



PARLIAMENT OF THE KINGDOM OF LESOTHO

Promoting Growth for Economic and Social Development

**Budget Speech to Parliament for the
2013/2014 Fiscal Year**

By

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Minister of Finance

Maseru, Lesotho

22nd February 2013

Mr Speaker,

Let me start by paying my respects to you and through you to:

His Majesty King Letsie III and Head of State

The Right Honourable the Prime Minister and Head of Government

The Honourable Deputy Prime Minister and Leader of the House

The Honourable President of the Senate

My Colleagues, Honourable Ministers of His Majesty's Government

Honourable Members of both Houses of Parliament

Excellencies, Heads of Diplomatic Missions and International Organisations
present here

Distinguished members of the Media

The entire Basotho nation across Lesotho and abroad

Ladies and Gentlemen

Mr Speaker,

1. It is with great honour that I present, today, the budget under a novel make-up of the very first coalition government in Lesotho's history. It is also important to note that 2013 marks the 20th year of Lesotho's return to continuous constitutional democracy. We should hope and expect, therefore, that a combination of these political milestones will create a vibrant and robust public policy environment, which fosters efficient and effective use of public resources for tangible economic and social development. For this to happen, we require strong and unwavering commitment to the socio-economic development of our people. This will put us in the right path towards development and improved livelihoods of our citizens. We must carry this spirit with us even as we start implementing this budget.

Mr Speaker,

Introduction

2. This year's budget poses a great challenge, for it was prepared in the wake of depleted reserves, which became necessary in the last four years to finance budget deficits resulting from the global financial and economic crisis which started in 2008. As you may well be aware, this

crisis led to the decline in the Southern African Customs Union (SACU) receipts, which is the major source of our revenues. Although there has been a recovery in the SACU receipts and domestic tax revenue collections have been improving, the current level of reserves has reached its historic low since 2008. Hence the government is compelled to preserve and rebuild its reserves to adequate levels so as to prepare for and guard against any negative impact of possible external shocks.

3. Therefore, in preparing this budget we have had to grapple with the challenge of striking a balance between the need to provide adequate budget allocations for service delivery and development, and the need to preserve and rebuild reserves for macroeconomic stability and fiscal sustainability. This remains fundamental for prudent macroeconomic management which is necessary for protecting Lesotho against any financial crisis.

Mr Speaker,

4. Let me now provide an overview of what the budget I am presenting today seeks to achieve. Specific details will come later in my statement.
5. The overall economic objective of this budget is to increase economic growth towards a sustainable level of 6 to 7 percent per annum. This growth should be inclusive, employment generating and must lead to poverty reduction so as to improve the quality of life for our people. In the past three years our economy grew at an annual average rate of only 5.5 percent, which falls below the desirable optimal rate of between 6 and 7 percent. Thus, there is a need to develop policies and programmes that will drive economic growth to those desirable levels. The National Vision 2020 and the earlier Poverty Reduction Strategy (PRS) have, in the past, defined government's policies for job creation and poverty reduction. However, while the two documents defined the appropriate levels of economic growth required to reduce poverty, they did not identify growth sectors and strategies to attain the desirable levels of that growth. Hence the National Strategic Development Plan (NSDP) was developed, to among others, address this shortcoming. The NSDP is also expected to provide an aggressive and robust monitoring and evaluation

programme that will keep implementation of the development budget on track in order to optimise attainment of high economic growth and create jobs.

6. It is equally important to note at this juncture that high and sustainable economic growth requires the existence and/or development of a vibrant and competitive private sector with adequate skills and technological know-how, and most critically, access to credit for investment. But we all know that in our country, as in many other Sub-Saharan African countries, the private sector remains small and is characterised by Small and Medium Enterprises, which require financial and technical support and training across all economic sectors. The Government therefore, continues to place importance on the capital expenditure for provision of infrastructure that supports private sector investment to promote growth and create jobs.
7. As already mentioned, to be able to deliver the planned public investment in 2013/14, the Government will strengthen its monitoring and evaluation programme under the NSDP. This is very crucial, as it would be futile to allocate resources which Government cannot be able to absorb and would also undermine the speed at which desirable levels of growth would, otherwise, be attained. Low absorption of allocated funds also burdens future budgets with cost escalations resulting from delays in project implementation.
8. Our budget this year also proposes allocations under the recurrent expenditure, which are dedicated to operating and maintenance costs of public assets. National assets have often suffered waste due to lack of maintenance and they eventually become very expensive to rehabilitate or reconstruct. Also, to improve the quality of our expenditure, consumption that does not add value to government's service delivery has been curtailed to the extent possible and this will be an on-going exercise to remove waste from the annual budget allocations.

Mr Speaker,

9. One other important area that this budget seeks to address, in order to improve budget implementation and its outcomes, is the Public

Financial Management and Accountability. Non-reconciliation of public accounts and perpetually qualified annual public accounts is not a good sign of a desirable and well-functioning public financial management. It also does not provide a fair extent of Government's net worth and a concrete basis for what is reasonably feasible in any given year.

Recent Global and Regional Economic Developments and Prospects

Mr Speaker,

10. Let me now briefly turn to the recent global and regional economic developments and prospects, and their implications for our economy.
11. Weaknesses in the global economy in last three years have had negative implications for Lesotho. Slow global and regional economic growth and worsening unemployment rates affected overall demand and thus Lesotho's exports, especially diamonds and textiles, the major drivers of our economic growth before the crisis. In South Africa, Basotho mineworkers were laid off with dire financial and social consequences for a number of households, especially in the rural areas, where vulnerability is more prevalent.

International Economic Developments

12. At the international level, global economic recovery has been uncertain in 2011, with world economic growth realising a slower growth of 3.7 percent, a decline of 1.5 percentage points from 2010. This slowdown was caused by, amongst others, the large increase in financial and fiscal uncertainty in the Euro zone, natural disasters in some of the huge economies, like Japan, and low domestic demand in the US. These external shocks had a negative impact on Lesotho's export sectors, especially mining and manufacturing.
13. The preliminary indications are that the world economy grew by 3.5 percent in 2012 and is projected to rise to 4.1 percent in 2013, reflecting some positive response and impact of policy interventions. While the European Union continues to pose a lengthened stagnation, the US is expected to increase its productivity.

Unemployment in the US has stabilised in the third and fourth quarter of 2012 at 7.8 compared to around 9.0 percent in the same period in 2011, while in Europe it has worsened to 11.8 percent compared to about 10.2 percent in the same period of 2011.

14. World inflation, on the other hand, was dominated by price developments in emerging and developing countries, which recorded a rate of around 10 percent in 2008. However, in 2009 inflation declined to an average rate of 5.2 percent for emerging and developing economies compared with 0.1 percent in advanced economies, largely influenced by the decline in commodity prices, especially oil prices. There was an average increase of 6.1 percent in emerging and developing economies' inflation in 2011 due to a hike in oil and non-fuel price of 27.9 percent and 26.3 percent, respectively.

Regional Performance and Prospects

15. At the regional level, according to the IMF, output in most sub-Saharan African countries has recovered to the levels experienced prior to the financial crisis and the global recession. In 2011, regional economic performance expanded by more than 5 percent due to strong demand and increases in commodity prices. The challenge, therefore, is to intensify macroeconomic policies to strengthen the resilience of the national economies against any possible exogenous shocks and another crisis. This implies that there are still risks to the regional economic activity, which include high oil and food prices, climate change, as well as the threats posed by the debt situation in Europe.
16. Coming closer home, the South African economy has continued to grow much slower in 2012 than a year earlier and relative to projections. It recorded 2.3 in the third quarter of 2012 compared to an annual growth of 3.4 percent in 2011. Unemployment rate also remained high at 25.5 percent in the third quarter of 2012, compared to the same period in 2011. Inflation has also picked up from 5.5 percent in the third quarter to 5.7 percent in the fourth quarter of 2012. These are not good developments as the performance of the South African economy is likely to affect our economy's performance in one way or another. For example, lending rates in South Africa,

which have a contagion on Lesotho's rates have, however, been declining and remain favourable for investment.

Recent Domestic Economic Performance and Outlook

17. Turning to the domestic economic performance and outlook, we note that real GDP grew at an average of 5.5 percent between 2008/09 and 2011/12. In 2009/10 and 2010/11 it grew by 4.7 percent and 6.8 percent respectively, influenced by agriculture, manufacturing, construction, financial intermediation, and mining, which slightly fell in 2010/11. In 2011/12, growth was 5.4 percent due to significant recovery of 32 percent in mining, and growth of health and social work, as a result of opening of new Referral Hospital. However, compared to 2010/11, that growth was restricted by a significant reduction in agricultural output, especially crop production, as a result of floods. Also uncertainties regarding renewal of the Third Country Fabric Provision in the United States, the main market for Lesotho's textile exports, resulted in a decline in the output of the textile sector, thus contributing further to the slowdown in economic growth.
18. In 2012/13, through the medium term, and as we present this year's budget, Lesotho's macroeconomic prospects remain challenging, with growth expected at an average of 3.4 percent, lower than the desired level of 7 percent. Recent drought, which led to 70 percent decline in domestic agricultural production in the 2012 cropping year, is expected to worsen the food security situation in our country. Equally, exports of textiles are likely to be affected by the uncertain global economic outlook and the continuing uncertainty surrounding the renewal of the African Growth and Opportunity Act (AGOA) trade preferences beyond 2015/16. However, construction activities related to Metolong Dam, Millennium Challenge Compact (MCC) and Phase II of the Lesotho Highlands Water Project, coupled with other Government investment in infrastructure development are expected to contribute to growth in real GDP in 2012/13 through the medium term.

Mr Speaker,

19. The Current account realised a surplus of 10.4 percent of GDP in 2008/09 compared with 5.5 percent of GDP in 2007/08. This was

largely due to a substantial improvement in current transfers from large SACU receipts, followed by an increase in income account. However, from 2009/10 to 2011/12, the current account declined, precipitously, to the average deficit of 14.4 percent of GDP. The factors underpinning the deficit were: a widened trade deficit in 2009/10; a significant drop in SACU receipts in 2010/11; and a large decline in income account, coupled with narrow SACU receipts in 2011/12.

20. The situation is likely to worsen from 2012/13 to 2013/14, with a current account deficit record of 19.5 percent of GDP. This is mainly attributed to a broadened trade deficit driven by imports related to investment in construction activities for the Metolong Dam and other private properties. The deficit will start to narrow down from 2014/15 to 2015/16, as most of the construction activities will be phasing out.
21. On the other hand, the official international reserves have been declining, coming down from 6.8 months of import cover in 2008/09 to 3.9 months in 2011/12, due to a decline in SACU receipts and draw down of government deposits to finance budget deficits. However, by the end of 2012/13, the reserves are expected to recover and improve to 4.0 months of import cover. The recovery in the reserves position will be a result of an increase in SACU receipts and government's aggressive policy of containing public expenditure and improving efficiency in the short term and medium term.
22. Turning to inflation, we know that Lesotho's price developments are primarily driven by those in South Africa, which accounts for almost 90 percent of our imports. Imported inflation is estimated to constitute around 60 to 70 percent of Lesotho inflation, while the residual is domestically generated.
23. In 2011/12, inflation increased to an average of 6.0 percent from 3.6 percent a year earlier, as a result of hikes in oil prices and imported grain, which suffered low production as a result of floods. Inflation is projected to increase to 6.9 percent in 2012/13 as a result of a further decline in food production due to drought experienced during the period. In the medium-term, inflation is expected to move in line with South African price developments. Thus supply side shocks,

international oil prices and the global food prices also pose a risk of further inflationary pressures.

24. Interest rates on the other hand, remain favourable for private sector borrowing and investment. The South African Reserve Bank has been able to keep the interest rates low as inflation remained largely subdued due to relative price stability, especially of oil and food stuffs. In Lesotho, the prime rate declined from 12.0 percent in January 2010 to around 9.7 percent in February 2013.
25. Regarding the exchange rate, the Loti depreciated strongly from 6.9 loti/dollar at the beginning of 2011/12 to 8.4 loti/dollar in middle of year and rebounded to 7.6 Loti/US at the end of the year. This was a result of weakening commodity prices as well as uncertainty surrounding international markets. However, 2010/11 recorded an appreciation of 6.9 percent, registering 7.2 against the dollar. This was a consequence of strong commodity prices, in particular, gold and platinum in the international markets.
26. The Loti exchange rate is forecasted to depreciate slightly in the medium-term but maintain its relatively strong position against the dollar due to the anticipated strong regional export performance as commodity prices continue to recover. The Loti/dollar exchange rate is projected to register 8.5 and 8.9 in 2012/13 and 2013/14, respectively.

Fiscal Policy and 2012/13 Budget Performance

Mr Speaker,

27. As I turn now to fiscal policy and the 2012/13 budget performance, I would like to note that our fiscal policy has remained vulnerable to external shocks, largely because of its dependence on the SACU receipts. This dependence has also had a pro-cyclical effect on the annual budget decisions, with expenditures going up when the receipts increase and vice versa. This has had a negative impact on the Government's ability to provide a consistent and predictable support to growth. In response to this, the Government has in recent years, adopted an approach of determining an overall fiscal balance

excluding SACU receipts in order to assess its ability to raise adequate domestic revenue for financing annual expenditures. This approach reveals that more has to be done to broaden the tax base and strengthen the administration of both tax and non-tax revenue with the objective of raising domestic revenue. To this end, the Government is introducing a new Integrated Revenue Management System under the administration of the Lesotho Revenue Authority (LRA), to further enhance tax revenue collections. In addition, the LRA is undergoing restructuring to improve its administrative capacity and client focus. But there is also need to look into the current levels of fees and penalties with a view to bringing them closer to the cost of collecting them.

28. But the expenditure side has also been expansionary over the years, to the extent that it has reached unsustainable levels of over 60 percent of GDP, although projected to subside to around 50 percent in the medium term. This is very high by international standards and reflects the pervasiveness of the public sector in the economy, a phenomenon which is not good for private sector development. This undesirable situation is largely due to the fact that the wage bill has also grown quite substantially as a percentage of GDP and consumes close to 50 percent of the recurrent budget. Therefore, we need to work hard to reduce public spending as a percentage of GDP as well as the wage bill itself. This requires strong and unwavering commitment, as I pleaded in my opening remarks, which requires that Government is only left to do policy and provide **public** goods and services, and complimentary infrastructure to prepare ground for a meaningful involvement of the private sector. Even with that, whatever would be left for Government to do, will have to be delivered efficiently and effectively, if we are to achieve any meaningful private sector development. These are decisions that we need to confront head-on or else encounter serious financial sustainability challenges somewhere in the future.

Mr Speaker,

29. With all these said, Lesotho's overall fiscal stance remained strong for most part of the last decade until 2009/10 when the impact of the 2008 global financial crisis kicked in. It weakened in 2010/11 and

2011/12 when SACU receipts declined to their historic low, both as a percentage of total government revenue and GDP. In response to this decline, the Government signed a Three-Year Extended Credit Facility (ECF) Program with the International Monetary Fund (IMF) in 2010, to collaborate in a fiscal consolidation exercise by containing expenditures within affordable levels and managing the international reserves at levels adequate for preservation of fiscal sustainability and macroeconomic stability. The ECF program performance has remained strong throughout the three-year period and expires at the end of March 2013.

Mr Speaker,

30. Before turning to the proposed budget allocations for 2013/14, let me provide a brief overview on the performance of the current Fiscal Year budget.
31. The 2012/13 budget was based on a projected total revenue of M13.7 billion and total expenditure of M13.9 billion, broken down into M8.4 billion for recurrent expenditure and M5.4 billion for Capital expenditure. These estimates translated into a budget deficit of M194.4 million or 0.9 percent of GDP. This was a substantial improvement on the deficit for the previous year, which recorded a year-end deficit of 10.3 percent of GDP.
32. Preliminary projections to end-March 2013 indicate that total revenue will amount to M13.5 billion, which is lower than the budget. The lower than expected performance is a result of slower implementation of grant-funded projects and lower receipts of General Budget Support resulting from slippages in the achievement in the agreed performance benchmarks, particularly with respect to Public Financial Management and the health sector reforms.
33. With respect to total expenditure, the projected outturn is estimated at M12.5 billion comprising M8.1 billion in recurrent expenditure and M4.4 billion in Capital expenditure. This represents a utilisation rate of just over 90 percent of the appropriation. In this case it is worth noting that the use of capital budget continues to point to the low absorptive capacity and possibly poor planning on the part of implementing ministries. Being part of public expenditure that translates directly into

growth, the low implementation of the capital budget undermines the speed at which we are able to develop and significantly burdens future annual budgets through price escalations. As I have already indicated in my earlier remarks, monitoring and evaluation of programmes under the NSDP is of critical importance if we are to see tangible progress in our development agenda.

34. In terms of the overall fiscal performance, we project a surplus of 5.0 percent of GDP in the current fiscal year, far above the budgeted deficit of 0.9 percent. While this surplus will help build reserves, it comes at a cost to our development, as most of it comes from projected expenditure which is lower than the appropriated budget. Accumulation of reserves should be a conscious policy decision, and should not undermine the need for growth and development. We need to work extremely hard on this in the coming year.

Mr Speaker,

35. I would now like to turn to progress on the implementation of some of the critical programmes and policies announced for 2012/13.
36. In 2011/12, this house approved an allocation of M50 million to support SMMEs through a **Partial Credit Guarantee Fund (PCGF)**. The scheme did not take off immediately due to some administrative arrangements that had to be finalised with commercial banks. Subsequently, the Government signed a Memorandum of Understanding (MOU) with the four commercial banks, namely; the First National Bank; the Lesotho Post Bank, the NedBank; and Standard Lesotho Bank. The main provision of the MOU is for the two parties to facilitate the extension of credit to micro small and medium enterprises by assuming and sharing of the risk associated with possible non-repayment on equal terms, i.e on a 50:50 basis.
37. While the response to the facility has been slow, I am encouraged that five loans totaling M2.4 million have been guaranteed for M523,642.00. The loans have been issued by two commercial banks and are for projects in services, agriculture, retail and construction sectors.

38. The Government is working with commercial banks to review the MOU in order to address some of the obstacles which stand in the way of realizing the full potential of this scheme, and therefore improve up-take. It is envisaged that these revisions would see more new enterprises benefitting under the scheme. As part of its programme of increasing access to credit, the PCGF Secretariat has also facilitated training of eighty trainers. These have in turn trained 1015 potential and existing entrepreneurs in business planning and basic business management skills.
39. On the **financial sector**, the Central Bank of Lesotho (CBL), along with major stakeholders, continued to strengthen the legal and regulatory frameworks through among others, enactment of the Financial Institutions Act (FIA). The Act covers a wide range of bank and non-bank financial institutions, as part of an effort to consolidate and coordinate the diversity of existing laws dealing with financial institutions in Lesotho. These institutions are regulated and supervised through various Acts and Regulations, most of which are obsolete and require either review or repeal. These inadequacies also called for the need to put in place an appropriate policy and regulatory framework in order to ensure alignment with the new FIA. To that effect the enactment of the FIA was followed by a process of developing new regulations and reviewing out dated ones. The new FIA amongst others improves and extends coverage of regulated institutions to include other deposit taking non-bank institutions (money lenders, foreign exchange bureaus, microfinance and cooperative banks). Governance of regulated financial institutions is also expected to be strengthened under the FIA. Furthermore, the act deploys a new version of financial institutions reporting systems to improve data capturing and analysis.
40. Furthermore, as part of improving the **business climate** in Lesotho, a number of initiatives were carried out during the current fiscal year, which includes implementation of the new Companies Act. Since its commencement in May 2012, 1,330 new companies have been registered. This development, together with other initiatives, notably, streamlining of the services provided by the One Stop Business Facilitation Centre, has improved Lesotho's 2013 Doing Business ranking from 153 to 136 out of 185 countries. A new Industrial Licensing Bill has been submitted to Parliament for consideration in

its current sitting. This piece of legislation will contribute towards speeding up the process of establishing large industries. There is a need to do more if we have to improve the doing business climate in Lesotho.

Mr Speaker,

41. This House will recall that in 2007, Lesotho received USD363 million from the **Millennium Challenge Corporation** of the Government of the United States of America. These resources were to finance projects in the health sector, water supply, notably the Metolong Dam, sanitation, and improvement of the investment climate. As we approach the end of the Compact in September 2013, I would wish to take this opportunity to once again register the Lesotho Government's gratitude to the Government and people of the United States of America for the support extended to Lesotho as a contribution towards the national development agenda. We are aware of the sacrifices that have been made by the United States tax payer for the betterment of the livelihood of Basotho. This sacrifice has not gone unnoticed. The initial delays in project start-ups under the Compact and the general slow implementation of some of projects have led to delayed completion of some of the components of the Compact. I would like to commit that the Government will do all in its powers to ensure that adequate budget allocations are made in order that the projects are completed and they achieve their economic and social benefits.

Mr Speaker,

42. The House will note that the account that I have just presented is anchored around the efforts of Government to promote private sector led growth and represents a precursor to Government's continued commitment in promoting growth for economic and social development through the budget proposals for the coming Fiscal Year. It does not in any way represent the entirety of Government's activities during the current year.

Policy Priorities for 2013/14

43. Turning now to policy priorities and goals for 2013/14, we would like to note from the outset that the following goals which are contained in the Vision 2020, Millennium Development Goals and the National Strategic Development Plan (NSDP) remain critical in the medium to long term. Therefore, the 2013/14 budget proposes allocations for the achievement of these goals in the short term, which will continue into the medium to long term as basis for sustainable development.
- Promoting inclusive economic growth with capacity to generate productive employment and reduce poverty;
 - Improving the quality of and increasing access to education that responds to the skills requirements for effective private sector development;
 - Developing infrastructure so as to make economic opportunities accessible to all segments of the population and to provide the basis for rapid industrialization and job creation;
 - Enhancing food security by improving agricultural productivity and introducing high value cash crops, better farm management practices, irrigation, water harvesting and afforestation;
 - Integrating youth, children and gender issues in all Government policies and programs;
 - Scaling up the fight against HIV/AIDS;
 - Consolidating democracy, peace and stability by fighting crime, promoting safety and security and by enhancing the role of Parliament, accountability and transparency; and
 - Promoting efficiency and effectiveness in the delivery of public services through enhanced public financial management and audit of Government operations.

44. The NSDP forms a planning and implementation tool through which these priorities will be staggered over the medium term and in the long term. However, to be able to achieve these policy objectives in the priority areas, it is critical that certain expenditure reforms are instituted to improve value-for-money in the use of public financial resources and achieve an optimal fiscal strategy that weeds out wasteful expenditures. These will include, among others;
- Improving the monitoring and evaluation of the annual budgets in order to continuously improve implementation and readily determine when certain activities should fall out of the annual allocations;
 - **Second**, undertaking annual efficiency and effectiveness analyses for both tax and non-tax revenues, and implementing corrective measures where necessary as well as identifying new sources of revenue;
 - **Third**, mobilising more domestic and concessional external resources for investment in productive activities. It will require critical exploration of new revenue sources, without increasing the burden of taxation on the poor. This will include increasing selected fees, penalties and charges that have not been revised in the past several years. These will contribute to government revenues and absorb inflation-induced costs;
 - **Fourth**, undertaking a comprehensive review of the size of government's vehicle fleet, with the view to reducing the fleet; reducing 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; restricting workshops and training to areas crucial for effective service delivery; and subjecting all capital projects to appraisal based on economic growth, job creation and income generation;
 - **Fifth**, strengthening of the management and operationalization of the revolving fund under the tertiary bursary scheme by institutionalizing a dedicated loan

collection unit within the National Manpower Development Secretariat (NMDS). This will include adoption of means testing so that assistance is provided to the needy students, whose parents cannot afford to pay for their studies. Effective recovery of loan bursaries will provide additional resources for the scheme while releasing annual revenue collections for funding other development programmes;

- **Sixth**, reviewing the civil service structure to determine the appropriate staff complement for efficient and effective delivery of government development programmes. The civil service wage bill has grown drastically over the years and it is now consuming close to 50 percent of the recurrent budget, which is high by international standards and can turn out unsustainable if unabated. The review needs to start immediately, but will definitely take several years to conclude. It is extremely important to note that maintaining a huge civil service and high public spending as a share of Gross Domestic Product (GDP) is detrimental to the development and growth of the private sector; and finally
- Instituting improvements in financial administration, accounting and auditing in order to eliminate fraud, corruption and resource leakages.

Mr Speaker,

45. Improving the efficiency and effectiveness of the budget requires definitive actions by Government and to implement them in earnest. It is very useful to preserve fiscal sustainability when the financial situation still permits. Not taking necessary actions while the environment remains favourable can turn out to be a '*time bomb*' that hits mercilessly "*when the chips are really down*". We need to avoid this and ensure expeditious implementation of actions where there is consensus and decisions have been made.

Sectoral Issues and Allocations for 2013/14

Mr Speaker,

Allow me to turn, now, to the sectoral issues and allocations for 2013/14.

46. The 2013/14 Budget proposes a total allocation of M14,566.5 million, excluding principal repayments. This allocation is split between the recurrent and capital budgets, which are proposed at M9,724.0 million and M4,842.5 million, respectively. This proposed expenditure represents an increase of 5.4 percent over the 2012/13 budget.
47. To finance this budget, it is projected that Government will raise revenue amounting to M14,561.8 million. The sources of the revenue will be domestic tax and non-tax revenue estimated at M6,876.2 million, SACU receipts estimated at M6,054.6 million and donor grants estimated at M1,631.1 million. External loans are estimated at M962.9 million, with a remaining financing gap of M97.0 million to be covered by borrowing from domestic sources. The gap represents a fiscal balance of 0.4 percent of GDP.

Mr Speaker,

48. The above budget will seek to advance the implementation of the NSDP, particularly with regard to promoting growth, creating jobs and enhancing food security and reducing poverty.

Mr Speaker,

49. Starting with **Agriculture**, we would like to note that production here has been declining over the last decade. Its share to GDP declined from around 16 percent in the 1990's to around 7 percent currently. Despite efforts made by the Government to assist farmers through subsidies on agricultural inputs, productivity has not responded positively. While this could partly be attributed to adverse weather conditions and climate change, we cannot ignore the fact that the management of agriculture and the application of modern agricultural methods has also not been satisfactory. Hence the subsidies have made very little impact on overall production. During the current year

Government reprioritised its annual programme and provided an additional M117 million as a subsidy to support the Summer Cropping. In the coming year Government will continue to support farmers through further provision of subsidies for Summer Cropping. To this end, M138 million is being proposed to support the Summer Cropping Programme. This will be accompanied by other programmes including support for irrigated agriculture and procurement of agricultural machinery. The total proposed for development in the agricultural sector will amount to M194 million, which includes a loan from the International Fund for Agricultural Development (IFAD) amounting to M21 million. This allocation represents an increase of about 43 percent over the allocation for 2012/13.

50. The world is currently facing the challenge of job creation, particularly for the youth. Lesotho is not an exception in this regard. The private sector should be a natural avenue for creating job opportunities. To be able to create these opportunities, we require an aggressive **industrial** strategy that provides a platform for diversification of both products and markets. However, global developments dictate that we rise above the competition from other countries particularly in relation to textile manufacturing, which is the nucleus of our industrial base. Hence the strategy should be to improve on our competitive edge with respect to textile manufacturing through improved quality and lead time, while exploring alternative markets especially in the sub-region.
51. However, going beyond textile manufacturing and exploring the strategy to diversify, we know that our economy like most sub-Saharan economies, is dominated by SMMEs. Therefore, as a means of promoting the development of SMME's, and the capacity of the private sector to develop bankable new business ideas, the Government will continue to implement an SMME capacity building programme. This will include access to credit from the commercial banks, while ensuring growth and sustainability of businesses. To this extent, budget proposes an allocation of M164 million, which includes M75 million in grants and loans, to the Ministry of Trade and Industry. The resources will support industrial infrastructure development including factory shells for the support of local entrepreneurs as well

as diversification into agro industry, including Wool and Mohair Scouring and Dairy Production.

Mr Speaker,

52. As a nation, we have not taken full advantage of the unique beauty offered by our country. It is common knowledge that **Tourism** remains the fastest way of generating foreign exchange, if well developed. Therefore, there is an urgent need to develop our tourism infrastructure, including the use of already existing structures. In 2013/14, the government will prepare and develop master plans to facilitate implementation of the circuit routes to better link the different tourist places in the country. With the assistance of the International Finance Corporation (IFC) of the World Bank Group, the Government is developing strategies for effective management of existing tourism structures and the review of tourism licensing procedures to make them quicker and less costly. In addition, the Government is in the process of streamlining the institutional responsibilities of the Ministry and the Lesotho Tourism Development Corporation in order to have a distinct demarcation between policy and promotion. To achieve these, the budget proposes an allocation of M25.5 million for tourism development.

Mr Speaker

53. The NSDP has also rightly identified that the **mining** sector has a great potential to contribute to the wealth of Lesotho's economy. Therefore, to take full advantage of this potential, we need to tap on the maximum benefits offered by the sector. To this end, it will be necessary to develop an all-encompassing mining policy as well as reviewing the fiscal regime governing the mining sector, which will include the mining taxation legislation and shareholding in the mining companies.

54. As far as diamond mining is concerned, it is critical that the diamonds are processed locally as a means of adding and maximising export value. Towards this end, the Letšeng Mining Company is in the process of establishing a cutting and polishing centre that will contribute significantly to the value addition. It is expected that it will employ about 70 people and process over 2000 carats a month and

this is expected to raise Letšeng mine annual revenue by about 3.5 percent.

55. Furthermore, although the last geological survey for Lesotho was done more than a decade ago, there are indications that Lesotho could be highly endowed with other valuable minerals. The Government intends to update the current out dated geological survey to identify other potential exploration areas. The Budget proposes an allocation of M10 million to carry out initial work in the identified areas. We also expect to receive technical assistance from development partners for the review of the mining policy and legal framework.

Mr Speaker,

56. But we also know that development of **road infrastructure** remains a crucial element for the promotion of economic activity and movement between the rural and urban areas. To this extent, the Government has continued to improve the road network in the country, but the network still falls short of the minimum requirement. It is also very important that the existing network is adequately and regularly maintained to support easy access to different parts of the country and minimise future maintenance costs. In 2013/14, Government will continue to improve the road network through the construction of new roads and maintenance and rehabilitation of existing roads, especially those damaged by the recent floods. As a means of further improving access, the Government will also construct major bridges and foot bridges in the rural areas. Hence, the proposed allocation for roads construction, maintenance and rehabilitation amounts M892 million.

Mr Speaker,

57. The supply of portable and reliable water and energy are a commitment under the Millennium Development Goals (MDGs) and constitutes a right to our citizens. To this end, the Government has embarked on an elaborate programme for the improvement of **water supply** and **sanitation** in the urban and rural areas. While the water supply from the Metolong Dam will ease water shortages in the urban areas, it will not cover all urban centres. With this gap, it is critical to

expand water supply to areas not covered under the Metolong Dam Project. Hence the Government is implementing a number of water supply and sanitation projects with considerable support from development partners, notably the European Union (EU), the Millennium Challenge Corporation (MCC) and the Arab Funds. The budget proposes an allocation of M1.29 billion, of which donor assistance will be M1.1 billion, to finance water supply under the Ministry of Energy, Meteorology and Water Affairs.

58. Equally, we know that the growth of industry and expansion of economic activity to remote areas requires reliable and cost effective **energy** supply. In addition, sustainability of energy sources needs to be ensured through the use of green technologies with limited negative impact on the environment. Government's main priority is to refurbish the power distribution network to prevent power cuts due to network failure rather than power shortages and to minimize environmental hazards associated with a poorly maintained network. Therefore, our second priority under the Ministry of Energy, Meteorology and Water Affairs, is to address the electricity supply needs of the economy by exploring other power generation options, especially the clean energy, and to promote private investment in the sector. To this extent, the Government is receiving assistance from the IFC to undertake a feasibility of three wind energy sites at Mafika Lisiu Mountain Pass, Blue Mountain Pass and Lebelonyane. The IFC has also commissioned a consultant to undertake a regulatory and institutional gap analysis for the Renewable Energy Sector. Thus the budget proposes an allocation of M84.9 Million, the bulk of which will finance rural electrification

Mr Speaker

59. The Government is also tasked with the provision of affordable, sustainable, reliable and high quality information-communication services to the nation. The use of modern scientific and technological advanced systems is essential in ensuring achievement of universal access. The growth of the private sector also depends on the effectiveness and efficiency of the country's communications network. Under the SADC Communications Agenda, the Government is committed to migrate from the Analogue to Digital Broadcasting mode. To this end, the Government is developing and improving the

existing National **Information Communication and Technology (ICT)** Systems, to improve on radio and television transmission as well as increasing their coverage spectrum. To achieve these objectives, the budget proposes an allocation of M61.5 million to support the communications programmes.

60. The efficiency and effectiveness of the **financial sector** are at the core of ensuring access to credit for private sector development and growth. The CBL, with the assistance of the IMF and World Bank, is undertaking a comprehensive diagnostic assessment of the financial sector to formulate a Financial Sector Strategic Development Plan (FSSDP). The Plan seeks to identify bottlenecks in the sector and proposes strategies to address them, including ways of reducing the cost of financial intermediation.
61. To speed up financial transactions through the banking system, the CBL is in the process of automating the cheque clearing stream through an Automated Clearing House that will facilitate same-day clearance of cheque transactions. The law that will give the CBL oversight powers on the systems and regulate the payment systems and operators is under preparation for tabling in Parliament during 2013.
62. Equally, the global financial market continues to focus its attention on the fight against financial crime. Therefore, the **Anti-Money Laundering** efforts continue and will be intensified during the coming Fiscal Year. The plan is to have a fully functional Financial Intelligence Unit under the Ministry of Finance, which will be able to assist law enforcement agencies in the investigation of money laundering, corruption and fraud. This will entail revising a number of laws and policies and putting in place systems for the collection of information resulting from investigations. Emphasis shall also be placed on preventive measures to combat financial crime through educational campaigns on money laundering and associated crimes. Production of the new e-passport and identity document starting in April 2013 will go a long way in crime prevention.

Mr Speaker,

63. The sectoral issues that I have presented are critical for the economic growth. But that growth would be meaningless if it does not translate into improvements in the social development for our society.
64. **Education** for All remains a priority for Government as part of the achievement of the Millennium Development Goals and a basis for fighting poverty. To this end, the Government will continue to provide Free Primary Education as a means of ensuring that school going age children have access to basic education. Given the poverty situation of the majority of households, it is also important that Government provides feeding of these children to make their schooling meaningful. However, the main challenge here is to ensure that the quality of our education responds to our national development goals by providing appropriate skills. To achieve this, the Government is introducing an integrated curriculum and assessment for primary education that is intended to provide holistic learning and set a concrete foundation for higher education.
65. At the secondary level, the Government is in the process of localising the secondary leaving examination, introducing A-levels and developing a new curriculum that seeks to align learning with pupil aptitude.
66. Hence, our recurrent budget this year proposes an allocation of M1.8 billion of which M210.3 million is for the primary school feeding programme. But to continue providing complimentary infrastructure in the sector, the capital budget proposes an amount of M153.3 million for construction of classrooms in primary and secondary education including improvement in the quality of education. M103.3 million of the proposed budget will be made up of assistance from Development Partners. In addition, the Government will continue to support tertiary education through the National Manpower Development Secretariat. The proposed allocation for 2013/14 is M683.8 million.

Mr Speaker,

67. While still in the area of provision of appropriate and adequate social infrastructure, we would like to note that the provision of **health** services remains a challenge in Lesotho, particularly with the advent of HIV&AIDS and related illnesses. In this area, the Government has, with the assistance of Development Partners, been able to put up considerable infrastructure in the form of clinics and health centres across the country. The challenge, however, remains that of providing adequate technical staff, particularly in the remote areas. To address this, the Government is reviewing the incentives in the sector including introducing a performance-based pay. The recurrent budget proposes an allocation of M1.3 billion and the capital budget of M411.7 million of which M248.7 million comes from our Development Partners.

Mr Speaker,

68. Another component of the social sector, which has seen a change in approach in the current Government, is **social development**. Here the re-grouping of social benefits under one administration, the Ministry of Social Development, is expected to ease the administration costs of providing the benefits. It will also improve access and targeting of the vulnerable groups. But, the critical element of the approach is empowerment of the respective groups to graduate from recipients to self-employers, through identification of potential income generating activities and their financing. To this end, the Government is developing a National Social Development Policy and streamlining the National Information System for Social Assistance. It is expected that this initiative will strengthen efficiency and effectiveness of the Government intervention and restore the dignity of the beneficiaries. The policy will identify the most effective way of addressing the needs of the disabled persons, as well as strategies of their inclusion and meaningful participation in the economy. The recurrent budget proposes an allocation of M156.2 million and capital budget of M30.9 million of which M25.4 million is assistance from the Development Partners.

69. With regard to further future plans, it is important to note here that during the coming year, the Government will consider options for

opening a Maseru district hospital, including consideration of the steps that could be taken with regard to the existing QE II infrastructure. The Queen Elizabeth II Hospital had operated both as a national referral and Maseru District hospital. The Queen 'Mamohato Memorial Hospital was constructed to replace QEII as a national referral hospital. To maintain consistency with the arrangement in the other nine districts, the QE II would have best been left as district hospital. However, the physical condition of the infrastructure had deteriorated to a point where it had to be closed. Consequently, the Queen 'Mamohato Memorial Hospital continues to operate both as a national referral and district hospital, resulting in it being inundated with patients literally from all over the country.

Mr Speaker,

70. The Government has since 2001/02 been implementing a Public Service Improvement and Reform Program (PSIRP) to improve the capacity, effectiveness, accountability and transparency in the delivery of public services. These reforms were accompanied by a comprehensive **Public Financial Management reform program** to address weaknesses identified in the 2012 Public Expenditure and Financial Accountability Assessment, carried out in collaboration with our Development Partners. An action plan has been developed to provide a robust PFM regulatory framework that will enhance the credibility of the budget as an instrument to effectively deliver quality public services to the poor and to deliver cost-effectively, the transformative and growth-inclusive social and economic infrastructure that we envision under the NSDP. The plan provides for key strategic reforms that include a modern PFM regulatory framework, more transparency and effectiveness of the annual budgets, better cash flow management to inform public debt and financial investments, and improved internal controls. We also intend to continue intensifying reforms in the procurement system to ensure greater efficiency, accountability, transparency, and cost-effectiveness.
71. Equally, in order to strengthen our accounting and fiscal reporting, we intend to ensure that the consolidated annual public financial statements are completed on time to facilitate their timely review and reporting to parliament by the Auditor General. To this end, with

assistance from our international partners, we will be launching a major upgrade of our Integrated Financial Management Information System (IFMIS) that has been plagued by design and other flaws since its introduction in 2009, problems which have hindered the required reporting of government finances to parliament.

Mr. Speaker,

72. Through stronger PFM systems, and greater automation, we can reduce much of the inefficiencies and corruption in the government. We can also reduce the fiduciary risks to our donor partners and unlock the much-needed budget support resources to help to propel our national development. We remain committed to improve the financial management of the government.

New Policy Proposals for 2013/14

Mr Speaker,

73. As a country, we are committed to protecting the vulnerable sections of our society, which includes the elderly. Towards this end, in 2004/05, Government introduced the old age pension scheme for people aged 70 years and above. At the time, the monthly pension was M250.00 and has been increasing marginally reaching M350.00 in the current fiscal year. We could have done better had it not been because of financial constraints given the vastness of the Government's development responsibility. The financial situation remains challenging, especially in the aftermath of the global financial and economic crisis. This notwithstanding, Government has searched around, and proposes that the old age monthly pension be increased to M450.00. Government will continue revising the level of pensions as and when the financial situation permits to bring it closer to the cost of living.
74. In further protecting our vulnerable citizens, it is proposed that the monthly cash assistance to the destitute, under social safety nets, be increased from M100.00 to M250.00.
75. With regard to public service salaries, it is proposed that the 2013/14 salaries and wages be adjusted by an across-the-board inflation of 6

percent. In addition to this, the Government proposes a salary review that will be staggered across the different grades to take into account the need to increase the morale, productivity, reduce the disparities between the low and highly paid Public Officers and, most importantly, retain its employees with scarce and critical skills. The exercise will involve the abolition of some grades, adjustment of the points of entry for some and the introduction of new grades. In view of the different application of the review at different grade levels, the Ministry of Public Service will advise public servants, on an individual basis, of the changes in their salaries. The same approach will be applied in the determination of salaries of the Members of Parliament and Statutory Bodies and Disciplined Forces.

76. Concerning taxation, we propose that the tax credit and threshold be adjusted by a projected inflation rate of 6 percent to avoid graduation into the higher tax brackets which can reduce and undermine the value of the take home pay of employees. It is, therefore, proposed that the tax credit be increased from M5,755.00 to M6,100.00, so that the lowest annual salary at which individuals start paying tax is increased from M26,160.00 to M27,730.00, and the threshold for higher earners be increased from M48,744.00 to M51,670.00.

Mr Speaker,

77. As I have already indicated earlier in my statement, we need to note that the wage bill has grown quite substantially as a percentage of GDP and consumes close to 50 percent of the recurrent budget, which is high by international standards and can turn out unsustainable if unabated. We need to work hard to manage this within sustainable levels. It is, therefore, critical that, in the coming year, we look seriously into the public sector reform agenda to determine sustainable civil service personnel, which is also efficient and effective in the delivery of our economic and social development programmes, while targeting retention of skilled personnel.

Conclusions

Mr Speaker,

78. The budget proposal I have just presented to this House is ambitious but is not beyond our capacity to execute and start reaping fruits of growth and development. I however would like to caution that successful implementation will require individual commitment to service delivery, and an obligation on the part of the public servants to do what they are employed to do. The Ministry of Public Service will be expected to put in place a performance management system that would enable early identification of weaknesses in service delivery and propose remedial measures.

Mr Speaker,

79. It would be remiss of me to conclude this statement without acknowledging the support of the Right Honourable the Prime Minister and the Honourable Deputy Prime Minister, as well as my colleagues in Cabinet during preparation of this budget. I would also like to express my gratitude to the staff of the Ministry of Finance, and indeed all public servants for their input into this budget. Last, but not least, I would like to extend, on behalf of the people and Government of the Kingdom of Lesotho, our appreciation to all our Development Partners, without whose contribution the financing of the budget would have been very difficult.

KHOTSO, PULA, NALA!

GOVERNMENT BUDGET OPERATIONS FOR THE FISCAL YEAR 2013/2014 - 2015/2016						
Budget Item	Outturn 2011/12	Budget 2012/13	Projected Outturn 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16
REVENUE	9 616.1	13 679.0	13 578.6	14 561.8	13 806.4	14 309.2
Tax revenue	4 283.4	4 415.6	4 860.3	5 800.0	6 087.4	6 561.6
Taxes on income, profits, and capital gains	2 395.0	2 562.7	2 637.8	3 147.8	3 327.9	3 519.3
Income tax - payable by individuals	1 469.1	1 595.5	1 550.8	1 914.0	1 938.9	2 130.5
Income tax - payable by corporations and other enterprises	555.8	529.8	640.2	716.7	778.1	751.9
Income tax - unallocable	370.1	437.4	446.7	517.0	610.9	636.9
Taxes on property	125.1	141.8	149.8	191.2	210.5	250.7
Taxes on goods and services	1 589.8	1 520.9	1 870.1	2 160.9	2 220.4	2 348.6
Value-added tax	1 369.6	1 401.7	1 666.8	1 919.0	1 970.0	2 068.0
Excise taxes	200.6	105.8	185.3	223.2	230.2	259.8
Taxes on specific services	3.1	7.9	8.4	9.1	9.9	10.2
Taxes on the use of goods and on permission to use or perform activities	16.5	5.5	9.5	9.6	10.3	10.5
Taxes on international trade and transactions	151.4	186.1	202.0	293.0	321.5	435.7
Other taxes	22.1	4.1	0.6	7.2	7.1	7.4
Grants	1 436.8	2 189.8	1 805.8	1 631.1	553.2	579.3
Other revenue	1 143.2	1 107.3	946.2	1 076.2	1 300.1	1 360.4
Property income	419.0	436.8	135.5	194.3	372.3	375.4
Interest	5.3	7.6	6.3	7.4	6.8	6.6
Dividends	342.9	370.6	115.7	130.3	298.4	309.9
Rent	70.8	58.6	13.5	56.6	67.1	58.8
Sales of goods and services	692.6	621.6	778.0	839.7	885.7	945.5
Electricity Muela	62.6	75.8	47.0	56.6	58.4	65.9
Water Royalties - LHDA	569.7	480.0	673.5	713.9	756.0	799.1
Administrative fees	19.2	18.9	12.3	14.8	15.2	17.2
Incidental sales by nonmarket establishments	41.0	46.9	45.2	54.5	56.2	63.4
Fines & forfeits	0.4	0.2	0.3	0.3	0.4	0.4
Miscellaneous and unidentified revenue	31.3	48.7	32.4	41.8	41.7	39.1
SACU	2 752.6	5 966.3	5 966.3	6 054.6	5 865.7	5 807.8
EXPENSE (Statutory + Non Statutory + Salary Increase)	-7 459.8	-8 421.5	-8 035.7	-9 724.0	-10 211.4	-10 863.5
Compensation of Employees	-3 384.8	-3 867.1	-3 641.3	-4 787.1	-5 040.2	-5 439.4
Wages and salaries	-2 881.3	-3 367.1	-3 094.0	-4 138.3	-4 415.7	-4 764.1
Employer contributions	-503.5	-500.0	-547.2	-648.8	-624.5	-675.3
Use of goods and services	-1 633.7	-2 048.3	-1 953.1	-2 423.3	-2 560.4	-2 702.9
Interest Payments	-137.1	-237.1	-165.9	-231.4	-233.5	-239.5
Nonresidents	-69.3	-104.2	-81.3	-93.2	-104.1	-109.5
Residents other than general government	-67.8	-132.9	-84.6	-138.3	-129.4	-129.9
Subsidies	-229.9	-233.2	-235.0	-220.3	-217.4	-224.7
Grants	-753.3	-666.0	-704.4	-622.4	-659.2	-697.3
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	-0.3	-21.5	-14.1	0.0	0.0	0.0
Extra Budgetary Units	-579.9	-439.1	-476.5	-407.4	-431.5	-456.5
Local Government	-173.1	-205.4	-213.8	-215.0	-227.7	-240.9
Social benefits	-571.5	-649.4	-618.7	-723.3	-749.1	-763.7
Other expense	-749.5	-720.4	-717.4	-716.1	-751.6	-796.0
Student Grants	-721.7	-694.7	-694.7	-683.8	-724.2	-766.1
Other expense	-27.7	-25.7	-22.7	-32.3	-27.5	-29.9
NON FINANCIAL & FINANCIAL ASSETS	-34.6	-46.7	-27.5	-92.3	-92.0	-91.7
Capital Budget	-4 038.1	-5 396.6	-4 452.5	-4 842.5	-3 770.8	-3 413.0
GoL	-2 532.5	-2 427.3	-2 124.9	-2 548.5	-2 487.2	-2 642.8
Donor Grants	-1 146.9	-1 889.8	-1 505.8	-1 331.1	-433.2	-458.3
DONOR Loans	-358.8	-1 079.5	-821.8	-962.9	-850.4	-311.9
TOTAL BUDGET	-11 497.9	-13 818.1	-12 488.2	-14 566.4	-13 982.2	-14 276.5
CASH SURPLUS / DEFICIT	-1 916.4	-185.7	1 062.9	-97.0	-267.8	-59.0
% GDP	-10.0%	-0.9%	5.0%	-0.4%	-1.0%	-0.2%
GDP	19 087.8	21 282.7	21 282.7	23 542.7	25 582.8	28 757.5
NET CASH INFLOW FROM FINANCING ACTIVITIES	1774.0	2712.3	-206.3	97.5	268.1	59.1
FINANCIAL ASSETS	1244.0	1457.0	-1263.5	-484.1	-312.6	26.9
Domestic	1 244.0	1 457.0	-1 263.5	-484.1	-312.6	26.9
Foreign	0.0	0.0	0.0	0.0	0.0	0.0
LIABILITIES	530.0	1 255.2	1 057.2	581.5	580.7	32.2
Domestic	364.3	500.0	241.6	-67.0	-4.4	0.0
Securities	324.5	500.0	-10.2	-128.9	-4.4	0.0
Loans	39.8	0.0	251.8	61.9		
of which Pension Liabilities	0.0	0.0	-32.7	-109.8		
Foreign	165.7	755.2	815.6	648.5	585.1	32.2
Loans	165.7	755.2	815.6	648.5	585.1	32.2
Disbursements	387.5	1 040.0	866.4	962.9	850.4	312.9
Repayments	-221.8	-284.7	-50.9	-314.4	-265.4	-280.7
Statistical Discrepancy	-142.3	2 526.5	856.6	0.5	0.3	0.1
Months of Import Coverage	4.3	4.3	4.3	4.2	4.4	4.6

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

REVENUES AND EXPENDITURES AS % GDP FOR FISCAL YEARS 2011/2012 - 2015/2016						
Budget Item	Outturn 2011/12	Budget 2012/13	Projected Outturn 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16
REVENUE	50.4	64.3	63.8	61.9	54.0	49.8
Tax revenue	22.4	20.7	22.8	24.6	23.8	22.8
Taxes on income, profits, and capital gains	12.5	12.0	12.4	13.4	13.0	12.2
Income tax - payable by individuals	7.7	7.5	7.3	8.1	7.6	7.4
Income tax - payable by corporations and other enterprises	2.9	2.5	3.0	3.0	3.0	2.6
Income tax - unallocable	1.9	2.1	2.1	2.2	2.4	2.2
Taxes on property	0.7	0.7	0.7	0.8	0.8	0.9
Taxes on goods and services	8.3	7.1	8.8	9.2	8.7	8.2
Value-added tax	7.2	6.6	7.8	8.2	7.7	7.2
Excise taxes	1.1	0.5	0.9	0.9	0.9	0.9
Taxes on specific services	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on the use of goods and on permission to use or perform activities	0.1	0.0	0.0	0.0	0.0	0.0
Taxes on international trade and transactions	0.8	0.9	0.9	1.2	1.3	1.5
Other taxes	0.1	0.0	0.0	0.0	0.0	0.0
Grants	7.5	10.3	8.5	6.9	2.2	2.0
Other revenue	6.0	5.2	4.4	4.6	5.1	4.7
Property income	2.2	2.1	0.6	0.8	1.5	1.3
Interest	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	1.8	1.7	0.5	0.6	1.2	1.1
Rent	0.4	0.3	0.1	0.2	0.3	0.2
Sales of goods and services	3.6	2.9	3.7	3.6	3.5	3.3
Electricity Muela	0.3	0.4	0.2	0.2	0.2	0.2
Water Royalties - LHDA	3.0	2.3	3.2	3.0	3.0	2.8
Administrative fees	0.1	0.1	0.1	0.1	0.1	0.1
Incidental sales by nonmarket establishments	0.2	0.2	0.2	0.2	0.2	0.2
Fines & forfeits	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous and unidentified revenue	0.2	0.2	0.2	0.2	0.2	0.1
SACU	14.4	28.0	28.0	25.7	22.9	20.2
EXPENSE (Statutory + Non Statutory + Salary Increase)	-39.1	-39.6	-37.8	-41.3	-39.9	-37.8
Compensation of Employees	-17.7	-18.2	-17.1	-20.3	-19.7	-18.9
Wages and salaries	-15.1	-15.8	-14.5	-17.6	-17.3	-16.6
Employer contributions	-2.6	-2.3	-2.6	-2.8	-2.4	-2.3
Use of goods and services	-8.6	-9.6	-9.2	-10.3	-10.0	-9.4
Interest Payments	-0.7	-1.1	-0.8	-1.0	-0.9	-0.8
Nonresidents	-0.4	-0.5	-0.4	-0.4	-0.4	-0.4
Residents other than general government	-0.4	-0.6	-0.4	-0.6	-0.5	-0.5
Subsidies	-1.2	-1.1	-1.1	-0.9	-0.8	-0.8
Grants	-3.9	-3.1	-3.3	-2.6	-2.6	-2.4
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	0.0	-0.1	-0.1	0.0	0.0	0.0
Extra Budgetary Units	-3.0	-2.1	-2.2	-1.7	-1.7	-1.6
Local Government	-0.9	-1.0	-1.0	-0.9	-0.9	-0.8
Social benefits	-3.0	-3.1	-2.9	-3.1	-2.9	-2.7
Other expense	-3.9	-3.4	-3.4	-3.0	-2.9	-2.8
Student Grants	-3.8	-3.3	-3.3	-2.9	-2.8	-2.7
Other expense	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
NON FINANCIAL & FINANCIAL ASSETS	-0.2	-0.2	-0.1	-0.4	-0.4	-0.3
Capital Budget	-21.2	-25.4	-20.9	-20.6	-14.7	-11.9
GoL	-13.3	-11.4	-10.0	-10.8	-9.7	-9.2
Donor Grants	-1.9	-8.9	-3.9	-4.1	-3.3	-1.1
Donor Loans	-6.0	-5.1	-7.1	-5.7	-1.7	-1.6
TOTAL BUDGET	-60%	-65%	-59%	-62%	-55%	-50%
CASH SURPLUS / DEFICIT	-1 916.4	-185.7	1 062.9	-97.0	-267.8	-59.0
% GDP	-10.0%	-0.9%	5.0%	-0.4%	-1.0%	-0.2%
GDP	19 087.8	21 282.7	21 282.7	23 542.7	25 582.8	28 757.5
NET CASH INFLOW FROM FINANCING ACTIVITIES	9.3	12.7	-1.0	0.4	1.0	0.2
FINANCIAL ASSETS	6.5	6.8	-5.9	-2.1	-1.2	0.1
Domestic	6.5	6.8	-5.9	-2.1	-1.2	0.1
Foreign	0.0	0.0	0.0	0.0	0.0	0.0
LIABILITIES	2.8	5.9	5.0	2.5	2.3	0.1
Domestic	1.9	2.3	1.1	-0.3	0.0	0.0
Securities	1.7	2.3	0.0	-0.5	0.0	0.0
Loans	0.2	0.0	1.2	0.3	0.0	0.0
of which Pension Liabilities	0.0	0.0	-0.2	-0.5	0.0	0.0
Foreign	0.9	3.5	3.8	2.8	2.3	0.1
Loans	0.9	3.5	3.8	2.8	2.3	0.1
Disbursements	2.0	4.9	4.1	4.1	3.3	1.1
Repayments	-1.2	-1.3	-0.2	-1.3	-1.0	-1.0
<i>Statistical Discrepancy</i>	-0.7	11.9	4.0	0.0	0.0	0.0
Months of Import Coverage						

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

ANNUAL % CHANGE IN REVENUES AND EXPENDITURES			
Budget Item	Budget 2012/13	Budget 2013/14	% Change
REVENUE	13 679.0	14 561.8	6.5
Tax revenue	4 415.6	5 800.0	31.4
Taxes on income, profits, and capital gains	2 562.7	3 147.8	22.8
Income tax - payable by individuals	1 595.5	1 914.0	20.0
Income tax - payable by corporations and other enterprises	529.8	716.7	35.3
Income tax - unallocable	437.4	517.0	18.2
Taxes on property	141.8	191.2	34.8
Taxes on goods and services	1 520.9	2 160.9	42.1
Value-added tax	1 401.7	1 919.0	36.9
Excise taxes	105.8	223.2	111.0
Taxes on specific services	7.9	9.1	15.3
Taxes on the use of goods and on permission to use or perform activities	5.5	9.6	74.3
Taxes on international trade and transactions	186.1	293.0	57.4
Other taxes	4.1	7.2	75.7
Grants	2 189.8	1 631.1	-25.5
Other revenue	1 107.3	1 076.2	-2.8
Property income	436.8	194.3	-55.5
Interest	7.6	7.4	-3.0
Dividends	370.6	130.3	-64.8
Rent	58.6	56.6	-3.4
Sales of goods and services	621.6	839.7	35.1
Electricity Muela	75.8	56.6	-25.3
Water Royalties - LHDA	480.0	713.9	48.7
Administrative fees	18.9	14.8	-21.9
Incidental sales by nonmarket establishments	46.9	54.5	16.2
Fines & forfeits	0.2	0.3	66.7
Miscellaneous and unidentified revenue	48.7	41.8	-14.2
SACU	5 966.3	6 054.6	1.5
EXPENSE	-8 421.5	-9 724.0	15.5
Compensation of Employees	-3 867.1	-4 787.1	23.8
Wages and salaries	-3 367.1	-4 138.3	22.9
Employer contributions	-500.0	-648.8	29.8
Use of goods and services	-2 048.3	-2 423.3	18.3
Interest Payments	-237.1	-231.4	-2.4
Nonresidents	-104.2	-93.2	-10.5
Residents other than general government	-132.9	-138.3	4.0
Subsidies	-233.2	-220.3	-5.6
Grants	-666.0	-622.4	-6.5
To foreign governments	0.0	0.0	
To international organizations	-21.5	0.0	-100.0
Extra Budgetary Units	-439.1	-407.4	-7.2
Local Government	-205.4	-215.0	4.7
Social benefits	-649.4	-723.3	11.4
Other expense	-720.4	-716.1	-0.6
Student Grants	-694.7	-683.8	-1.6
Other expense	-25.7	-32.3	25.7
Capital Budget	-5 396.6	-4 842.5	-10.3
GoL	-2 427.3	-2 548.5	5.0
Donor Grants	-1 889.8	-962.9	-49.0
Donor Loans	-1 079.5	-1 331.1	23.3
CASH SURPLUS / DEFICIT	-185.7	-97.0	
% GDP	-0.9%	-0.4%	
GDP	21 282.7	23 542.7	

REVENUES AND EXPENDITURES ITEMS AS % BUDGET FOR FISCAL YEARS 2011/2012 - 2015/2016						
Budget Item	Outturn 2011/12	Budget 2012/13	Projected Outturn 2012/13	Budget 2013/14	Budget 2014/15	Budget 2015/16
REVENUE	100.0	100.0	100.0	100.0	100.0	100.0
Tax revenue	44.5	32.3	35.8	39.8	44.1	45.9
Taxes on income, profits, and capital gains	24.9	18.7	19.4	21.6	24.1	24.6
Income tax - payable by individuals	15.3	11.7	11.4	13.1	14.0	14.9
Income tax - payable by corporations and other enterprises	5.8	3.9	4.7	4.9	5.6	5.3
Income tax - unallocable	3.8	3.2	3.3	3.6	4.4	4.5
Taxes on property	1.3	1.0	1.1	1.3	1.5	1.8
Taxes on goods and services	16.5	11.1	13.8	14.8	16.1	16.4
Value-added tax	14.2	10.2	12.3	13.2	14.3	14.5
Excise taxes	2.1	0.8	1.4	1.5	1.7	1.8
Taxes on specific services	0.0	0.1	0.1	0.1	0.1	0.1
Taxes on the use of goods and on permission to use or perform activities	0.2	0.0	0.1	0.1	0.1	0.1
Taxes on international trade and transactions	1.6	1.4	1.5	2.0	2.3	3.0
Other taxes	0.2	0.0	0.0	0.0	0.1	0.1
Grants	14.9	16.0	13.3	11.2	4.0	4.0
Other revenue	11.9	8.1	7.0	7.4	9.4	9.5
Property income	4.4	3.2	1.0	1.3	2.7	2.6
Interest	0.1	0.1	0.0	0.1	0.0	0.0
Dividends	3.6	2.7	0.9	0.9	2.2	2.2
Rent	0.7	0.4	0.1	0.4	0.5	0.4
Sales of goods and services	7.2	4.5	5.7	5.8	6.4	6.6
Electricity Muela	0.7	0.6	0.3	0.4	0.4	0.5
Water Royalties - LHDA	5.9	3.5	5.0	4.9	5.5	5.6
Administrative fees	0.2	0.1	0.1	0.1	0.1	0.1
Incidental sales by nonmarket establishments	0.4	0.3	0.3	0.4	0.4	0.4
Fines & forfeits	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous and unidentified revenue	0.3	0.4	0.2	0.3	0.3	0.3
SACU	28.6	43.6	43.9	41.6	42.5	40.6
EXPENSE (Statutory + Non Statutory + Salary Increase)	100.0	100.0	100.0	100.0	100.0	100.0
Compensation of Employees	45.4	45.9	45.3	49.2	49.4	50.1
Wages and salaries	38.6	40.0	38.5	42.6	43.2	43.9
Employer contributions	6.7	5.9	6.8	6.7	6.1	6.2
Use of goods and services	21.9	24.3	24.3	24.9	25.1	24.9
Interest Payments	1.8	2.8	2.1	2.4	2.3	2.2
Nonresidents	0.9	1.2	1.0	1.0	1.0	1.0
Residents other than general government	0.9	1.6	1.1	1.4	1.3	1.2
Subsidies	3.1	2.8	2.9	2.3	2.1	2.1
Grants	10.1	7.9	8.8	6.4	6.5	6.4
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	0.0	0.3	0.2	0.0	0.0	0.0
Extra Budgetary Units	7.8	5.2	5.9	4.2	4.2	4.2
Local Government	2.3	2.4	2.7	2.2	2.2	2.2
Social benefits	7.7	7.7	7.7	7.4	7.3	7.0
Other expense	10.0	8.6	8.9	7.4	7.4	7.3
Student Grants	9.7	8.2	8.6	7.0	7.1	7.1
Other expense	0.4	0.3	0.3	0.3	0.3	0.3
NON FINANCIAL & FINANCIAL ASSETS	100.0	100.0	100.0	100.0	100.0	100.0
Capital Budget	100.0	100.0	100.0	100.0	100.0	100.0
GoL	62.7	45.0	47.7	52.6	66.0	77.4
Donor Grants	28.4	35.0	33.8	27.5	11.5	13.4
Donor Loans	8.9	20.0	18.5	19.9	22.6	9.1

Expenditure by Ministry - Capital and Recurrent										
Ministry	2012/13					2013/14				
	Recurrent Budget	Capital Budget				Recurrent Budget	Capital Budget			
		GoL	Donor Grants	Donor Loans	Total		GoL	Donor Grants	Donor Loans	Total
Agriculture and Food Security	172.1	41.0	0.0	15.0	56.0	141.6	172.5	0.0	21.2	193.7
Health and Social Welfare	1160.8	250.3	203.3	39.0	492.6	1339.9	155.0	248.7	0.0	403.7
Education and Training	1985.5	58.4	113.2	10.0	181.6	1813.1	40.0	108.3	5.0	153.3
Finance	1161.6	75.2	491.0	26.3	592.5	441.5	170.0	242.7	5.0	417.7
Trade and Industry, Cooperatives & Marketing	61.1	24.0	20.4	0.0	44.4	67.3	75.7	10.4	78.0	164.1
Development Planning						792.1	16.4	6.6	0.0	23.0
Justice, Human Rights & Rehabilitation	145.5	19.7	0.0	0.0	19.7	145.2	13.0	0.0	0.0	13.0
Home Affairs & Public Safety	434.7	14.0	0.0	0.0	14.0	75.6	167.8	0.0	0.0	167.8
Prime Minister's Office	91.0	5.0	0.0	0.0	5.0	84.3	9.0	0.0	0.0	9.0
Communications, Science and Technology	79.4	32.0	0.0	0.0	32.0	80.8	61.5	0.0	0.0	61.5
Law & Constitutional Affairs	56.0					48.7	0.0	0.0	0.0	0.0
Foreign Affairs & Intern Relations	286.8	16.0	0.0	0.0	16.0	290.7	0.0	0.0	0.0	0.0
Public Works & Transport	165.1	386.0	163.8	76.1	626.0	140.0	641.3	292.1	59.1	992.5
Forestry & Land Reclamation	45.4	112.0	0.0	0.0	112.0	45.4	107.6	3.4	0.0	111.0
Energy, Meteorology and Water Affairs	142.8	156.4	319.0	335.2	810.6	148.4	300.7	328.9	794.7	1424.2
Labour & Employment	41.6					51.9	0.0	0.0	0.0	0.0
Tourism, Environment & Culture	65.3	34.5	0.0	0.0	34.5	69.2	25.5	0.0	0.0	25.5
Auditor General's Office	22.1					23.3	0.0	0.0	0.0	0.0
His Majesty's Office	6.4	20.0	0.0	0.0	20.0	5.9	56.0	0.0	0.0	56.0
Public Service Commission	5.7					6.6	0.0	0.0	0.0	0.0
Defence & National Security	375.4	79.0	0.0	0.0	79.0	440.7	25.0	0.0	0.0	25.0
National Assembly	67.0	15.0	0.0	0.0	15.0	73.6	0.0	0.0	0.0	0.0
Senate	16.7					18.0	10.0	0.0	0.0	10.0
Ombudsman	5.5					5.2	0.0	0.0	0.0	0.0
Independent Electoral Commission	79.5					34.9	0.0	0.0	0.0	0.0
Local Government & Chieftainship affairs	364.1					363.7	331.9	60.4	0.0	392.3
Gender, Youth, Sports & Recreation	52.1	0.0	17.2	0.0	17.2	52.9	64.5	4.2	0.0	68.7
Public Service	30.4	272.1	51.1	0.0	323.2	32.8	0.0	0.0	0.0	0.0
Judiciary	88.3					88.3	15.4	0.0	0.0	15.4
Social Development	38.8					111.7	5.5	25.4	0.0	30.9
Directorate of Corruption and Economic Offences	9.0					11.4	0.0	0.0	0.0	0.0
Mining						21.1	10.0	0.0	0.0	10.0
Police and Public Safety						404.6	60.0	0.0	0.0	60.0
Sub Total	7255.5	1610.7	1379.1	501.6	3491.4	7470.8	2534.3	1331.1	962.9	4828.3
Principal Repayment	0.0					444.4				
Interest Charges	237.1					231.5				
Pension & Gratuities	876.3					1081.1				
Statutory Salaries & Allowances	26.7					34.3				
Subscriptions to International Organisations	25.8					40.2				
Other						3.0				
Administration Fund (Contingency)						100.0				
Total	8421.5	1610.7	1379.1	501.6	3491.4	9405.1	2534.3	1331.1	962.9	4828.3

