

LESOTHO

# PARLIAMENT OF THE KINGDOM OF LESOTHO

## Excellent Progress, but Formidable Challenges Ahead

**Budget speech to Parliament for the**

**2005/2006 Fiscal Year**

**By**

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*Maseru, Lesotho*

16 February 2005

Madam Speaker

Allow me to pay my respects 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 the Diplomatic Mission and International

Organisations

Distinguished Senior Government Officials

Distinguished members of the Media

The Entire Basotho nation Across Lesotho and Abroad

Ladies and Gentlemen

Madam Speaker and Honourable Members,

## **Introduction**

1. Once again, it is that time of the year when, on behalf of the Government, I must report on its economic and financial stewardship for the last year and to outline the way forward and the challenges the nation faces as it strives:
  - to achieve its National Vision 2020 and goals;
  - to implement the strategy for poverty eradication and wealth creation (PRSP);
  - to accelerate economic growth;
  - to create jobs, especially for the young people;
  - to expand access and improve the quality of education and health services for all Basotho; and,
  - to scale up the fight against HIV and AIDS.

## **Steady Progress Being Made**

2. I am happy to report that the foundations for sustainable development laid two years ago continue to be firm. They are being extended and strengthened. Steady progress is being made towards the attainment of our National Vision 2020 which was adopted last May and the Poverty Reduction Strategy which the Government approved last December. Both documents will be

published in four to six weeks. Economic growth, estimated at 3.4 percent for 2004, continues to be higher than the average for the Southern African region, although it is less than what we would like it to be. Employment in the textile sector remains strong though dark clouds are beginning to gather following the end of the Multifibre Agreement. More primary school age children have access to primary schools as a result of the abolition of school fees in the first six years of schooling. The ABC Campaign (Abstain, Be faithful, Condomise) against HIV and AIDS, Voluntary Counselling and Testing and the creation of an infrastructure for training, treatment and care of the infected and affected are being stepped up. The elderly and vulnerable, most of whom take care of more than 90,000 AIDS orphans, are receiving monthly support to meet their basic needs. Parenthetically, let me add that we should have zero tolerance for those who rob the elderly of their meagre livelihoods.

3. Our public service reforms including reform of financial systems for effective control, accounting and auditing of Government revenues and expenditures are gathering momentum; cheats, fraudsters and corrupt officials and their business partners are being arrested and prosecuted. Courts and the Director of Public Prosecutions are working together to remove the backlog of cases. Magistrates are also being convicted, and corrupt Treasury officials fined and jailed while some businessmen in Lesotho and South Africa, who have long been depleting Government coffers, are facing the full might of the law. Audited Public Accounts have been produced regularly since 2002 and the Parliament's Public Accounts Committee is busy examining them. During 2005 work on the backlog of annual public accounts for the period 1996/97 – 2000/01 will commence.
4. International investor confidence in Lesotho's political and economic management continues to increase. This year the FITCH Rating Agency has again upgraded Lesotho from B+ to BB-, driven by improvement in our policies, external debt position and sound macroeconomic management. This puts us in the same category as giants like Brazil. An example of this returning confidence is the investment by Nien Shin Company of US\$100 million in the manufacture of denim fabric. The same is true for new investments in the diamond sector.
5. In addition, last year Lesotho was selected by the United States Government, together with 15 other countries, from a list of over 70 low-income countries to negotiate a five year Millennium Challenge Account Compact to provide assistance. I will report later about this

program but what is noteworthy, however, is the criteria used to select these sixteen countries. They were selected on the basis of **ruling justly** by pursuing democracy, respect for human rights and the rule of law; **investing in their people** through primary education, primary healthcare and policies that reduce poverty; and, **implementing policies that promote sustainable economic growth** through creating a better legal and regulatory environment. These policies are embedded in our National Vision 2020 and our Poverty Reduction Strategy.

### **Challenges Remain on the Road Ahead**

6. Notwithstanding this steady progress on our long march, the road ahead is crooked and formidable challenges remain. The first and most important challenge is to make the private sector a real engine for rapid acceleration of growth; creation of jobs and reduction of poverty. This requires that the Government, in partnership with local and foreign investors in Lesotho, take urgent steps to agree on a strategy to develop the private sector. The objectives of such a strategy must be to retain and expand the existing investor base in the garment and apparel industry; create industrial clusters and attract new investors into them, both local and foreign; and support the growth of local private sector firms by creating linkages with RSA; and, providing a platform of infrastructure, credit, institutional support and skills development.
7. Retaining and attracting new foreign and local investors requires Government to improve the business, legal and regulatory environment; streamline our company registration and licensing, customs and immigration procedures; and identify four or five key sectors that we must aggressively promote. Supporting the growth of local private sector requires a policy framework that puts all Basotho businesses in the centre of economic development; that strengthens the infrastructure and institutions that serve local entrepreneurs including those that provide credit and skills development.

Madam Speaker

8. You are aware that the Right Honourable the Prime Minister is in Ireland today. Among other things, he plans to exchange views with the Irish authorities on how they transformed Ireland from a rural economy, similar to Lesotho, into a “High-Tech Celtic Tiger” within a

short period of forty years. As Honourable Members know, Ireland which is our largest provider of assistance was in the shadow of a large and more sophisticated economy. It suffered from emigration of trained manpower; poor infrastructure; high unemployment and low living standards. Today, most of the large high-tech and financial companies have their headquarters in Dublin. All those Irish who left are returning with large companies that they have created or are managing. There is a lot to learn from our friends in Ireland.

9. The second development challenge is HIV and AIDS. Government is consolidating the scaling up of the fight. The National AIDS Commission and its Secretariat will be operational by April; civil society has been galvanized; the international partners, such as the Global Fund; the World Bank, the pharmaceutical companies; private universities like Boston University, USA, Baylor College of Medicine of Texas, USA, and the Clinton Foundation have all joined the fight or are in the process of doing so. **Unless we win this fight, our efforts to stimulate growth, create jobs, eradicate poverty and improve education will be worthless.** Like Martin Luther King Jr, I dare believe that we shall overcome; victory will ring one day from the high mountain tops to the low valleys of this beautiful Kingdom; from Mechachane to Tele; and our children will one day surf the internet and chat with their counterparts all over the world.
10. The third challenge relates to the quality and access to knowledge through education. The transformation of the productive sector and the creation of manufacturing and service industries require first and foremost basic education and technical skills. Equally, confronting HIV and AIDS needs many social and scientific skills. Compared to other countries, Lesotho is spending a high percentage of its budget on education and training. But are we getting the quality we need? Analysis of the Junior Certificate and last year's C.O.S.C. results tell me that we must not be satisfied. Children who pass science and mathematics are few. This means that we will have fewer and fewer university admissions to those disciplines that need competency in science and mathematics and these form the base of a productive economy. Our needs as a nation in these disciplines are increasing.
11. The last challenge I wish to touch on is that of public service and service delivery. Lesotho's civil service receives low salaries. This makes those with good internationally competitive skills choose to

leave the country or to join the private sector. But many have chosen to stay because of their commitment to the country. We applaud them. However, to improve their conditions of service and salaries, it is critical that the public and the Government should see improvements in productivity, in efficient service delivery and in good relations with the public. They must see a change in the work ethic, and the elimination of corruption. Where will Government get the money to pay these public servants when some join hands with criminals to rob the elderly of their livelihoods? Where will Government get the money when some Customs or VAT or Treasury or Tourism or Court or agricultural officials etc join hands with corrupt businessmen to steal from the public coffers? Those of us in the public service have a duty to blow the whistle on those who spoil our reputation and make it difficult for Government to increase our earnings.

Madam Speaker

12. This year will see several legal, financial and management innovations under Public Sector Improvement and Reform Programme aimed at: streamlining processes for service delivery and for prompt payment of bills for services performed for the Government; tightening of revenue collection; deepening of expenditure control and management through the Medium Term Expenditure Framework (MTEF) adopted by Government last September; reviewing our tax policies and administration; introducing legislation to update our archaic insurance and pension laws; regulation and financial sector practices including anti-money laundering and, modernizing our Public Finance Act and Regulations. Consolidating and updating of the Public Finance Management is a top priority for the Government.
13. Under MTEF, Cabinet will focus on outcomes and performance, rather than on inputs. The Ministry of Finance and Development Planning will focus its attention on resource planning and allocations so that Cabinet can make proper policy choices and trade-offs as well as monitor implementation. MTEF provides an indication of what resources could be available for programmes during 2006/07 and 2007/08. In this context, more discretion and accountability will shift to line ministries and their Chief Accounting Officers for effective program implementation and reporting.

## Economic Performance

Madam Speaker

14. Allow me to take stock of performance of the economy during 2004, in order to put the proposals for 2005/06 in a proper context.
15. It is projected that growth in gross domestic product will have reached 3.4 percent in 2004. Economic performance began well in 2004 and by mid-year indications were that the year would turn out as expected. The last half of the year, however, registered significant down turn, driven largely by uncertainty in the textile sector. This emanated from three causes;
  - Firstly, the uncertainty of the extension of Africa Growth and Opportunities Act by the US Congress.
  - Secondly, the imminent removal of textile quotas under Multifibre Agreement on Textiles and Clothing affected US orders for Lesotho produced clothes.
  - Thirdly, the consistently weak US currency created an unfavourable imbalance between the costs of production which are paid for in our local currency and the revenue from sales which is received in US dollars.
16. All these factors have led to a wait-and-see attitude by both US buyers and Lesotho producers. As a result, production slowed somewhat during the last half of the year and this has been reflected in a significant decline in the economic growth. I am glad to report, however, that no significant investors have left the country. Many are working with the Government to weather the storm.

Madam Speaker

17. World economies are undergoing transformation which normally comes with costs. The textile sector on which Lesotho showed exceptional acumen in tapping the North American market is seeing most of its trade benefits being eroded. The quotas are gone, and in the near future the tariffs will almost disappear, leading finally to a fully competitive world among states. Whether Lesotho will be able to compete successfully will be a function of the extent of the flexibility with which industry leaders and the labour market respond

to adjustments taking place in the sector. Until then, Lesotho must do everything in its **power to retain the existing investors, diversify its exports and markets, and build a solid base for industrialization.**

18. To assist our textile firms with cash flow, Government has accelerated VAT refund procedures, allowing refunds to be claimed in advance. Secondly, the Duty Credit Certificate scheme has been resuscitated and 28 firms have so far registered. A Land Bill which addresses many of the constraints that have dogged investment is on its way to Parliament. This Bill will help genuine investors who plan to stay in Lesotho instead of those who come by day and fly by night.
19. Retail, banking, telecommunications and public sectors grew at a combined rate of 4.4 percent in 2003 and are projected to grow at 3.9 percent in 2004. This is another indicator of economic slow down.
20. With regard to the banking sector, we welcome the entry of First National Bank into Lesotho and we hope that it will increase competition and service delivery to many Basotho who find it hard to use the banking system. I am pleased that Lesotho Postal Bank has begun operations by opening Branches in Pitseng and Maseru. Of concern with the domestic banks, however, is the fact that the difference between the cost of lending in South Africa and in Lesotho cannot all be accounted for by risk and the costs of loan administration. There is a need to review whether or not this can be justified on business grounds or historical practices and perceptions?

Madam Speaker

21. Our goal in the financial sector is to improve savings and lending for investment. At present the banks are reluctant to lend money in our country whilst holding large amount of excess deposits. The Government will also address genuine risk factors which banks face such as the slow process of adjudication mechanisms and the lack of tracking of people's credit history. The introduction of national identity cards for all Basotho in 2005 will help greatly. It is our hope that ultimately the banks will find the conditions suitable for increasing investment in Lesotho.



22. The primary sector consisting of agriculture, mining and quarrying represents a small proportion of the value of total annual production. It is projected that the weather-induced downturn in agriculture has bottomed. Emerging activity in horticulture, following the reopening of the cannery at Masianokeng, and renewed mining activity in sandstone and diamonds will begin to reclaim lost ground for the primary sector during 2005. Increased mining activity is expected to grow significantly with the possible addition of two mines.
23. Inflation has fallen to about 5 percent and is expected to remain at this level during 2005 while the measure of Lesotho's capacity to enter into financial transactions with foreigners, the import cover, dropped to about 5.2 months of imports of goods and services at the end of 2004 with a reserve level of some US\$500 million.
24. Although 2004/05 financial year has not ended, there is a requirement to report to Parliament on the performance of the budget it approved in March last year and the extent to which anticipated outcomes have been achieved to date.
25. The 2004/05 budget projected a surplus of M251 million (2.7 percent of GDP). This surplus was used to pay off some domestic debt, namely, M273 million bonds and treasury bills for the liquidation of Lesotho Bank. The performance in the first nine months of the financial year, up to December 2004, remained on course. The major revenue items, namely customs duty, income tax and value added tax are expected to perform in accordance with the plans.

### **Towards Medium Term Resource and Expenditure Framework and Implementation of Poverty Reduction Strategy**

Madam Speaker, Honourable Members

26. Let me turn briefly to the 2005/2006 Budget proposals and their relationship with the Medium Term Resource and Expenditure Framework and the Poverty Reduction Strategy (PRS).
27. Four years ago the Government began a widely consultative and participatory process to formulate a strategy to reduce poverty and to promote equity-based sustainable growth. The consultations involved the representatives of over 200 villages - and communities, professional bodies, civil society, private sector, and youth organisations. Our development partners such as DfID of U.K.,

Development Cooperation Ireland and the World Bank provided financial and technical support. Cabinet approved this strategy which will be formally submitted to Parliament shortly. In the meantime, an Executive Summary is being circulated as background to my speech.

28. The PRS and the priorities identified in it was developed by Basotho against the backdrop of their National Vision 2020 to create **a stable democracy, a united and prosperous nation at peace with itself and its neighbours; a nation that is healthy and has well-developed human resource base; and a nation that will have a strong economy with a well managed environment and established technology.** This vision forms a beacon towards which the nation must strive. However, to provide a link between the PRS and the Annual Planning and Budgeting processes, the Government has adopted the introduction of a three-year Medium Term Resource and Expenditure Framework or MTEF. MTEF provides projections of likely resource availability and matches the proposed expenditure against this resource envelope. In future Parliament will be invited to approve the first year budget proposals and note the indicative figures for the next two years. This change will trigger other changes in the way the budget and expenditures are managed. It will place Cabinet in a better position to make tough policy choices and trade-offs in the face of limited resources.
29. The budget for 2005/2006 must be seen as a transition Budget towards a medium term Budget framework. The Ministerial allocations follow the priorities as established by the Poverty Reduction Strategy, namely,
- Employment creation and income generation;
  - Agricultural development and food security;
  - Infrastructure development;
  - Democracy, governance, safety and security;
  - Health care and social welfare services
  - Increasing quality and access to education;
  - Managing and conserving the environment
  - Improving public service delivery.

**A key overarching and cross cutting priority is the fight against HIV and AIDS.**

Madam Speaker

30. These priorities are virtually the same as the Millennium Development Goals. (MDGs) agreed to in Monterrey, Mexico in 2000. Their attainment by Lesotho and other African countries remains a challenge to the international community. I want to make an appeal on behalf of Lesotho for more resources by our Development Partners so that we can meet the MDGs.
31. The issue of additional resources to finance the MDGs and poverty eradication is central to international cooperation. This is why Lesotho strongly endorses the work of the Commission for Africa, established by the Prime Minister of the United Kingdom, The Rt Honourable Tony Blair and his Chancellor of the Exchequer, the Honourable Gordon Brown. The aim of the Commission is to mobilize additional resources for poverty eradication in Africa. It advocates for the doubling of aid and the elimination of multilateral debt, among other proposals. The U.K. has also cancelled its share of this debt for Tanzania and Kenya. Chancellor Brown has also proposed an International Finance Facility (IFF) that would raise about \$50 billion to finance MDGs. Lesotho strongly endorses this proposal and calls for its speedy implementation.
32. On debt relief, let me note **that Lesotho has never defaulted on its debt.** Even in times of drought, famine or crises, it has always sacrificed its limited resources to pay its debts. Unfortunately, when the Highly Indebted Poor Countries (HIPC) initiative was designed, low-income countries such as Lesotho, which have managed their finances well, were overlooked. We want this position to be reviewed. We applaud Chancellor Brown for spearheading the initiative to write-off multilateral debt for poor low-income countries such as Lesotho. We have already initiated contacts with his office to see whether or not Lesotho's multilateral debt can be written off. I will follow up the issue in April at the Spring Meetings of the IMF and the World Bank.
33. On the issue of external resources, I wish to note that the assistance given to Lesotho by the international community has been steadily declining over the last ten years. Most of the development partners who provided us with much assistance have established regional aid Missions and closed their offices in Lesotho. Unfortunately, it seems that their assistance has moved with their Missions and visits to

Lesotho are short and far in between. We appeal for a review of this situation.

34. Many of our Development Partners have complained about our limited capacity to use external assistance. This is not fair. Most of the assistance provided to us is in the form of project aid which has a multiplicity of conditions, reporting requirements and numerous supervision missions including workshops with stakeholders. These take away our administrative and managerial resources from their focus on attaining results on the ground. We appeal to our partners to **harmonize their aid procedures**, conditions and reporting requirements and to provide assistance in the form of budget support. They should also assist us in strengthening of our central financial management, control accounting and auditing so that we can better report on the use their funds. They should also use more local consultants to supervise or review their projects.

### **Budget Proposals for 2005/2006**

Madam Speaker

35. The specific ministerial allocations for this year seek to maintain recurrent expenditures in real terms although this has not been possible in all cases. The Government's goal is to release funds from the financing of administration of the financing to productive investment and the creation of real assets that will lead to more growth. While we allocate more resources to social sectors in accordance with our priorities and the MDGs, it is important to note that the sustainability of such expenditures in the future depends on the creation and expansion of the economy's productive base.
36. The overall 2005/06 Budget seeks to maintain macro-economic stability and to target those micro-economic items or policies that would have impact on growth, employment creation and poverty eradication. Specifically, the budget seeks to ensure that:
- aggregate public expenditure grows by less than nominal growth in GDP;
  - sustainable budget deficit in the medium term is maintained; and
  - additional external finance on concessional terms is mobilized.

37. Accordingly, it projects a deficit of M249.5 million which is equivalent to 2.6 percent of GDP. The deficit is a result of a projected decrease in domestic revenue accompanied by surging total expenditures. Total revenue, excluding grants, is projected to increase from the budget of 2004/05 by 0.4 percent in cash terms to M4,250.7 million.

Madam Speaker

38. Our revenue outlook is not very bright. SACU receipts are expected to decline or remain stagnant due to the elimination of most tariffs under the World Trade Organisation and the signing of Free Trade Area Agreement by SACU. Revenue from mining activities is expected to double although from a small base. It is therefore critical that we increase the efficiency of collecting Government revenues at all levels by closing loop holes for tax evaders and effectively fighting corruption. Government is losing a lot of money through theft, corruption and delays in prosecution and delivery of justice.
39. Total expenditure is proposed at M4,772.18 million with recurrent expenditures at M3,738.5 million and capital expenditure at M1,043.4 million. Our goal must be to keep recurrent expenditures relatively constant while re-directing additional resources to investment in economic infrastructure.
40. The Ministerial proposals that follow have been grouped in line with the various priorities established by the Poverty Reduction Strategy.

### **Employment and Income Generation**

41. The loss of export orders because of a strong Loti/Rand and the uncertainty arising from the delayed approval of the extension of AGOA by the U.S. Senate created further vulnerabilities in terms of employment creation and poverty eradication. A small number of firms closed due to cash flow problems but most of the large ones remain and continue to maintain their employment levels. The Government is determined to retain these investors, attract new ones, diversify its export products and markets. To this end a high level private-public sector policy forum will be organized in the first week of April to formulate the strategy for private sector development and action plans to help existing investors, improve the legal and regulatory environment, agree on a package of

infrastructural and institutional support for SMEs and private sector. **The Government want to make private sector a real engine of growth and employment creation.**

42. The Budget proposes funds for the building of industrial infrastructure while the promotion efforts by LNDC will be intensified. Funds have also been provided for the reopening of the asparagus canning factory. Discussions are also underway for farmers across Mhokore to cooperate with their counterparts in Lesotho and share know-how and expertise in growing organic vegetables and other high value exports.
43. The Government is also discussing with the Millennium Challenge Corporation of the U.S. the possibility of an Enterprise Fund to support SMEs with credit and technical advice and improvement in the legal and regulatory environment.

### **Agriculture and Food Security**

44. Government recognises that food security is not enhanced if fertile land is left unploughed, therefore we will promote appropriate farming practices. The policy focus will be on crop diversification and substitution; encouragement of field crops in areas that are agro-ecologically suitable; preparing for the introduction of block farming especially in the lowlands areas; promotion of commercialization of agriculture; and use of improved agricultural technologies.
45. Appropriate irrigation systems will be developed, especially low cost, gravity-fed systems that the poor can sustain, while at the same time exploring opportunities for large-scale irrigation. The Government will also strengthen and decentralize extension services at area level within all districts.
46. To support these policies this Budget proposes an allocation of M171.6 million to the Ministry of Agriculture and Food Security.

### **Improve Access to Health Care and Social Welfare**

47. The most critical areas that the Government will be addressing in order to improve both quality and access to essential health care include rationalizing provision of health service facilities; improving procurement, storage and distribution of drugs and dressings,

maintenance of equipment, improvement of the capacity of health personnel and their equitable distribution throughout the health system. A key focus will be to strengthen primary health care where Lesotho's past edge is beginning to decline.

48. Government has set itself the goal of reducing HIV prevalence from 31 percent in 2002 to 25 percent by 2007. This is a tall order but can be attained through the implementation of the strategy which has been incorporated in the document on scaling up the fight against HIV and AIDS and the ABC campaign. The Right Honourable the Prime Minister is at the forefront of this campaign and I hope the Honourable Members and other national leaders can join this campaign.
49. The Government has already introduced Anti-Retroviral Therapy (ART) and has allocated half of the 2 percent of the budget allocated to HIV and AIDS budget. In 2004, the Senkatana centre began administering Anti-Retroviral drugs and providing counselling services.
50. To support these policies, this Budget proposes M372.7 million to the Ministry of Health and Social Welfare.

### **Improve Quality and Access to Education**

51. Lesotho has a well developed school system and one of the highest literacy rates in Africa. But to improve the quality and efficiency of the education system, certain reforms need to be carried out. The Government is therefore committed to increasing the number of schools, classrooms and laboratories; provide necessary equipment; improve pre-service education for trainee teachers; expand in-service training of poorly qualified teachers; and enhance the skills of advisers, inspectors and teachers. Another year of free primary education will be added - standard seven.
52. It is also vital that we improve relevance and quality of technical and vocational and tertiary education by bringing the courses offered at these levels more in line with national manpower needs. The NMDS has identified subject areas of greatest need to the country and continues to fund students studying in these areas. However, radical reforms to NMDS and its staffing, management will be implemented this year. Accounts will soon be opened in the

Commercial Banks in Lesotho and South Africa to collect Loan Bursary repayment.

53. The success of the Free Primary Education is openly evident. There are two challenges however. First, the sustainability of this effort is called into question by continually declining resources. Second, secondary schools must be ready to receive the first cohort of free primary education as it comes off in January 2007. Lesotho must find the resources or prepare for this eventuality. Our Development Partners should help us to deal with this problem.

### **Development of infrastructure**

54. Development of infrastructure is essential for creation of a supportive trade and investment environment. The Government will construct, rehabilitate and maintain roads and river crossings; improve water harnessing, storage and distribution; expand rural electrification which will be supported through the privatization of Lesotho Electricity Corporation; and facilitate provision of information and communication technology, building on Telecom Lesotho's wireless broadband service that began last year.
55. Preparations are underway to build the Metolong Dam. A roundtable of potential financiers will be held in May or early June. These will include the MCC, the World Bank, BADEA, The Arab Funds, African Development Bank and the European Investment Bank. The dam will provide water to Maseru for domestic and industrial needs in addition to Roma, Morija and Matsieng. The dam will also regulate the water regime between winter and summer, creating possibilities for all year round irrigation around the Phuthiatsana river.
56. The Government proposes an allocation of M702.4 million to infrastructure and related expenditures.

### **Deepening Democracy, Governance, Safety and Security**

57. The Government is committed to deepening democracy, improving governance at all levels, increasing safety and security, and improving the efficiency of the justice system. These will be addressed by reforming the judicial administration and strengthening the commercial court, safety and security institutions including the establishment of community policing and provision of equipment.



58. Early in the financial year, Lesotho's population will go to the polls for the first elections of local Government structures. 128 Community Councils and the Maseru Municipal Council will be elected and representatives of the Community Councils will constitute 10 district Councils. This is an exciting new development since it will introduce a two-tier system of governance in Lesotho: a dispensation that holds the promise of improved oversight for service delivery at local levels, LFCD will be transferred to the Ministry of Local Government and a fund for local programmes established.
59. This year's recurrent budget provides an additional sum of M50 million to the Ministry of Local Government for the purpose of meeting the core costs of the envisaged Councils and related institutions such as the newly created offices of the District Administrators.
60. This is an interim measure since decentralization is only meaningful if financial responsibility is also bestowed on the Councils. The Ministry of Finance and Development Planning will work with the Ministry of Local Government for the purpose of discussing the modalities of fiscal decentralisation, promoting accountability and transparency and accounting for funds disbursed to the new institutions.
61. We are proposing an allocation of M1,383.1 million for general public services, public order, safety and defence.

### **Manage and Conserve the Environment**

62. Lesotho's environment is very fragile. It is characterized by steep slopes and frail soil formations. It is estimated that 0.25 percent of the total arable land, or M39.6 million tons of soil, is lost through soil erosion each year, with the most visible signs being deep gullies in the lowlands and exposed rock in the mountains. The direct consequence of soil erosion is a decline in agricultural production, exacerbating the problems of food shortage and poverty.
63. To ensure improved environmental management, a number of specific strategies will be implemented. They include strengthening of curriculum and media programmes on environmental education; reducing loss of bio-diversity by implementing the Maloti-Drakensburg Trans-frontier park, maintaining existing parks and moving towards the establishment of nature reserves and protected

areas; addressing range management jointly with the Ministry of Agriculture and Food Security, and Forestry and Land Reclamation, and Local Government. The capacity of the National Environment Secretariat will be strengthened. Funds have also been allocated to develop a cultural village at Thaba-Bosiu and to protect the Royal tombs.

### **Development of Tourism**

64. Tourism has potential to contribute significantly to employment creation and income generation. The Government plans to adopt a systematic and comprehensive approach to the development and promotion of tourism by involving tour operators, local communities and adventure tours and competitions.
65. We are proposing an allocation of M69.4 million for 2005/06 for the Ministry of Tourism, Environment and Culture.

### **Improve Public Service Delivery**

66. Poor service delivery by the civil service is frequent concern. The Government is committed towards identifying and removing public service delivery bottlenecks and rooting out corruption. It will strengthen financial management efficiency of service delivery and implementation of the decentralization programme.
67. The Public Sector Improvement and Reform Programme is a multi-dimensional reform package presently targeting decentralization, civil service improvement, and financial management. Work has already begun on these reforms following discussions with our cooperating partners.

### **Gender, Youth and Children**

68. In civil society and certain categories of employment in Government, men still outnumber women in formal employment and men predominate at the highest echelons of power. The Government has committed itself to eliminating gender inequalities especially in the financial sector. Legislation will be proposed to ensure that women can open bank accounts or register companies or get telephones without the permission of their husbands who may have deserted them.

69. Sports promotion and support by the private sector is very important. Legislation will be introduced to provide tax incentives to those companies that make contributions to or sponsorships through the Lesotho Sports and Recreation Commission.
70. We are proposing an allocation of M36.5 million to the Ministry of Gender and Youth, Sports and Recreation.

### **Other Proposals**

71. For a number of years Lesotho has not reviewed its income tax scales which have been eroded by inflation. It is proposed to raise the income tax threshold from M880 to M924 per month. This will give a break to the low income earners.
72. During 2005/06 Government will update and modernize the various financial services laws relating to insurance, pensions; hire-purchase agreements and motor vehicle compensation.
73. Government also proposes an across the board salary adjustment of 5 percent for civil servants.

### **Conclusion**

Madam Speaker, Honourable Members

74. The country is making steady progress. However, we have many challenges ahead. But as Napoleon said, 'if we persevere, victory is assured!' The policies I outlined above require perseverance and concerted efforts by all Basotho. As we say, "Letšoele le beta poho, kopano ke matla" (There is strength in numbers. Unity is strength).

**Khotso! Pula! Nala!**

<b>Annex 1A: Economic Classification of Budget 2005/2006 (Million Maloti)</b>			
<b>Budget Item</b>	<b>Approved 2004/2005 Budget</b>	<b>Projected 2004/2005 Outturn</b>	<b>Proposed 2005/2006 Budget</b>
<b>Revenues and Grants</b>	<b>4,569.6</b>	<b>4,448.0</b>	<b>4,523.3</b>
<b>Revenue</b>	<b>4,232.8</b>	<b>4,203.2</b>	<b>4,250.7</b>
<b>Tax Revenue</b>	<b>3,692.8</b>	<b>3,687.6</b>	<b>3,716.8</b>
Customs	2,012.4	2,012.4	1,983.9
Income Tax	902.0	902.3	922.3
Sales Tax/VAT	678.2	672.6	688.2
Oil Levy	82.1	82.1	81.0
Other Tax Revenues	18.1	18.2	41.4
<b>Non-tax revenue</b>	<b>540.0</b>	<b>515.6</b>	<b>534.0</b>
Water Royalty	239.0	210.1	231.8
Other non-tax	301.0	305.5	302.2
<b>Grants</b>	<b>336.8</b>	<b>244.8</b>	<b>272.6</b>
Project Grants	272.6	200.0	272.6
Budgetary Support	64.2	44.8	0.0
<b>Expenditure &amp; Net lending</b>	<b>4,317.6</b>	<b>4,095.2</b>	<b>4,772.5</b>
<b>Recurrent Expenditure</b>	<b>3,492.7</b>	<b>3,306.9</b>	<b>3,738.2</b>
<b>Wages and Salaries</b>	<b>1,219.4</b>	<b>1,219.3</b>	<b>1,331.3</b>
<b>Other Purchases</b>	<b>2,057.2</b>	<b>1,948.1</b>	<b>2,236.8</b>
Transfers and Subsidies	828.1	837.7	1,010.7
Other Goods and Services	1,229.1	1,110.4	1,226.1
<b>Interest Payments</b>	<b>216.1</b>	<b>139.5</b>	<b>170.4</b>
Foreign Debt	94.7	76.1	86.8
Domestic Debt	121.4	63.4	83.6
<b>Capital Expenditure</b>	<b>842.7</b>	<b>785.1</b>	<b>1,043.4</b>
<b>GoL Funded</b>	<b>360.0</b>	<b>375.0</b>	<b>495.8</b>
<b>Externally Funded</b>	<b>482.7</b>	<b>410.1</b>	<b>547.6</b>
Grant Funded	272.6	200.0	272.6
Loan Funded	210.1	210.1	275.0
<b>Net Lending</b>	<b>-17.8</b>	<b>3.2</b>	<b>-9.1</b>
<b>Overall deficit before grants</b>	<b>-84.8</b>	<b>108.0</b>	<b>-521.8</b>
<b>Overall deficit after grants</b>	<b>252.0</b>	<b>352.8</b>	<b>-249.2</b>
<b>Total Financing</b>	<b>-250.7</b>	<b>-352.8</b>	<b>249.2</b>
<b>Foreign Financing</b>	<b>-41.9</b>	<b>-44.0</b>	<b>-158.2</b>
Loan Drawings	210.1	210.0	275.0
Amortization (Loan repayment)	-252.0	-254.0	-433.2
<b>Domestic Financing</b>	<b>-210.1</b>	<b>396.8</b>	<b>407.4</b>
<b>GDP (million Maloti, forecast)</b>	<b>9,436.3</b>	<b>8,989.9</b>	<b>9,589.7</b>
<b>GNI (million Maloti, forecast)</b>	<b>11,405.5</b>	<b>11,095.5</b>	<b>11,780.4</b>

<b>Annex 1B: Economic Classification of Budget 2005/2006, Deviations from 2004/2005 Budget (Percent)</b>		
<b>Budget Item</b>	<b>Projected 2004/2005 Outturn</b>	<b>Proposed 2005/2006 Budget</b>
<b>Revenues and Grants</b>	<b>-2.7</b>	<b>-1.0</b>
<b>Revenue</b>	<b>-0.7</b>	<b>0.4</b>
<b>Tax Revenue</b>	<b>-0.1</b>	<b>0.6</b>
Customs	0.0	-1.4
Income Tax	0.0	2.3
Sales Tax/VAT	-0.8	1.5
Oil Levy	0.0	-1.3
Other tax revenues	0.6	128.5
<b>Non-tax revenue</b>	<b>-4.5</b>	<b>-1.1</b>
Water Royalty	-12.1	-3.0
Other non-tax	1.5	0.4
<b>Grants</b>	<b>-27.3</b>	<b>-19.1</b>
Project Grants	-26.6	0.0
Budgetary Support	-30.2	-100.0
<b>Expenditure &amp; Net lending</b>	<b>-5.2</b>	<b>10.5</b>
<b>Recurrent Expenditure</b>	<b>-5.3</b>	<b>7.0</b>
<b>Wages and Salaries</b>	<b>0.0</b>	<b>9.2</b>
<b>Other Purchases</b>	<b>-5.3</b>	<b>8.7</b>
Transfers and Subsidies	1.2	22.1
Other Goods and Services	-9.7	-0.2
<b>Interest Payments</b>	<b>-35.4</b>	<b>-21.2</b>
Foreign Debt	-19.6	-8.3
Domestic Debt	-47.8	-31.1
<b>Capital Expenditure</b>	<b>-6.8</b>	<b>23.8</b>
<b>GoL Funded</b>	<b>4.2</b>	<b>37.7</b>
<b>Externally Funded</b>	<b>-15.0</b>	<b>13.4</b>
Grant Funded	-26.6	0.0
Loan Funded	0.0	30.9
<b>Net Lending</b>	<b>-118.0</b>	<b>-48.9</b>
<b>Overall deficit before grants</b>	<b>-227.4</b>	<b>515.3</b>
<b>Overall deficit after grants</b>	<b>40.0</b>	<b>-198.9</b>

<b>Annex 1C: Economic Classification of Budget 2005/2006 (% of GDP)</b>			
<b>Budget Item</b>	<b>Approved 2004/2005 Budget</b>	<b>Projected 2004/2005 Outturn</b>	<b>Proposed 2005/2006 Budget</b>
<b>Revenues and Grants</b>	<b>48.4</b>	<b>49.5</b>	<b>47.2</b>
<b>Revenue</b>	<b>44.9</b>	<b>46.8</b>	<b>44.3</b>
<b>Tax Revenue</b>	<b>39.1</b>	<b>41.0</b>	<b>38.8</b>
Customs	21.3	22.4	20.7
Income Tax	9.6	10.0	9.6
Sales Tax/VAT	7.2	7.5	7.2
Oil Levy	0.9	0.9	0.8
Other tax revenues	0.2	0.2	0.4
<b>Non-tax revenue</b>	<b>5.7</b>	<b>5.7</b>	<b>5.6</b>
Water Royalty	2.5	2.3	2.4
Other non-tax	3.2	3.4	3.2
<b>Grants</b>	<b>3.6</b>	<b>2.7</b>	<b>2.8</b>
Project Grants	2.9	2.2	2.8
Budgetary Support	0.7	0.5	0.0
<b>Expenditure &amp; Net lending</b>	<b>45.8</b>	<b>45.6</b>	<b>49.8</b>
<b>Recurrent Expenditure</b>	<b>37.0</b>	<b>36.8</b>	<b>39.0</b>
<b>Wages and Salaries</b>	<b>12.9</b>	<b>13.6</b>	<b>13.9</b>
<b>Other Purchases</b>	<b>21.8</b>	<b>21.7</b>	<b>23.3</b>
Transfers and Subsidies	8.8	9.3	10.5
Other Goods and Services	13.0	12.4	12.8
<b>Interest Payments</b>	<b>2.3</b>	<b>1.6</b>	<b>1.8</b>
Foreign Debt	1.0	0.8	0.9
Domestic Debt	1.3	0.7	0.9
<b>Capital Expenditure</b>	<b>8.9</b>	<b>8.7</b>	<b>10.9</b>
<b>GoL Funded</b>	<b>3.8</b>	<b>4.2</b>	<b>5.2</b>
<b>Externally Funded</b>	<b>5.1</b>	<b>4.6</b>	<b>5.7</b>
Grant Funded	2.9	2.2	2.8
Loan Funded	2.2	2.3	2.9
<b>Net Lending</b>	<b>-0.2</b>	<b>0.0</b>	<b>-0.1</b>
<b>Overall deficit before grants</b>	<b>-0.9</b>	<b>1.2</b>	<b>-5.4</b>
<b>Overall deficit after grants</b>	<b>2.7</b>	<b>3.9</b>	<b>-2.6</b>
<b>Total Financing</b>	<b>-2.7</b>	<b>-3.9</b>	<b>2.6</b>
<b>Foreign Financing</b>	<b>-0.4</b>	<b>-0.5</b>	<b>-1.6</b>
Loan Drawings	2.2	2.3	2.9
Amortization (Loan repayment)	-2.7	-2.8	-4.5
<b>Domestic Financing</b>	<b>-2.2</b>	<b>4.4</b>	<b>4.2</b>

<b>Annex 1D: Economic Classification of Budget 2005/2006 (% of GNI)</b>			
<b>Budget Item</b>	<b>Approved 2004/2005 Budget</b>	<b>Projected 2004/2005 Outturn</b>	<b>Proposed 2005/2006 Budget</b>
<b>Revenues and Grants</b>	<b>40.1</b>	<b>40.1</b>	<b>38.4</b>
<b>Revenue</b>	<b>37.1</b>	<b>37.9</b>	<b>36.1</b>
<b>Tax Revenue</b>	<b>32.4</b>	<b>33.2</b>	<b>31.6</b>
Customs	17.6	18.1	16.8
Income Tax	7.9	8.1	7.8
Sales Tax/VAT	5.9	6.1	5.8
Oil Levy	0.7	0.7	0.7
Other tax revenues	0.2	0.2	0.4
<b>Non-tax revenue</b>	<b>4.7</b>	<b>4.6</b>	<b>4.5</b>
Water Royalty	2.1	1.9	2.0
Other non-tax	2.6	2.8	2.6
<b>Grants</b>	<b>3.0</b>	<b>2.2</b>	<b>2.3</b>
Project Grants	2.4	1.8	2.3
Budgetary Support	0.6	0.4	0.0
<b>Expenditure &amp; Net lending</b>	<b>37.9</b>	<b>36.9</b>	<b>40.5</b>
<b>Recurrent Expenditure</b>	<b>30.6</b>	<b>29.8</b>	<b>31.7</b>
<b>Wages and Salaries</b>	<b>10.7</b>	<b>11.0</b>	<b>11.3</b>
<b>Other Purchases</b>	<b>18.0</b>	<b>17.6</b>	<b>19.0</b>
Transfers and Subsidies	7.3	7.5	8.6
Other Goods and Services	10.8	10.0	10.4
<b>Interest Payments</b>	<b>1.9</b>	<b>1.3</b>	<b>1.4</b>
Foreign Debt	0.8	0.7	0.7
Domestic Debt	1.1	0.6	0.7
<b>Capital Expenditure</b>	<b>7.4</b>	<b>7.1</b>	<b>8.9</b>
<b>GoL Funded</b>	<b>3.2</b>	<b>3.4</b>	<b>4.2</b>
<b>Externally Funded</b>	<b>4.2</b>	<b>3.7</b>	<b>4.6</b>
Grant Funded	2.4	1.8	2.3
Loan Funded	1.8	1.9	2.3
<b>Net Lending</b>	<b>-0.2</b>	<b>0.0</b>	<b>-0.1</b>
<b>Overall deficit before grants</b>	<b>-0.7</b>	<b>1.0</b>	<b>-4.4</b>
<b>Overall deficit after grants</b>	<b>2.2</b>	<b>3.2</b>	<b>-2.1</b>
<b>Total Financing</b>	<b>-2.2</b>	<b>-3.2</b>	<b>2.1</b>
<b>Foreign Financing</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-1.3</b>
Loan Drawings	1.8	1.9	2.3
Amortization (Loan repayment)	-2.2	-2.3	-3.7
<b>Domestic Financing</b>	<b>-1.8</b>	<b>3.6</b>	<b>3.5</b>

<b>Annex 1E: Economic Classification of Budget 2005/2006 (Percentages)</b>			
<b>Budget Item</b>	<b>Approved 2004/2005 Budget</b>	<b>Projected 2004/2005 Outturn</b>	<b>Proposed 2005/2006 Budget</b>
	<b>Percent of Total Revenue</b>		
<b>Revenues and Grants</b>	<b>108.0</b>	<b>104.8</b>	<b>106.4</b>
<b>Revenue</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Tax Revenue</b>	<b>87.2</b>	<b>87.7</b>	<b>87.4</b>
Customs	47.5	47.9	46.7
Income Tax	21.3	21.5	21.7
Sales Tax/VAT	16.0	16.0	16.2
Oil Levy	1.9	2.0	1.9
Other Tax Revenues	0.4	0.4	1.0
<b>Non-tax revenue</b>	<b>12.8</b>	<b>12.3</b>	<b>12.6</b>
Water Royalty	5.6	5.0	5.5
Other non-tax	7.1	7.3	7.1
<b>Grants</b>	<b>8.0</b>	<b>4.8</b>	<b>6.4</b>
Project Grants	6.4	1.1	6.4
Budgetary Support	1.5	0.0	0.0
	<b>Percent of Total Expenditure</b>		
<b>Expenditure &amp; Net lending</b>	<b>99.6</b>	<b>100.1</b>	<b>99.8</b>
<b>Recurrent Expenditure</b>	<b>80.6</b>	<b>80.8</b>	<b>78.2</b>
<b>Wages and Salaries</b>	<b>28.1</b>	<b>29.8</b>	<b>27.8</b>
<b>Other Purchases</b>	<b>47.5</b>	<b>47.6</b>	<b>46.8</b>
Transfers and Subsidies	19.1	20.5	21.1
Other Goods and Services	28.4	27.1	25.6
<b>Interest Payments</b>	<b>5.0</b>	<b>3.4</b>	<b>3.6</b>
Foreign Debt	2.2	1.9	1.8
Domestic Debt	2.8	1.5	1.7
<b>Capital Expenditure</b>	<b>19.4</b>	<b>19.2</b>	<b>21.8</b>
<b>GoL Funded</b>	<b>8.3</b>	<b>9.2</b>	<b>10.4</b>
<b>Externally Funded</b>	<b>11.1</b>	<b>10.0</b>	<b>11.5</b>
Grant Funded	6.3	4.9	5.7
Loan Funded	4.8	5.1	5.8
<b>Net Lending</b>	<b>-0.4</b>	<b>0.1</b>	<b>-0.2</b>

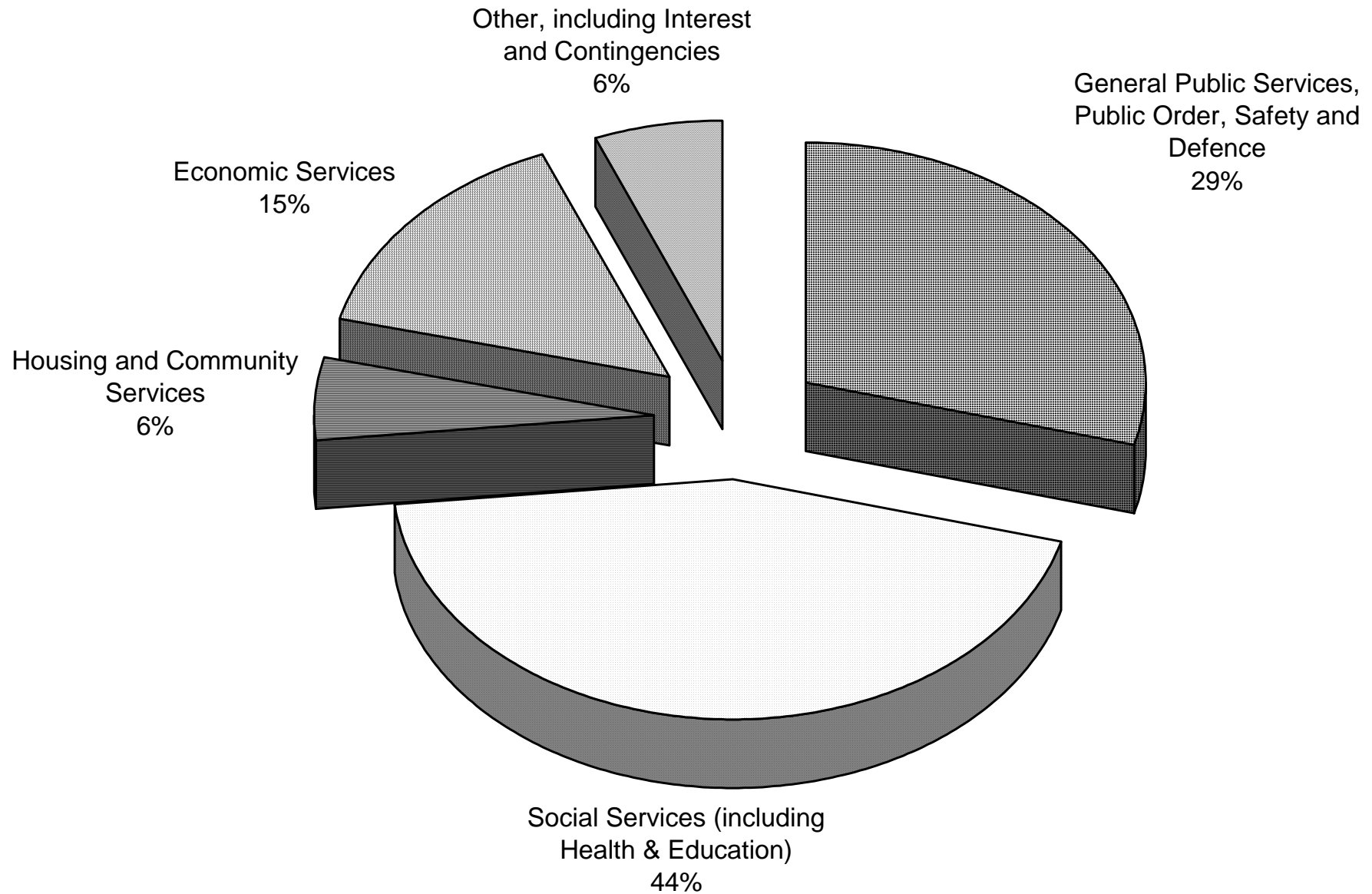


<b>Annex 2A: 2005/2006 Budget, Functional Classification of Total Expenditure (million maloti in current prices)</b>						
	<b>Budget for 04/05</b>	<b>Budget for 05/06</b>	<b>Budget for 04/05 % of GDP</b>	<b>Budget for 05/06% of GDP</b>	<b>Budget for 05/06 % Increase</b>	<b>Budget for 05/06 % of Total</b>
<b>General Public Services, Public</b>						
<b>Order, Safety and Defence</b>	<b>1,255.3</b>	<b>1,395.1</b>	<b>14.0</b>	<b>14.5</b>	<b>11.1</b>	<b>29.2</b>
General Public Services	588.3	710.1	6.5	7.4	20.7	14.9
Defence	215.4	217.9	2.4	2.3	1.1	4.6
Public Order and Safety	451.6	467.1	5.0	4.9	3.4	9.8
<b>Social Services</b>	<b>1,937.5</b>	<b>2,110.1</b>	<b>21.6</b>	<b>22.0</b>	<b>8.9</b>	<b>44.1</b>
Public Health Affairs and Services	346.6	388.4	3.9	4.1	12.0	8.1
Social security and Welfare Affairs	274.9	349.3	3.1	3.6	27.1	7.3
Education, Culture and Recreation	1,316.0	1,372.4	14.6	14.3	4.3	28.7
<i>Of Which Education</i>	1,229.6	1,254.2	13.7	13.1	2.0	26.2
<b>Housing and Community Services</b>	<b>182.6</b>	<b>265.5</b>	<b>2.0</b>	<b>2.8</b>	<b>45.4</b>	<b>5.6</b>
<b>Economic Services</b>	<b>587.0</b>	<b>713.8</b>	<b>6.5</b>	<b>7.4</b>	<b>21.6</b>	<b>14.9</b>
Agriculture	141.1	171.6	1.6	1.8	21.6	3.6
Forestry and Land Reclamation	36.6	38.6	0.4	0.4	5.4	0.8
Natural Resources	23.6	39.9	0.3	0.4	69.3	0.8
Trade and Industry	78.1	57.6	0.9	0.6	-26.2	1.2
Tourism: Admin	23.2	24.1	0.3	0.3	3.8	0.5
Other Economic Affairs	284.4	382.0	3.2	4.0	34.3	8.0
<b>Other, including Interest and Contingencies</b>	<b>373.0</b>	<b>297.2</b>	<b>4.1</b>	<b>3.1</b>	<b>-20.3</b>	<b>6.2</b>
<b>Total</b>	<b>4,335.4</b>	<b>4,781.7</b>	<b>48.2</b>	<b>49.9</b>	<b>10.3</b>	<b>100.0</b>

<b>Annex 2B: 2005/2006 Budget, Functional Classification Recurrent Expenditure (Million Maloti in current prices)</b>						
	<b>Budget for 04/05</b>	<b>Budget for 05/06</b>	<b>Budget for 04/05 % of GDP</b>	<b>Budget for 05/06% of GDP</b>	<b>Budget for 05/06 % Increase</b>	<b>Budget for 05/06 % of Total</b>
<b>General Public Services, Public</b>						
<b>Order, Safety and Defence</b>	<b>1,108.0</b>	<b>1,170.3</b>	<b>12.3</b>	<b>12.2</b>	<b>5.6</b>	<b>31.3</b>
General Public Services	449.0	521.3	5.0	5.4	16.1	13.9
Defence	215.4	217.9	2.4	2.3	1.1	5.8
Public Order and Safety	443.6	431.1	4.9	4.5	-2.8	11.5
<b>Social Services</b>	<b>1,637.6</b>	<b>1,859.0</b>	<b>18.2</b>	<b>19.4</b>	<b>13.5</b>	<b>49.7</b>
Public Health Affairs and Services	264.2	324.4	2.9	3.4	22.8	8.7
Social security and Welfare Affairs	259.9	349.3	2.9	3.6	34.4	9.3
Education, Culture and Recreation	1,113.5	1,185.3	12.4	12.4	6.4	31.7
<i>Of Which Education</i>	1,063.9	1,128.6	11.8	11.8	6.1	30.2
<b>Housing and Community Amenity</b>	<b>83.4</b>	<b>96.6</b>	<b>0.9</b>	<b>1.0</b>	<b>15.8</b>	<b>2.6</b>
<b>Economic Services</b>	<b>290.8</b>	<b>315.1</b>	<b>3.2</b>	<b>3.3</b>	<b>8.4</b>	<b>8.4</b>
Agriculture	101.7	122.6	1.1	1.3	20.6	3.3
Forestry and Land Reclamation	28.8	30.7	0.3	0.3	6.8	0.8
Natural Resources	19.1	19.4	0.2	0.2	1.6	0.5
Trade and Industry	37.5	40.6	0.4	0.4	8.4	1.1
Tourism: Admin	23.2	24.1	0.3	0.3	3.8	0.6
Other Economic Affairs	80.6	77.7	0.9	0.8	-3.6	2.1
<b>Other, including Interest and Contingencies</b>	<b>373.0</b>	<b>297.2</b>	<b>4.1</b>	<b>3.1</b>	<b>-20.3</b>	<b>8.0</b>
<b>Total</b>	<b>3,492.7</b>	<b>3,738.2</b>	<b>38.9</b>	<b>39.0</b>	<b>7.0</b>	<b>100.0</b>

<b>Annex 2C: 2005/2006 Budget, Functional Classification of Development Expenditure (million maloti in current prices)</b>						
	<b>Budget for 04/05</b>	<b>Budget for 05/06</b>	<b>Budget for 04/05 % of GDP</b>	<b>Budget for 05/06 % of GDP</b>	<b>Budget for 05/06 % Increase</b>	<b>Budget for 05/06 % of Total</b>
<b>General Public Services, Public</b>						
<b>Order, Safety and Defence</b>	<b>147.4</b>	<b>224.8</b>	<b>1.6</b>	<b>2.3</b>	<b>52.5</b>	<b>21.5</b>
General Public Services	139.4	188.8	1.6	2.0	35.5	18.1
Defence	0.0	0.0	0.0	0.0	-	0.0
Public Order, Safety, and Defence	8.0	36.0	0.1	0.4	350.0	3.4
<b>Social Services</b>	<b>299.9</b>	<b>251.1</b>	<b>3.3</b>	<b>2.6</b>	<b>-16.3</b>	<b>24.1</b>
Public Health Affairs and Services	82.4	64.0	0.9	0.7	-22.4	6.1
Social security and Welfare Affairs	15.0	0.0	0.2	0.0	-100.0	0.0
Education, Culture and Recreation	202.5	187.1	2.3	2.0	-7.6	17.9
<i>Of Which Education</i>	165.7	125.6	1.8	1.3	-24.2	12.0
<b>Housing and Community Amenity</b>	<b>99.2</b>	<b>168.9</b>	<b>1.1</b>	<b>1.8</b>	<b>70.3</b>	<b>16.2</b>
<b>Economic Services</b>	<b>296.2</b>	<b>398.7</b>	<b>3.3</b>	<b>4.2</b>	<b>34.6</b>	<b>38.2</b>
Agriculture	39.4	49.0	0.4	0.5	24.2	4.7
Forestry and Land Reclamation	7.9	7.9	0.1	0.1	0.2	0.8
Natural Resources	4.5	20.5	0.0	0.2	358.5	2.0
Trade and Industry	40.6	17.0	0.5	0.2	-58.1	1.6
Tourism: Admin	0.0	0.0	0.0	0.0	-	0.0
Other Economic Affairs	203.8	304.3	2.3	3.2	49.3	29.2
<b>Other, including Interest and Contingencies</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>
<b>Total</b>	<b>842.7</b>	<b>1,043.5</b>	<b>9.4</b>	<b>10.9</b>	<b>23.8</b>	<b>100.0</b>

## Annex 2D: Functional Classification of 2005/2006 Budget (Percentage Shares)



**Annex 3A: Recurrent and Development Budget for Fiscal Year 2005/2006: Sectoral Allocations (Million Maloti)**

	2004/2005 Budget (approved)						2005/2006 Budget (proposed)					
	Recur rent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total budget financed by GOL	Recur rent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total budget financed by GOL
<b>Ministry/ Cost Centre</b>												
Education and Training	787.0	165.7	48.1	117.6	952.6	835.0	841.9	125.6	40.1	85.5	967.5	882.0
Finance and Development Planning	452.5	101.1	57.8	43.3	553.5	510.2	490.0	115.4	36.9	78.5	605.4	526.9
Health and Social Welfare	261.9	59.9	11.9	48.1	321.8	273.7	321.1	51.6	12.5	39.1	372.7	333.6
Public Works and Transport	122.6	166.1	73.9	92.2	288.7	196.5	126.9	264.5	160.0	104.5	391.4	286.9
Interest Charges	216.1	0.0	0.0	0.0	216.1	216.1	170.4	0.0	0.0	0.0	170.4	170.4
Defence and National Security	215.4	0.0	0.0	0.0	215.4	215.4	217.9	0.0	0.0	0.0	217.9	217.9
Home Affairs and Public Safety	196.9	5.0	5.0	0.0	201.9	201.9	194.8	0.0	0.0	0.0	194.8	194.8
Pensions and Gratuities	186.7	0.0	0.0	0.0	186.7	186.7	281.0	0.0	0.0	0.0	281.0	281.0
Contingencies	150.0	0.0	0.0	0.0	150.0	150.0	106.4	0.0	0.0	0.0	106.4	106.4
Agriculture & Food Security	101.7	39.4	9.2	30.2	141.1	110.9	122.6	49.0	6.5	42.5	171.6	129.1
Foreign Affairs	127.1	0.0	0.0	0.0	127.1	127.1	145.3	0.0	0.0	0.0	145.3	145.3
Local Government	101.4	24.4	15.8	8.6	125.8	117.2	138.2	60.9	46.4	14.5	199.1	184.6
Natural Resources	45.0	69.2	14.0	55.2	114.1	58.9	51.5	119.9	26.3	93.6	171.4	77.8
Independent Electoral Commission	108.6	0.0	0.0	0.0	108.6	108.6	52.9	0.0	0.0	0.0	52.9	52.9
Justice, Human Rights and Rehabilitation	91.3	0.0	0.0	0.0	91.3	91.3	104.0	0.0	0.0	0.0	104.0	104.0
Prime Minister's Office	44.6	40.5	8.0	32.5	85.1	52.6	52.3	48.3	12.0	36.3	100.6	64.3
Trade and Industry, Cooperatives and Marketing	37.5	40.6	40.3	0.3	78.1	77.8	40.6	17.0	15.0	2.0	57.6	55.6
Tourism, Environment and Culture	30.8	44.0	5.6	38.4	74.8	36.4	32.4	37.0	12.0	29.0	69.4	44.4
Lesotho Highlands Water Project	0.0	58.2	52.4	5.8	58.2	52.4	0.0	109.3	104.0	1.3	109.3	104.0
Gender, Youth, Sports and Recreation	25.6	16.2	6.5	9.7	41.8	32.1	29.0	7.5	7.5	0.0	36.5	36.5
Communications, Science and Technology	35.8	4.0	4.0	0.0	39.8	39.8	40.7	29.5	9.5	20.0	70.2	50.2
Forestry and Land Reclamation	28.7	7.9	7.1	0.8	36.6	35.9	30.7	7.9	7.1	0.8	38.6	37.9
Law and Constitutional Affairs	28.4	0.0	0.0	0.0	28.4	28.4	33.8	0.0	0.0	0.0	33.8	33.8
National Assembly	23.7	0.0	0.0	0.0	23.7	23.7	30.7	0.0	0.0	0.0	30.7	30.7
Employment and Labour	18.3	0.0	0.0	0.0	18.3	18.3	20.9	0.0	0.0	0.0	20.9	20.9
Public Service	15.7	0.0	0.0	0.0	15.7	15.7	13.9	0.0	0.0	0.0	13.9	13.9
Auditor General's Office	10.0	0.0	0.0	0.0	10.0	10.0	11.2	0.0	0.0	0.0	11.2	11.2
Senate	9.4	0.0	0.0	0.0	9.4	9.4	9.5	0.0	0.0	0.0	9.5	9.5
His Majesty's Office	7.4	1.2	1.2	0.0	8.6	8.6	7.1	0.0	0.0	0.0	7.1	7.1
Statutory Salaries and Allowances	7.0	0.0	0.0	0.0	7.0	7.0	10.0	0.0	0.0	0.0	10.0	10.0
Public Service Commission	3.3	0.0	0.0	0.0	3.3	3.3	3.5	0.0	0.0	0.0	3.5	3.5
Ombudsman	3.2	0.0	0.0	0.0	3.2	3.2	3.3	0.0	0.0	0.0	3.3	3.3
Refunds on erroneous receipts	2.0	0.0	0.0	0.0	2.0	2.0	2.0	0.0	0.0	0.0	2.0	2.0
Subscriptions to International Institutions	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0	0.0	0.0	1.9	1.9
<b>Total</b>	<b>3,495.6</b>	<b>843.3</b>	<b>360.6</b>	<b>482.7</b>	<b>4,338.9</b>	<b>3,856.2</b>	<b>3,738.2</b>	<b>1,043.4</b>	<b>495.8</b>	<b>547.6</b>	<b>4,781.6</b>	<b>4,234.0</b>
Principal Repayments	527.0	0.0	0.0	0.0	527.0	527.0	433.2	0.0	0.0	0.0	433.2	433.2
<b>Grant Total</b>	<b>4,022.6</b>	<b>843.3</b>	<b>360.6</b>	<b>482.7</b>	<b>4,865.9</b>	<b>4,383.2</b>	<b>4,171.4</b>	<b>1,043.4</b>	<b>495.8</b>	<b>547.6</b>	<b>5,214.8</b>	<b>4,667.2</b>

**Annex 3B: Recurrent and Development Budget for Fiscal Year 2005/2006: Sectoral Allocations (Percent)**

Ministry/ Cost Centre	2004/2005 Budget						2005/2006 Budget					
	Recur rent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans	Total Budget	Total budget financed by GOL	Recur rent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans	Total Budget	Total budget financed by GOL
Education and Training	22.5	19.6	13.3	24.4	22.0	21.7	22.5	12.0	8.1	15.6	20.2	20.8
Finance and Development Planning	12.9	12.0	16.0	9.0	12.8	13.2	13.1	11.1	7.4	14.3	12.7	12.4
Health and Social Welfare	7.5	7.1	3.3	10.0	7.4	7.1	8.6	4.9	2.5	7.1	7.8	7.9
Public Works and Transport	3.5	19.7	20.5	19.1	6.7	5.1	3.4	25.3	32.3	19.1	8.2	6.8
Interest Charges	6.2	0.0	0.0	0.0	5.0	5.6	4.6	0.0	0.0	0.0	3.6	4.0
Defence and National Security	6.2	0.0	0.0	0.0	5.0	5.6	5.8	0.0	0.0	0.0	4.6	5.1
Home Affairs and Public Safety	5.6	0.6	1.4	0.0	4.7	5.2	5.2	0.0	0.0	0.0	4.1	4.6
Pensions and Gratuities	5.3	0.0	0.0	0.0	4.3	4.8	7.5	0.0	0.0	0.0	5.9	6.6
Contingencies	4.3	0.0	0.0	0.0	3.5	3.9	2.8	0.0	0.0	0.0	2.2	2.5
Agriculture & Food Security	2.9	4.7	2.6	6.3	3.3	2.9	3.3	4.7	1.3	7.8	3.6	3.0
Foreign Affairs	3.6	0.0	0.0	0.0	2.9	3.3	3.9	0.0	0.0	0.0	3.0	3.4
Local Government	2.9	2.9	4.4	1.8	2.9	3.0	3.7	5.8	9.4	2.6	4.2	4.4
Natural Resources	1.3	8.2	3.9	11.4	2.6	1.5	1.4	11.5	5.3	17.1	3.6	1.8
Independent Electoral Commission	3.1	0.0	0.0	0.0	2.5	2.8	1.4	0.0	0.0	0.0	1.1	1.2
Justice, Human Rights and Rehabilitation	2.6	0.0	0.0	0.0	2.1	2.4	2.8	0.0	0.0	0.0	2.2	2.5
Prime Minister's Office	1.3	4.8	2.2	6.7	2.0	1.4	1.4	4.6	2.4	6.6	2.1	1.5
Trade and Industry, Cooperatives and Marketing	1.1	4.8	11.2	0.1	1.8	2.0	1.1	1.6	3.0	0.4	1.2	1.3
Tourism, Environment and Culture	0.9	5.2	1.6	8.0	1.7	0.9	0.9	3.5	2.4	5.3	1.5	1.0
Lesotho Highlands Water Project	0.0	6.9	14.5	1.2	1.3	1.4	0.0	10.5	21.0	0.2	2.3	2.5
Gender, Youth, Sports and Recreation	0.7	1.9	1.8	2.0	1.0	0.8	0.8	0.7	1.5	0.0	0.8	0.9
Communications, Science and Technology	1.0	0.5	1.1	0.0	0.9	1.0	1.1	2.8	1.9	3.7	1.5	1.2
Forestry and Land Reclamation	0.8	0.9	2.0	0.2	0.8	0.9	0.8	0.8	1.4	0.1	0.8	0.9
Law and Constitutional Affairs	0.8	0.0	0.0	0.0	0.7	0.7	0.9	0.0	0.0	0.0	0.7	0.8
National Assembly	0.7	0.0	0.0	0.0	0.5	0.6	0.8	0.0	0.0	0.0	0.6	0.7
Employment and Labour	0.5	0.0	0.0	0.0	0.4	0.5	0.6	0.0	0.0	0.0	0.4	0.5
Public Service	0.5	0.0	0.0	0.0	0.4	0.4	0.4	0.0	0.0	0.0	0.3	0.3
Auditor General's Office	0.3	0.0	0.0	0.0	0.2	0.3	0.3	0.0	0.0	0.0	0.2	0.3
Senate	0.3	0.0	0.0	0.0	0.2	0.2	0.3	0.0	0.0	0.0	0.2	0.2
His Majesty's Office	0.2	0.1	0.3	0.0	0.2	0.2	0.2	0.0	0.0	0.0	0.1	0.2
Statutory Salaries and Allowances	0.2	0.0	0.0	0.0	0.2	0.2	0.3	0.0	0.0	0.0	0.2	0.2
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
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
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	0.0
Subscriptions to International Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>