at more than M9 million. Investigations are continuing into other aspects of this case which appear much wider than we originally thought.

Madam Speaker

22. The nation now knows some of the things that Government has found, as it seeks to lay foundations for sustainable development. Let me state once again that government will not be deterred to fight these economic and white-collar crimes. Lesotho will not be used as a base for money laundering or a haven for thieves and criminals. There are international financial norms that States must uphold. Therefore, the government will strike hard against those who seek to subvert our country economically. As a first step towards strengthening investigations, prosecutions and case management, the Directorates of Anti-Corruption, Public Prosecution, Police and NSS together with LRA and the Accountant General are reviewing ways of combining their skills and powers to deal expeditiously with these economic white-collar crimes.

The Public Accounts Committee Joins the Fight

23. As the fight against corruption intensifies, I wish to note the excellent work which the Public Accounts Committee has done on the 1993/94 to 1995/96 Audited Public Accounts. The hard persistent questioning of Chief Accounting Officers on the use of the funds Parliament has appropriated is crucial for preventing fraud and inculcating the culture of professionalism and accountability in the public service. I congratulate the Committee for its work, dedication and professionalism and pledge my full support.

Strengthening Public Financial Management Steams Ahead

24. The establishment of the Parliament's Public Accounts Committee and its strengthening is part of an overall reform programme of public financial management. It includes improvement in the operations and functioning of the Offices of the Accountant General and of the Auditor General. Restructuring new systems and staff development at the Treasury are underway. The focus is on the timeliness and quality of the public accounts. Lesotho should never go back to the dark days when public accounts were not produced.

25. Far reaching reforms are also in progress in the way the budget is formulated and analysed so that realistic options can be placed before Cabinet. Budget implementation and monitoring will also be improved in order to allow Cabinet to fulfil its accountability

and service delivery obligations to Parliament and to the nation. The same reform processes are underway in our planning machinery. Our intention is to integrate the implementation of the National Vision, Poverty Reduction Strategy, Ministerial Goals, medium-term and annual budgets. Clearly these reforms will take time to complete but work is well advanced already.

Number One Textile Exporter, but market and Product Diversification Urgent

26. Within a short period of five years, Lesotho has become the number one textile exporter to the U.S under the African Growth and Opportunity Act (AGOA). The textile sector has also become the number one formal employer in the country. This has made Lesotho the envy and the target of competitors for the largest market in the world. Our status has been achieved through quality work, timely delivery of orders and compliance with specifications. Any disruption in this supplier chain or delays will affect our position in this market negatively, hence the need to resolve any industrial relations disputes through dialogue and negotiation timely.

27. The contribution of the textile sector to incomes of many households and poverty reduction is invaluable, especially to our women and single mothers. This is why the Government has invited investors in the making of denim cloth for jeans so that the sector can be anchored through vertical integration. It is urgent and critical that Government, labour and industrialists work together to resolve outstanding environmental issues and to diversify markets into Australia, Canada, European Union and Japan where Lesotho's Least Developed status gives it duty-free access. It is also essential that we work with local entrepreneurs to build domestic linkages and training. We must also identify new products for export and opportunities in the production chains of South Africa in line with the spirit of the Joint Bilateral Commission on Cooperation with South Africa which President Mbeki and the Right Honourable Prime Minister established two years ago.

28. The United States has granted another year's extension under AGOA to pursue diversification of production and markets. But an even larger risk looms on the horizon due to the expiry in January 2005 of the Multi-fibre Agreement. This agreement, which has been signed by all countries, will remove all the textile preferences that Lesotho currently enjoys under AGOA and the duty free access to other markets. Our textiles will have to compete with those from the world's most efficient producers such as China, India, Bangladesh, etc.

29. Despite this threat, our industry remains committed to staying in Lesotho. It is urgent, however, to address these risks jointly and as quickly as possible. Our Ministry of Trade and Industry, Cooperatives and Marketing is already busy negotiating as a member of SACU, trade agreements with the United States and later on China, India and Latin America (Mercosur).

30. The new SACU agreement will come into force before May 2004. It provides for a Secretariat which will be based in Namibia. It also gives equal responsibility to all partners in the implementation of the Agreement, management of the revenue pool and

joint trade negotiations. The Government believes that SACU forms a solid basis for deeper regional economic integration envisaged under both SADC and NEPAD.

The Battle Against HIV/AIDS Gathers Momentum

Madam Speaker

31. Last year saw significant developments in the fight against HIV and AIDS which threatens to reverse all the important economic and social gains that Lesotho has made since independence. The Government hosted the SADC Heads of State Summit in July 2003 under the SADC Chairmanship of H.E. Jose Eduardo Dos Santos, President of Angola. Despite a tight schedule of Summit meetings, the Chairman felt that HIV and AIDS was such a serious challenge to our SADC region that it must be addressed quickly at Heads of State level. The summit was preceded by NGO Forum that submitted useful recommendations to the Summit.

32. The Heads of State Summit adopted a new SADC HIV/AIDS Strategic Framework and a Programme of Action, 2003-2007. This has galvanized Member States to accelerate the fight against the pandemic with a focus on access to care, testing and treatment, prevention and education, social mobilization, access to anti-retrovirals resource mobilization, and monitoring and evaluation. They urged establishment of a regional fund to support efforts of member states.

33. For its part, Lesotho has now adopted its own program of action to scale up the fight against HIV and AIDS. This involves restructuring of LAPCA, strengthening national and District Task Forces and forming partnerships with the NGOs and the private sector. The Global Fund has given a grant of US\$34 million to be spent over five years on HIV, AIDS and Tuberculosis. A drug company Bristol Meyer-Squibb is working with the Ministry of Health and Social Welfare to establish a testing and counselling clinic and donation of anti-retrovirals. Efforts are underway by the World Bank to assist Lesotho to strengthen its capacity to make effective use of these funds and to account properly for their use including procurement monitoring and evaluation and project approvals.

Developments in 2003/2004

Madam Speaker

34. Although the fiscal year has not ended, it is required of me to provide a brief report on some of the policies implemented with the funds appropriated by Parliament last March.

35. As part of improvements in explaining the country's economic performance and government policies, this budget speech is accompanied by a background document that provides more detail on economic performance since 1997; economic forecast to 2007; and indicative fiscal strategy to 2007. This marks a new beginning by which Government has begun to take a medium-term look to development and budgetary

matters. To solidify public expenditure management, a medium-term expenditure framework that will provide more budgetary transparency and accountability for resources appropriated by Parliament is being considered for implementation from 2005.

36. The economy recorded growth of 3.7 percent in 2002 and is projected to grow at 3.4 percent in 2003. This is due to slowdown in textile exports because of the strong Loti/Rand. Despite the setback, the manufacturing sector remains the main driver of the economy, growing by an estimated 4.5 percent in 2003, compared to 6.9 percent in 2002. Construction grew by 7 percent in 2002 and is forecast to grow by 4 percent in 2003. Due to drought, the primary sectors, of which agriculture is the main component, contracted by 4 percent, despite significant growth of 13.5 percent in the livestock sub-sector. Even with growth, our concern remains that of translating output growth into improved livelihoods for our citizens.

37. Looking ahead, Completion of Phase IA of the Highlands Water Project and the subsequent slowdown in water-related investments will reduce the impact of growth from the water sector. Economic performance is also likely to be influenced more by external developments. Global economic growth is projected at 3.2 percent in 2004, with the US economy growing at 4.2 percent. The recovery in the United States spells good news to the textile sector, which is expected to respond positively. Inflation fell from 11.2 percent in 2002 to 7.3 percent in 2003. It is expected to go down to 6 percent in 2004.

38. Public Financial Management is undergoing significant reforms at all levels of financial accountability. In addition to the 1993/1994 to 1995/1996 public accounts which have recently been the subject of discussion in this House, the 2001/2002 public accounts have been presented to Parliament while the 2002/2003 ones are with the Auditor General already. These events mark the beginning of a new era of the accountability for public funds. Not only are accounts being audited, their quality is steadily improving.

Madam Speaker

39. Great effort has also been put towards developing prudent macroeconomic policies. I announced in this House last year that although a large fiscal deficit of 5.2 percent of GDP was approved by Parliament, Government would attempt to achieve a lower deficit. I am happy to announce today that our estimates to end March 2004 indicate that the fiscal deficit is likely to be 3 percent of gross domestic product, having reduced the planned deficit by 2.2 percent. This is a result of additional revenue raising measures and expenditure containment strategies that targeted non-essential expenditures. Consequently the amount we need to borrow this year in Treasury bills has fallen considerably.

40. In July, Government introduced Value Added Taxation (VAT) to replace sales tax. More revenue is now being raised than had been possible under sales tax, partly because Government now pays tax, eliminating exemptions on suppliers to Government, which were greatly abused.

Looking Ahead – Macroeconomic Policies

Madam Speaker

41. The merging of the Ministries of Finance and of Development Planning has given us an opportunity to merge some functions, to strengthen the planning and co-ordination function and focus on both capital and recurrent budget implementation. This will also enable us to look at Medium-Term Planning Expenditure Framework.

42. Indeed most of our work is already forward-looking. Current fiscal proposals are affected as much by current needs as future resources and expenditure forecasts. This budget is based on a fiscal strategy that we began compiling in July 2003 and was approved by Cabinet in October 2003. The strategy sets the framework within which ministerial policies are to be funded, having taken into account realistic levels of resources and statutory spending.

43. Under our forward-looking strategy we forecast growth in the next three years at 3.6, 3.9, and 4.0 percent. In this forecast, we have carefully examined all we know about the key sub-sectors including agriculture, construction, manufacturing, retail and wholesale as well as HIV/AIDS. We have also considered recovery in the global economy. We have estimated that national income will rise by about 1 percentage point above population growth rate, thereby increasing per capita income.

44. This growth will be underpinned by forecast investment averaging 37 percent of GDP up to 2006, despite an expected fall due to completion of Phase IB of the Lesotho Highlands Water Project. The external sector, which records financial transactions between Lesotho and other countries, is expected to stabilize in 2004 on account of strong SACU inflows and foreign investment transfers into manufacturing. Although, we do not know precisely the impact of the new SACU formula when it comes into effect, we are hopeful that revenues would not fall far off from our current forecast.

45. Taking into account all the possible outcomes in investment, growth and foreign reserve position we have devised a fiscal strategy that aims to:

- Provide a basis for sound macroeconomic management;
- Create an attractive macroeconomic environment for the private sector to attract both domestic and foreign investment;
- Improve public sector performance by consistently applying the principles of public expenditure management;

46. The strategy targets a budget surplus of M251 million in 2004/2005 (2.7 percent of GDP) and then small deficits in future years, while allowing real increases in many programmes of expenditure. This surplus will repay maturing loans and treasury bills. It has been made possible by a windfall in SACU revenue as a result of adjustments from previous years.

Madam Speaker

47. During the year we will study and consider improvements to all revenue sources and collections including tax and non-tax revenues. Ministries have already been asked to review their fees and charges. The Government's belief is that everybody must pay their fair share of taxes. In this context, we encourage those with difficulties to come forward so that we can see how to resolve their problems amicably. **We will be tough with those who cheat but fair to those who come forward voluntarily.**

LRA Delivers Value

Madam Speaker

48. I cannot talk of taxation without mentioning the Establishment of Lesotho Revenue Authority. Since its launch last year, the LRA has performed extremely well in all dimensions. It has removed the long lines that used to form at border gates, made payment of VAT easier, established a Tax Advice Centre in the Ministry of Finance, collected more revenue than had been planned, provided public education about income tax, customs and VAT, and above all, seized goods and vehicles of those who try to sabotage our laws. They will soon announce the ways to simplify VAT on second hand vehicles. They are also conducting tax audits for those suspected of under-declaring their profits or the sources of their income. Combined with the Directorate of Anti-Corruption, LRA will help stamp out corruption in taxes and money laundering. More importantly, LRA plans to use the provisions of the Tax Agreement with South Africa to deal with some of the cross-border white-collar crimes.

49. Good news at last! I plan to place before this Honourable Parliament, within this week Two bills: **A Tax Amnesty Bill and a Revenue Appeals Tribunal**. The Amnesty Bill provides for the forgiveness of taxes owed for any period up to and including 31 March 1999. For the period 1 April 1999 up to and including 31 March 2003, **only interest and penalties will be forgiven**. But to benefit from this amnesty, people will have to apply for amnesty during a four-month window that will be announced following enactment of the Bill by Parliament.

50. **The Revenue Appeals Tribunal** is to be headed by a Judge and provides a judicial forum where those who feel that tax officials have not been fair to them can appeal. It is important that the public be provided with a transparent mechanism to appeal the decisions of public servants or service providers. The Government hopes that this Appeals Tribunal will force public servants to be more **conscientious** and the public to be bold in seeking justice.

51. The budget I put before this Honourable House consists of a total expenditure, excluding loan repayments of M4,319 million. Of this, wages and salaries account for M1,223 million or 28 percent, transfers and subventions; M845 million or 19.5 percent, interest payments; M216 million or 5 percent, and capital expenditure; M843 million or 19.4 percent. This expenditure is to be financed by total revenues and grants forecast at M4,570 million of which taxes account for M3,693 million or 87.2 percent and non-tax

revenue; M540 million or 12.8 percent. Loan repayments will amount to M527 million. We expect a surplus of M251 million which will be used to pay off some maturing expensive loans.

52. Currently, Lesotho's debt stands at M5.6 billion, of which the external stock amounts to M4.4 billion and domestic debt; M1.2 billion. The stock of external debt has fallen by 700 million, largely on account of the strengthening of the domestic currency against the dollar.

53. It is important to note that more than three quarters of our external debt is Concessional, coming mainly from international financial institutions. Commercial debts are mainly those taken out in 1999 to deal with the debacle of Lesotho Bank and treasury bills. The latter are used principally for liquidity management.

Sectoral Allocations

54. Government spending accounts for just over 45 percent of GDP, divided functionally into **social services**, **economic or productive services**, and **general public services**. Social services include health, education, social welfare, and culture; economic services include road, water, electricity, communications, commerce, tourism, industry, and infrastructure services, while general public services include security, public safety law enforcement, administration of government, finance, planning, justice, immigration, foreign missions and foreign affairs, plus any other service which is neither a social, economic, or infrastructure service.

55. Social services account for 44 percent of total spending. This has risen by 3 percent in the last 3 years at the expense of economic and infrastructure services whose share in the budget has dropped by 2 percent to 18 percent from its 2003/2004 allocation. While the rise in the share of social services is welcome, we should be careful that it does not rise at the expense of productive services which are critical for investment and growth. Future increases in both social and productive services will have to be at the expense of general public services which have remained constant at 30 percent.

56. In terms of social services, Government has steadfastly remained on track to expand the reach of free primary education (FPE). The current budget has raised support to Standard 5 students. Lesotho is on track to meeting the goal of universal primary education under the Millennium Development Goals by 2015. Indeed the programme has reversed the declining enrolment trends observed prior to its implementation and more and more children are in school. As indicated in the past, the FPE is far more than an education programme. It is social safety net that provides nutrition, education, and occupation for children from poor households or HIV/AIDS orphans, and it is a job-creating scheme that has promoted jobs in catering, construction, and transportation sectors for Basotho entrepreneurs.

57. But the broad-based benefits of FPE are threatened by the very high cost of the programme. The budget allocated to Education and Training has in recent years risen rapidly driven by FPE. We estimate that the share of Education in total expenditure and

national output will continue to rise until FPE is extended to Standard 7. Difficult choices will have to be made then: Will secondary education be ready to receive these children? Will Government be able to create more classrooms at secondary school level and hire more teachers? What will happen to Government's ability to finance other programmes? These are some of the questions that we need to ponder as this cohort of children approaches Standard 7.

58. HIV and AIDS are hitting hard our population of teachers on top of the education system as a whole. We are very grateful to our development partners who have put large amounts of support in this sector. We nonetheless note that there are as much recurrent as are capital needs. Most donors have restricted their support to capital projects. We therefore wish to call for more budgetary support and flexibility in resources provided. Our development partners have already agreed to this in principle in other fora and it is a matter of putting it in practice. Public financial management is being improved and we are confident that we can effectively deal with most reporting requirements other than the most onerous ones. Development partners should also begin to look at support to secondary education to avoid choking the steady stream from primary education, having raised expectations.

59. Let me say a word or two about the challenging policy issues that emerged this year. These relate to the admission of students to tertiary institutions, definition of priority fields of study, award of loan bursaries and the administration of loan bursaries and collection of loan repayments. The policy of granting loan bursaries to all students admitted at Tertiary institutions in Lesotho or South Africa began long ago and encouraged Universities and Technikons to admit the largest number of students in the full knowledge that the Government of Lesotho will sponsor them. It also encouraged the growth in the National Manpower Development Secretariat (NMDS) of a culture to disregard the financial allocations laid down by Parliament. For example, in 2000/2001 to 2002/2003 NMDS exceeded the Budget set by Parliament. In the current year Parliament allocated M195 million, but NMDS awarded scholarships amounting to M249.8 million, some of this without authority. I will be dealing with this lack of financial discipline.

60. Faced with this demand for more resources, Government defined priority fields for which it would sponsor students at NUL and other tertiary institutions. During this period, discussions with students and the parents association were held. Almost all first year students in the priority fields at NUL were funded. For those going to South Africa the problem was lack of funds due to unauthorized commitment of more funds than those allocated by Parliament. After a careful review of the situation, Cabinet authorized a commitment of M20 million more for students going for engineering, medicine and related fields where admission is difficult to find.

Madam Speaker

61. This was a very difficult period for many students and their parents. But I wish to express my great appreciation for the level of maturity, professionalism and discipline that students' representatives displayed throughout this period. I also wish to express my

appreciation to the Vice Chancellor for his efforts in making sure that we move forward jointly for the benefit of Lesotho and its children and plan growth of the University together.

62. Cabinet has appointed a sub-committee to look at the affairs of the NMDS and to develop policies for funding higher education and structures for managing a restructured loan bursary fund.

63. In this budget, Government is proposing an allocation of M1,223 million to cover the costs of primary, secondary and tertiary education, as well as loan bursaries. Further funds are requested to continue to expand free primary education, meet the costs of books which shall be lent to students, build additional classrooms and address quality in the delivery of education. It is proposed that subventions to NUL, Lesotho College of Education (LCE), Lerotholi Polytechnic and IDM be M150 million.

64. On **health**, HIV/AIDS remains a serious problem in the country with an estimated number of people dying per day at 70 and orphans at 70,000. Madam Speaker, despite the positive outlook for Lesotho in the near term, HIV/AIDS presents daunting risks and threatens macroeconomic and social fabric of this nation. In this respect, Government has decided to scale up its efforts by restructuring all institutions involved in the fight against HIV/AIDS. Other donors have also earmarked a fraction of their support towards AIDS initiatives. Government on its own has earmarked 2 percent (equivalently M60 million) of the recurrent budget as funds for supporting HIV/AIDS programmes by ministries.

65. Government's intervention in the health sector is driven by a principle of establishing Primary Health Care (PHC) as the pillar of the system. A number of key problems to PHC are management inefficiencies, growing number of social dependants and psychological problems relating to child and women abuse, as well as domestic and other forms of violence. The main focus of the 2004/05 budget is the treatment of opportunistic infectious diseases, strengthening preventive measures and support to poverty related conditions such as malnutrition.

66. Concern for **health facilities** remains uppermost, and in 2004/05 Government will begin to address shortages in working space as well as a referral hospital. It is proposed that M321 million be set aside for addressing the recurrent and capital priorities in the health sector. This amount includes grants to the Christian Health Association of Lesotho (CHAL).

Old Age Pensions

67. Madam Speaker, Government operates several **social welfare** schemes distributed across ministries of Health, Finance, and Education, comprising grants to the poor, pensions to African Pioneer Corps (APC) and their widows and other pensioners, as well as scholarships on behalf of orphans.

68. Parliament will kindly recall that it has been Government's wish to provide our **old people with a pension**. I am pleased to report that before the end of 2004/05 and after setting up administrative arrangements and registering people of age 70 or higher, **Government will begin paying old-age pensions at the rate of M150 per month per qualifying senior citizen**. This scheme will in time be amalgamated with APC. M45 million has been set aside for this purpose, raising total pensions payment by 62 percent to M186.7 million in 2004/2005.

Productive Services

69. In addition to social services and welfare, Government supports productive and infrastructure services provided under the ministries of Trade and Industry, Cooperatives and Marketing, Natural resources, Agriculture and Food Security, Tourism, Environment and Culture, Communications, Science and Technology, and Public Works and Transport. In terms of the budget, the productive and infrastructure sectors account for 18 percent of total spending; a decrease of 2 percent from last year.

Famine

70. Madam Speaker, the country is now in the third year of crop failure due to the unfavourable climate that has hit Southern Africa. This has worsened food security and made recovery very difficult for the population with fragile means of livelihoods. As the Right Honourable Prime Minister has made it clear in his appeal to the international community for food support, the situation is expected to continue into 2004/2005. In 2002/2003, the government launched an appeal for humanitarian assistance and obtained positive response from various development partners. Thus through joining hands with development partners, the Government succeeded to distribute food aid to the vulnerable groups throughout the country and to increase cereal production by 3 percent of the national requirement through the agricultural input subsidy scheme.

71. To deal with this famine will require careful targeting and proper use of food for work. As time goes, Government will consider other options including borrowing from IMF.

72. In any event, let me express the Government's great appreciation to all our development partners who came to our assistance including several African and Asian countries. We are grateful for all your support.

73. **Agriculture** has the potential to contribute and provide sustainable livelihoods to a significant section of society. However, agricultural development is stifled by a number of institutional weaknesses. To exit from this predicament, the Ministry of Agriculture has completed an agricultural sector strategy, which sets the direction for the alignment of programmes with the Ministry's core functions and for the initiation of policy and institutional reforms and divestiture which aim to lay foundation for commercialization and diversification in agriculture. Reorientation of agricultural research, training and extension services are to be made more responsive to farmers' developmental needs.

Further efforts will be directed at completing the reforms and setting up appropriate regulatory and implementation frameworks.

74. It is proposed that Parliament allocate M141 million maloti for pursuing the policies in agriculture and food security.

75. As noted before, industry and job creation are dominated by textiles. Provision has been made by LEC, WASA and LNDC to support this sector by the necessary economic and physical infrastructure and provision of factory shells.

76. Progress has been made on establishing an industrial estate in Mohale's Hoek, in addition to Botha-Bothe where the Peoples Republic of China has provided valuable assistance. Other sites proposed for development are Ha Tikoe in Maseru and Mafeteng. M40 million is proposed this year to help in the development of the Tikoe Industrial Estate.

77. It is important also to recognize that **science and technology** is one of the key building blocks of an economy in the current global economic order and in the foreseeable future. The government has thus decided that the existing science and technology policy be further elaborated to cover information and communication technology and to be more relevant to existing production structures. It is Government's intention to provide schools, health centres, and district administrative centres with appropriate forms of Information and Communication Technology (ICT). In addition the Ministry of Communications, Science and Technology is planning to launch a Postbank which will provide banking services in many rural areas left without services when the old Lesotho Bank closed. Its pilot phase will begin this year. It is proposed that M39.8 million be allocated to this Ministry.

78. **Environmental Degradation** is detrimental to the economy and to our agricultural land. It is imperative that we overcome environmental threats that cripple our natural resource base which is required to support livelihoods now and in the future. Government recognizes that increasing the natural resource capital base is as important as the adoption of the good land use management practices. Important landmarks for the coming financial year include environmental legislation and setting up of appropriate institutions for operationalising environmental policy. Success depends on a trilateral partnership: the public and community groups especially youth and NGOs on the one hand, the Government, and Industry and the private sector on the other. Specific projects include social forestry and recycling enterprises, pilot integrated sanitation and energy technology as well.

79. **Land and natural resource management** services are provided through the Ministries of Tourism, Environment and Culture and Forestry and Land Reclamation. An allocation of M112 million is proposed for services and policies I have mentioned. This is twice the allocation provided to this sector last year. The allocation includes the development of natural attractions, maintenance of existing tourism assets, and the development of a national museum, archives and library.

80. **Tourism**, especially eco-tourism has been identified as a niche through which the country can take advantage of the large flow of tourists into the region, thereby creating job opportunities. However, private investment is conspicuously low in the sector. The Lesotho Tourism Development Corporation (LTDC) intends to be fully operational in 2004/2005, and will have to be innovative and focused. Its strategy is to develop village-based tourism amenities. For tourism, environment and cultural activities, it is proposed that M75 million be allocated including a grant of M10.7 million to LTDC.

81. In terms of sports, Lesotho should prepare for and take advantage of imminent opportunities in our neighbouring countries. The bottom line is to improve infrastructure at the central level year by year to reach acceptable international standards, whilst also investing in basic infrastructure in the districts and build talent in key competences, for sports to be an effective tourism amenity and source of livelihood for talented Basotho. The possibility of using gate takings for capital investment in sports facilities should be looked into. M12.3 million is proposed for supporting sports.

82. The non-farm economy is rising in importance in support of rural livelihoods. Experience suggests that **infrastructure** by way of rural roads, electricity and communication plays an important role in opening up opportunities for livelihoods. Infrastructure development is also vital for investment and marketing. Government has not only continued to upgrade roads within and in the outskirts of Maseru to bitumen standard. Road improvements in other urban districts will also begin this year. Expansion of the national road network throughout the most remote locations in the country will continue. For 2004/2005, work will continue towards the completion of the Mpharane-Bela-Bela road, which is being raised to bitumen standard, while the upgrading of the Likalaneng-Thaba Tseka to bitumen standard will also begin with the support of the African Development Bank, BADEA and OPEC Fund. In addition, more footbridges will be constructed to facilitate crossing rivers. It is proposed that M289 million be set aside for Public Works and Transport.

83. Between April 2001 and September 2003, 12,940 users were connected to **electricity** by Lesotho Electricity Corporation (LEC). This connection campaign has attracted more users and there is currently a backlog of over 5,000 applicants. Government is seeking funds and will soon meet this new demand.

84. On institutional matters, the LEC is to be restructured and a concession granted to a strategic investor. The criteria for the bidders in the 20-year concession will be maximum number of connections in 20 years, which are to be made with the capital raised by private strategic investors. At the end of the concession period, ownership will revert to Government and a new concession issued for 15 years. The concession will be licensed to construct, expand, modify, maintain and operate the National Control centre. It is estimated that the concession will supply 80,000 connections during its period. Government will also embark on a rural electrification programme to address all areas that fall outside the service territory for a concessionaire. A Rural Electrification Fund will be established for this purpose and external grants and local funds put into the Fund.

85. Madam Speaker, **water** is without doubt a right. During 2003/2004 several water provision programmes were developed or implemented. It has emerged that our water demand threatens to surpass available installed supply capacity, largely as a result of rising demand in urban centres by industry. In one of the interesting events of 2003, Government sought to raise the level of Maqalika Dam so that more water could be stored. Raising the dam would flood houses of residents who have illegally occupied the Maqalika Selective Development Area whose original occupants were compensated other than the brick workers. As fate would have it, these people also want to be compensated and have sought redress from courts! While the case drags on in court, the Government is making alternative arrangements to meet this urgent demand for water. These include the development of Metolong and water supply for other towns.

Other General Public Services

86. In addition to social, economic, and infrastructure services, Government provides many other services of a general nature, including security, safety, public order, and administration of government, finance, planning, justice, immigration, foreign missions and foreign affairs. These constitute about 14 percent of GDP and on average 30 percent of the budget.

87. Notable among the policies for next fiscal year is the introduction of personal identification for nationals of Lesotho and expansion of computerization of traffic departments. The issuance of personal identification is expected to reduce the demand for passports but provide alternative means for identification for banking and other services.

88. Finally, let me turn to the challenge of developing effective instruments for private **sector development**. The time has come to move from words to action through a Joint Working Group of Government and private sector representatives. A lot of studies have been done by various international agencies. I hope that my colleague, the Minister of Trade and Industry, Cooperatives and Marketing and I can take up this challenge so that we can report better progress next year. If Government's development strategy is based on private sector led growth, then this is a challenge to us to show results on the ground.

89. Government will finalise regulations for Public Private Partnerships (PPP) and create capacity for managing these programmes, which are often very complex to set up and challenging to both governments and the private sector. It is envisaged that private sector capital will be released to fund public sector needs over long periods, particularly construction of Governments centres in the Districts.

Civil Service Salary Adjustments

90. I emphasized in my speech that Government must be effective in delivering services to the people. Decentralization and devolution of power, public sector improvement, and effective financial management must be used to achieve this goal. Civil service performance and effectiveness is central to showing results on the ground and in achieving the transformation that the government is embarking on. For 2004/2005 a 5.5 percent salary adjustment is included in the budget proposals for the civil service. It

is the Government's hope that by their performance, all civil servants will justify this increase.

Conclusion

Madam Speaker,

91. Allow me to express on behalf of the Government and the people of Lesotho, our strong appreciation to all our development partners for their unfailing support over the years. Their contribution to relieving our famine situation during this prolonged drought has been invaluable as well as their continuing development assistance. Among those partners who have showed solidarity are developing countries with huge needs of their own. As all will note from my budget speech, the Government's policies are clear and financial management is being improved. Treasury and audit reforms, changes in budgetary systems and processes and partnership with Parliament's Public Accounts Committee are proceeding rapidly. We need more resources to implement and sustain these reforms aimed at delivering services to the people and attaining the Millennium Development Goals.

92. I also wish to express my appreciation to the Right Honourable Prime Minister for his support and guidance.

- My Cabinet colleagues for helping shape the present Budget Proposals and the policies it espouses;
- The Principal Secretaries and Chief Accounting Officers and their staff for compiling the individual ministries budgets and patiently making the necessary adjustments;
- The entire Finance and Planning team that has spent sleepless nights in the last few weeks and those that are scattered in the various centres where this presentation is being transmitted to answer the people's questions;
- All those who have been engaged in the computer communications media logistics and the media for probing questions; and,
- Last but not least, my indebtedness and appreciation to you Madam Speaker, and the Honourable Members of the National Assembly and the Senate for their indulgence.

KHOTSO!

PULA!

NALA!

Annex 1A: Economic Classification of Budget 2004/2005 (Million Maloti)			
Budget Item	Approved 2003/2004 Budget	Projected 2003/2004 Outturn	Proposed 2004/2005 Budget
Revenues and Grants	3,496.1	3,644.9	4,569.6
Revenue	3,203.6	3,368.1	4,232.8
Tax Revenue	2,675.9	2,872.9	3,692.8
Customs	1,421.8	1,421.6	2,012.4
Income Tax	760.2	850.9	902.0
Sales Tax/VAT	388.8	501.1	678.2
Oil Levy	86.3	86.3	82.1
Other Tax Revenues	18.8	13.0	18.1
Non-tax revenue	527.7	495.2	540.0
Water Royalty	217.2	213.4	239.0
Other non-tax	310.5	281.8	301.0
Grants	292.5	276.8	336.8
Project Grants	266.1	240.0	272.6
Budgetary Support	26.4	36.8	64.2
Expenditure & Net lending	3,946.5	3,892.3	4,318.9
Recurrent Expenditure	3,117.3	3,165.1	3,494.0
Wages and Salaries	1,127.1	1,123.2	1,222.9
Other Purchases	1,781.3	1,826.7	2,055.0
Transfers and Subsidies	629.8	633.0	844.8
Other Goods and Services	1,151.5	1,193.7	1,210.2
Interest Payments	208.9	215.2	216.1
Foreign Debt	113.3	90.3	94.7
Domestic Debt	95.6	124.9	121.4
Capital Expenditure	846.2	740.9	842.7
GoL Funded	320.1	320.8	360.0
Externally Funded	526.1	420.1	482.7
Grant Funded	266.1	240.0	272.6
Loan Funded	260.0	180.1	210.1
Net Lending	-17.0	-13.7	-17.8
Overall deficit before grants	-742.9	-524.2	-86.1
Overall deficit after grants	-450.4	-247.4	250.7
Total Financing	450.4	247.4	-250.7
Foreign Financing	-0.2	-25.9	-41.9
Loan Drawings	260.0	180.1	210.1
Amortization (Loan Repayment)	-260.2	-206.0	-252.0
Domestic Financing	450.6	273.3	-208.8
GDP (forecast)	8,710.9	8,558.6	9,436.3
GNI (forecast)	10,466.9	10,419.2	11,405.5

Annex 1B: Economic Classification of Budget 2004/2005, Deviations from 2003/2004 Budget (Percent)		
Budget Item	Projected 2003/2004 Outturn	Proposed 2004/2005 Budget
Revenues and Grants	4.3	30.7
Revenue	5.1	32.1
Tax Revenue	7.4	38.0
Customs	0.0	41.5
Income Tax	11.9	18.7
Sales Tax/VAT	28.9	74.4
Oil Levy	0.0	-4.9
Other tax revenues	-30.9	-3.7
Non-tax revenue	-6.2	2.3
Water Royalty	-1.7	10.0
Other non-tax	-9.2	-3.1
Grants	-5.4	15.1
Project Grants	-9.8	2.4
Budgetary Support	39.4	143.2
Expenditure & Net lending	-1.4	9.4
Recurrent Expenditure	1.5	12.1
Wages and Salaries	-0.3	8.5
Other Purchases	2.5	15.4
Transfers and Subsidies	0.5	34.1
Other Goods and Services	3.7	5.1
Interest Payments	10.3	10.6
Foreign Debt	-20.3	-16.4
Domestic Debt	30.6	27.0
Capital Expenditure	-40.3	4.2
GoL Funded	0.2	12.5
Externally Funded	-40.5	-8.2
Grant Funded	-9.8	2.4
Loan Funded	-30.7	-19.2
Net Lending	-19.4	4.7
Overall deficit before grants	-29.4	-88.4
Overall deficit after grants	-45.1	-155.7

Annex 1C: Economic Classification of Budget 2004/2005 (Percent of GDP)			
Budget Item	Approved 2003/2004 Budget	Projected 2003/2004 Outturn	Proposed 2004/2005 Budget
Revenues and Grants	40.1	42.6	48.4
Revenue	36.8	39.4	44.9
Tax Revenue	30.7	33.6	39.1
Customs	16.3	16.6	21.3
Income Tax	8.7	9.9	9.6
Sales Tax/VAT	4.5	5.9	7.2
Oil Levy	1.0	1.0	0.9
Other tax revenues	0.2	0.2	0.2
Non-tax revenue	6.1	5.8	5.7
Water Royalty	2.5	2.5	2.5
Other non-tax	3.6	3.3	3.2
Grants	3.4	3.2	3.6
Project Grants	3.1	2.8	2.9
Budgetary Support	0.3	0.4	0.7
Expenditure & Net lending	45.3	45.5	45.8
Recurrent Expenditure	35.8	37.0	37.0
Wages and Salaries	12.9	13.1	13.0
Other Purchases	20.4	21.3	21.8
Transfers and Subsidies	7.2	7.4	9.0
Other Goods and Services	13.2	13.9	12.8
Interest Payments	2.4	2.5	2.3
Foreign Debt	1.3	1.1	1.0
Domestic Debt	1.1	1.5	1.3
Capital Expenditure	9.7	8.7	8.9
GoL Funded	3.7	3.7	3.8
Externally Funded	6.0	4.9	5.1
Grant Funded	3.1	2.8	2.9
Loan Funded	3.0	2.1	2.2
Net Lending	-0.2	-0.2	-0.2
Overall deficit before grants	-8.5	-6.1	-0.9
Overall deficit after grants	-5.2	-2.9	2.7
Total Financing	5.2	2.9	-2.7
Foreign Financing	0.0	-0.3	-0.4
Loan Drawings	3.0	2.1	2.2
Amortization (Loan repayment)	-3.0	-2.4	-2.7
Domestic Financing	5.2	3.2	-2.2

Annex 1D: Economic Classification of Budget 2004/2005 (Percent of GNI)			
Budget Item	<u>Approved</u> <u>2003/2004</u> Budget	Projected 2003/2004 Outturn	Proposed 2004/2005 Budget
Revenues and Grants	33.4	35.0	40.1
Revenue	30.6	32.3	37.1
Tax Revenue	25.6	27.6	32.4
Customs Revenue	13.6	13.6	17.6
Income Tax	7.3	8.2	7.9
Sales Tax/VAT	3.7	4.8	5.9
Oil Levy	0.8	0.8	0.7
Other tax revenues	0.2	0.1	0.2
Non-tax revenue	5.0	4.8	4.7
Water Royalty	2.1	2.0	2.1
Other non-tax	3.0	2.7	2.6
Grants	2.8	2.7	3.0
Project Grants	2.5	2.3	2.4
Budgetary Support	0.3	0.4	0.6
Expenditure & Net lending	37.7	37.4	37.9
Recurrent Expenditure	29.8	30.4	30.6
Wages and Salaries	10.8	10.8	10.7
Other Purchases	17.0	17.5	18.0
Transfers and Subsidies	6.0	6.1	7.4
Other Goods and Services	11.0	11.5	10.6
Interest Payments	2.0	2.1	1.9
Foreign Debt	1.1	0.9	0.8
Domestic Debt	0.9	1.2	1.1
Capital Expenditure	8.1	7.1	7.4
GoL Funded	3.1	3.1	3.2
Externally Funded	5.0	4.0	4.2
Grant Funded	2.5	2.3	2.4
Loan Funded	2.5	1.7	1.8
Net Lending	-0.2	-0.1	-0.2
Overall deficit before grants	-7.1	-5.0	-0.8
Overall deficit after grants	-4.3	-2.4	2.2
Total Financing	4.3	2.4	-2.2
Foreign Financing	0.0	-0.2	-0.4
Loan Drawings	2.5	1.7	1.8
Amortization (Loan repayment)	-2.5	-2.0	-2.2
Domestic Financing	4.3	2.6	-1.8

Annex 1E: Economic Classification of Budget 2004/2005 (Percentage)			
Budget Item	Approved 2003/2004 Budget	Projected 2003/2004 Outturn	Proposed 2004/2005 Budget
	Percent of Total Revenue		
Revenues and Grants	109.1	108.2	108.0
Revenue	100.0	100.0	100.0
Tax Revenue	83.5	85.3	87.2
Customs	44.4	42.2	47.5
Income Tax	23.7	25.3	21.3
Sales Tax/VAT	12.1	14.9	16.0
Oil Levy	2.7	2.6	1.9
Other Tax Revenues	0.6	0.4	0.4
Non-tax revenue	16.5	14.7	12.8
Water Royalty	6.8	6.3	5.6
Other non-tax	9.7	8.4	7.1
Grants	9.1	8.2	8.0
Project Grants	8.3	7.1	6.4
Budgetary Support	0.8	1.1	1.5
	Percent of Total Expenditure		
Expenditure & Net lending	99.6	99.6	99.6
Recurrent Expenditure	78.7	81.0	80.6
Wages and Salaries	28.4	28.8	28.2
Other Purchases	44.9	46.8	47.4
Transfers and Subsidies	15.9	16.2	19.5
Other Goods and Services	29.1	30.6	27.9
Interest Payments	5.3	5.5	5.0
Foreign Debt	2.9	2.3	2.2
Domestic Debt	2.4	3.2	2.8
Capital Expenditure	21.3	19.0	19.4
GoL Funded	8.1	8.2	8.3
Externally Funded	13.3	10.8	11.1
Grant Funded	6.7	6.1	6.3
Loan Funded	6.6	4.6	4.8
Net Lending	-0.4	-0.4	-0.4

Annex 2A: Functional Classification of 2004-05 Total Budget (Million Maloti in Current Prices)

	Budget 2002/2003	Budget 2003/2004	Budget 2004/2005
Social Services	1,436.4	1,670.9	1,895.5
Health, Social Security & welfare	493.3	515.3	597.6
Education & Culture	943.1	1,155.6	1,297.9
Economic Services	608.5	790.1	763.8
Agriculture and rural development	168.6	233.1	252.7
Commerce, tourism, & industry	99.0	115.2	101.3
Natural Resources	87.8	147.3	159.8
Roads	192.0	260.2	197.5
Other transportation & communication	22.2	22.2	26.6
Other Economic Affairs	38.9	12.1	25.9
Housing and Community Services	81.3	67.2	71.3
General Public Services, Public Order, Safety and Defence	1,074.4	1,207.4	1,314.9
General Public Services	582.0	574.1	647.9
Public Order and Safety	314.1	443.9	451.6
Defence	178.3	189.4	215.4
Unallocable and other purposes	333.1	228.9	291.8
Total	3,533.7	3,964.5	4,337.3

Annex 2B: Functional Classification of 2004-05 Total Budget (Percent)

	Budget 2002/2003	Budget 2003/2004	Budget 2004/2005
Social Services	40.6	42.1	43.7
Health, Social Security & welfare	14.0	13.0	13.8
Education & Culture	26.7	29.1	29.9
Economic Services	17.2	19.9	17.6
Agriculture and rural development	4.8	5.9	5.8
Commerce, tourism, & industry	2.8	2.9	2.3
Natural Resources	2.5	3.7	3.7
Roads	5.4	6.6	4.6
Other transportation & communication	0.6	0.6	0.6
Other Economic Affairs	1.1	0.3	0.6
Housing and Community Services	2.3	1.7	1.6
General Public Services, Public Order, Safety and Defence	30.4	30.5	30.3
General Public Services	16.5	14.5	14.9
Public Order and Safety	8.9	11.2	10.4
Defence	5.0	4.8	5.0
Unallocable and other purposes	9.4	5.8	6.7
Total	100.0	100.0	100.0

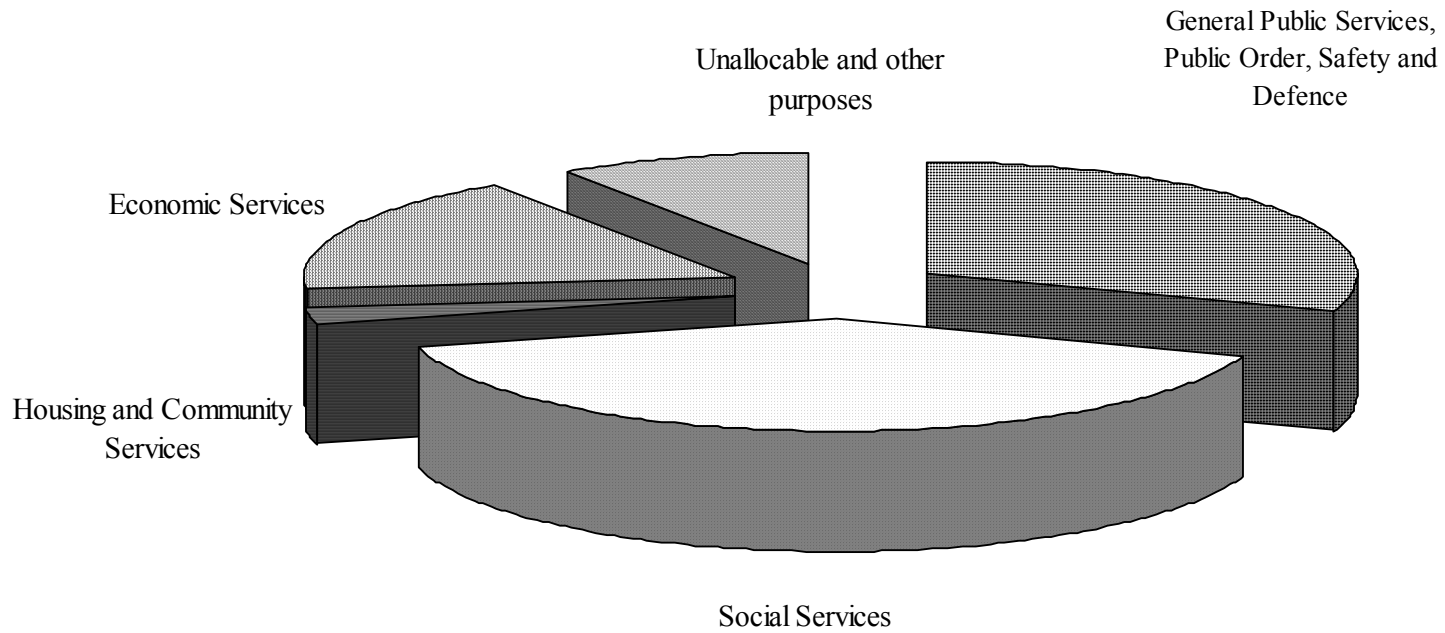
Annex 2C: Functional Classification of 2004-05 Total Budget (Percent of GDP)

	Budget 2002/2003	Budget 2003/2004	Budget 2004/2005
Social Services	18.6	19.5	20.1
Health, Social Security & welfare	6.4	6.0	6.3
Education & Culture	12.2	13.5	13.8
Economic Services	7.9	9.2	8.1
Agriculture and rural development	2.2	2.7	2.7
Commerce, tourism, & industry	1.3	1.3	1.1
Natural Resources	1.1	1.7	1.7
Roads	2.5	3.0	2.1
Other transportation & communication	0.3	0.3	0.3
Other Economic Affairs	0.5	0.1	0.3
Housing and Community Services	1.1	0.8	0.8
General Public Services, Public Order, Safety and Defense	13.9	14.1	13.9
General Public Services	7.5	6.7	6.9
Public Order and Safety	4.1	5.2	4.8
Defense	2.3	2.2	2.3
Unallocable and other purposes	4.3	2.7	3.1
Total	45.7	46.3	46.0

Annex 2D: Functional Classification of 2004-05 Total Budget (Percent of GNI)

	Budget 2002/2003	Budget 2003/2004	Budget 2004/2005
Social Services	15.2	16.0	16.6
Health, Social Security & welfare	5.2	4.9	5.2
Education & Culture	10.0	11.1	11.4
Economic Services	6.4	7.6	6.7
Agriculture and rural development	1.8	2.2	2.2
Commerce, tourism, & industry	1.0	1.1	0.9
Natural Resources	0.9	1.4	1.4
Roads	2.0	2.5	1.7
Other transportation & communication	0.2	0.2	0.2
Other Economic Affairs	0.4	0.1	0.2
Housing and Community Services	0.9	0.6	0.6
General Public Services, Public Order, Safety and Defence	11.3	11.6	11.5
General Public Services	6.1	5.5	5.7
Public Order and Safety	3.3	4.3	4.0
Defence	1.9	1.8	1.9
Unallocable and other purposes	3.5	2.2	2.6
Total	37.3	38.0	38.0

Annex 2E: Functional Classification of 2004/2005 Budget (Percentage Shares)



Annex 3A: Recurrent and Development Budget for Fiscal Year 2004/2005: Sectoral Allocations (Million Maloti)													
		2003/2004 Budget						2004/2005 Budget					
#	Ministry/ Cost Centre	Recurrent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total budget financed by GOL	Recurrent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total budget financed by GOL
1	Education and Training	748	101	30	71	848	778	787	166	48	118	953	835
2	Finance and Development Planning	360	117	41	76	477	401	452	101	58	43	554	510
3	Health and Social Welfare	246	72	12	60	319	258	262	60	12	48	322	274
4	Public Works and Transport	132	245	110	135	377	243	123	166	74	92	289	196
6	Interest Charges	209	0	0	0	209	209	216	0	0	0	216	216
7	Defense and National Security	189	0	0	0	189	189	215	0	0	0	215	215
8	Home Affairs and Public Safety	146	0	0	0	146	146	197	5	5	0	202	202
9	Pensions & Gratuities	116	0	0	0	116	116	187	0	0	0	187	187
10	Contingencies	770	0	0	0	770	770	150	0	0	0	150	150
11	Agriculture and Food Security	116	91	5	87	208	121	102	39	9	30	141	111
12	Foreign Affairs	129	0	0	0	129	129	127	0	0	0	127	127
13	Local Government	98	12	7	6	110	104	101	24	16	9	126	117
14	Natural Resources	44	118	73	45	162	117	45	69	14	55	114	59
15	Independent Electoral Office	15	0	0	0	15	15	109	0	0	0	109	109
16	Justice, Human Rights and Rehabilitation	83	0	0	0	83	83	91	0	0	0	91	91
17	Prime Minister's Office	38	28	3	25	65	41	45	41	8	33	85	53
18	Trade & Industry, Cooperatives & Marketing	29	31	31	0	60	60	37	41	40	0	78	78
19	Tourism, Environment and Culture	24	26	4	22	50	28	31	44	6	38	75	36
20	Lesotho Highlands Water Project	0.0	59	52	7	59	52	0	58	52	6	58	52
21	Gender, Youth, Sports & Recreation	21	4	3	1	25	24	26	16	7	10	42	32
22	Communications, Science & Technology	36	0	-	0	36	36	36	4	4	0	40	40
23	Forestry and Land Reclamation		0	0	0	0	0	29	8	7	1	37	36
24	Law and Constitutional Affairs	27	0	0	0	27	27	28	0	0	0	28	28
25	National Assembly	24	0	0	0	24	24	24	0	0	0	24	24
26	Employment and Labour	16	0	0	0	16	16	18	0	0	0	18	18
27	Public Service	15	0	0	0	15	15	16	0	0	0	16	16
28	Auditor General's Office	9	0	0	0	9	9	10	0	0	0	10	10
29	Senate	8	0	0	0	8	8	9	0	0	0	9	9
30	His Majesty	6	2	2	0	9	9	7	1	1	0	9	9
31	Statutory Salaries	6	0	0	0	6	6	7	0	0	0	7	7
32	Public Service Commission	3	0	0	0	3	3	3	0	0	0	3	3
33	Ombudsman	3	0	0	0	3	3	3	0	0	0	3	3
34	Refunds on Erroneous Receipts	2	0	0	0	2	2	2	0	0	0	2	2
35	Subscriptions to International Institutions	4	0	0	0	4	4	-	0	0	0	0	0
36	Total	3,669	846	320	526	4,515	3,989	3,496	843	361	483	4,337	3,854
37	Principal Repayments	389	0	0	0	389	389	527	0	0	0	527	527
38	Grant Total	4,057	846	320	526	4,904	4,378	4,023	843	361	483	4,864	4,381

Annex 3B: Recurrent and Development Budget for Fiscal Year 2004/2005: Sectoral Allocations (Percent)

#	Ministry/ Cost Centre	2003/2004 Budget					2004/2005 Budget						
		Recurrent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total budget financed by GOL	Recurrent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total budget financed by GOL
1	Education and Training	20.4	11.9	9.4	13.4	18.8	19.5	22.5	19.6	13.3	24.4	22.0	21.7
2	Finance and Development Planning	9.8	13.8	12.8	14.4	10.6	10.1	12.9	12.0	16.0	9.0	12.8	13.2
3	Health and Social Welfare	6.7	8.6	3.7	11.5	7.1	6.5	7.5	7.1	3.3	10.0	7.4	7.1
4	Public Works and Transport	3.6	29.0	34.5	25.6	8.4	6.1	3.5	19.7	20.5	19.1	6.7	5.1
6	Interest Charges	5.7	0.0	0.0	0.0	4.6	5.2	6.2	0.0	0.0	0.0	5.0	5.6
7	Defence and National Security	5.2	0.0	0.0	0.0	4.2	4.7	6.2	0.0	0.0	0.0	5.0	5.6
8	Home Affairs and Public Safety	4.0	0.0	0.0	0.0	3.2	3.7	5.6	0.6	1.4	0.0	4.7	5.2
9	Pensions & Gratuities	3.2	0.0	0.0	0.0	2.6	2.9	5.3	0.0	0.0	0.0	4.3	4.8
10	Contingencies	21.0	0.0	0.0	0.0	17.1	19.3	4.3	0.0	0.0	0.0	3.5	3.9
11	Agriculture and Food Security	3.2	10.8	1.4	16.5	4.6	3.0	2.9	4.7	2.6	6.3	3.3	2.9
12	Foreign Affairs	3.5	0.0	0.0	0.0	2.8	3.2	3.6	0.0	0.0	0.0	2.9	3.3
13	Local Government	2.7	1.4	2.0	1.1	2.4	2.6	2.9	2.9	4.4	1.8	2.9	3.0
14	Natural Resources	1.2	6.9	6.5	7.2	2.3	1.6	1.3	8.2	3.9	11.4	2.6	1.5
15	Independent Electoral Office	0.4	0.0	0.0	0.0	0.3	0.4	3.1	0.0	0.0	0.0	2.5	2.8
16	Justice, Human Rights and Rehabilitation	2.3	0.0	0.0	0.0	1.8	2.1	2.6	0.0	0.0	0.0	2.1	2.4
17	Prime Minister's Office	1.0	3.2	0.9	4.7	1.4	1.0	1.3	4.8	2.2	6.7	2.0	1.4
18	Trade & Industry, Cooperatives & Marketing	0.8	3.7	9.7	0.0	1.3	1.5	1.1	4.8	11.2	0.1	1.8	2.0
19	Tourism, Environment and Culture	0.7	3.1	1.2	4.3	1.1	0.7	0.9	5.2	1.6	8.0	1.7	0.9
20	Lesotho Highlands Water Project	0.0	6.9	16.2	1.3	1.3	1.3	0.0	6.9	14.5	1.2	1.3	1.4
21	Gender, Youth, Sports & Recreation	0.6	0.5	0.9	0.2	0.5	0.6	0.7	1.9	1.8	2.0	1.0	0.8
22	Communications, Science & Technology	1.0	0.0	0.0	0.0	0.8	0.9	1.0	0.5	1.1	0.0	0.9	1.0
23	Forestry and Land Reclamation	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.9	2.0	0.2	0.8	0.9
24	Law and Constitutional Affairs	0.7	0.0	0.0	0.0	0.6	0.7	0.8	0.0	0.0	0.0	0.7	0.7
25	National Assembly	0.7	0.0	0.0	0.0	0.5	0.6	0.7	0.0	0.0	0.0	0.5	0.6
26	Employment and Labour	0.4	0.0	0.0	0.0	0.4	0.4	0.5	0.0	0.0	0.0	0.4	0.5
27	Public Service	0.4	0.0	0.0	0.0	0.3	0.4	0.5	0.0	0.0	0.0	0.4	0.4
28	Auditor General's Office	0.2	0.0	0.0	0.0	0.2	0.2	0.3	0.0	0.0	0.0	0.2	0.3
29	Senate	0.2	0.0	0.0	0.0	0.2	0.2	0.3	0.0	0.0	0.0	0.2	0.2
30	His Majesty	0.2	0.3	0.7	0.0	0.2	0.2	0.2	0.1	0.3	0.0	0.2	0.2
31	Statutory Salaries	0.2	0.0	0.0	0.0	0.1	0.1	0.2	0.0	0.0	0.0	0.2	0.2
32	Public Service Commission	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1
33	Ombudsman	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1
34	Refunds on Erroneous Receipts	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.1
35	Subscriptions to International Institutions	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	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	100.0	100.0