



PARLIAMENT OF THE KINGDOM OF LESOTHO

**THE RACE FOR JOBS, BETTER LIFE, HIGH AND
SUSTAINABLE GROWTH MUST BE WON**

**Budget Speech to Parliament for the
2008/2009 Fiscal Year**

By

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Maseru – Lesotho

13th February 2008

Madam Speaker

1. I have the honour to present to this Joint Session of both Houses of Parliament and before the Nation the Government's Statement of development policies and Budget Estimates for the fiscal year 2008/2009. As in the past, the Government expects that when the new financial year begins, the Budget will have been approved and that it will form the basis of **Accountability** and Report-back on its stewardship of the public finances.

Madam Speaker

2. The key message behind this Budget is simple:

Lesotho cannot afford to lose to other countries the race for jobs; the race for a better life for all its people; and the race for high, sustainable and shared economic growth.

What do we need to do to win this race? We need teamwork, partnerships and an investment conducive environment that can encourage local and foreign investors alike. Our traditional mindset for doing business must change. We must be agile and nimble in our actions to streamline procedures and processes for doing business; for building physical infrastructure; for reforming company registrations and licences; for issuing property leases and mortgages; for connecting telephones, water and electricity; for paying old age pensions; and for attending to the sick and indigent at hospitals and clinics. The children we sponsor at Tertiary institutions must excel academically; they must demonstrate discipline and passion for excellence. We must not accept or make excuses for mediocrity. In short, "Re tšoanela ho tata; re tšoanela ho sebetsa ka thata; Re tšoanela ho sebetsa kapele, le ho boloka nako ho ntšetsa meralo le merero pele (we need to hurry up; to work hard and on time to implement our plans and programmes)"!

3. But, **Madam Speaker**, the environment in which we run this race for jobs and a better future for our children **must be peaceful and devoid of social tensions and confrontations**. We must look back into our history and reflect on the values that formed the foundations of Basotho Nation at a difficult time of **lifaqane**. As our Former Prime Minister, The Right Honourable Dr. Ntsu Mokhehle, said when delivering **Moshoeshoe Memorial Lecture in March 1995**:

“The King (Moshoeshoe I) believed that there could never be any social harmony and economic progress without peace and any State which ignores this, is built on Sand. **PEACE IS LIKE RAIN WHICH MAKES THE GRASS GROW. WAR IS LIKE THE WIND THAT DRIES IT...** He (Moshoeshoe) strove for independence based on international comradeship since he adhered to his famous expression that **PEACE IS THE MOTHER OF NATIONS**”.

4. Let us heed these wise words and create a peaceful environment that is conducive to economic progress and social harmony. Let us resolve our differences **peacefully** and avoid indefinite or suspended work disruptions.

TAKING STOCK

Past Economic Performance Good, But it Needs Consolidation and Sustaining

5. During the 1990s, Lesotho’s economic growth was driven by infrastructure expenditures and activities associated with the construction of Lesotho Highlands Water Project. From 2000 onwards, there has been substantial expansion in manufacturing, especially in the textile and garment industry which now employ over 40,000 people. Since 2005 mining has kicked in with the reopening of Letšeng Diamond mine and new mines at Kao and Liqhobong. Agriculture and Tourism have, however, not contributed much to economic growth so far.

6. We have made significant recovery in the last ten years since the 1998 riots that destroyed valuable assets and drove away many investors. In 2006, economic growth reached a high of 7.2% and is expected to be around 5.1% in 2007 and 7.0 in 2008. Our challenge is to consolidate and make this commendable performance sustainable by:
- Building our economic infrastructure of urban and rural roads; telecommunications; water, and power;
 - Continuing to invest in health and education while insisting on high quality skills and better results in sciences, maths, engineering and IT systems;
 - Unleashing the energies of private sector through reduction of red tape and high costs of doing business;
 - Overcoming the financing constraints for small, micro and medium enterprises, particularly, for women and youth; and,
 - Diversifying our export products and markets.

Challenges and Risks Ahead

7. There are some challenges ahead that require us to be smart, innovative and aggressive in our export drive. We cannot continue on business as usual. First, the global trading regime has been opened to large, experienced and aggressive competitors such as Vietnam, Cambodia, Bangladesh, India and China. Preferences for African Textile exports must now compete with historically strong exporters with low production cost, high quality and timely delivery of orders. The challenge for us is to work smarter and learn to partner with these successful competitors so that we can learn their production, management and marketing skills and techniques.
8. The second risk is our overdependence (over 60%) on SACU revenues. A slowdown in the South African economy and a global reduction in tariffs as a result of trade liberalization will affect the size of the SACU Revenue pool negatively, hence our share. In addition, the creation of SADC Free Trade Area in August this year and Customs Union in 2010 may change the SACU Revenue sharing formula. Furthermore, South Africa has given notice of its desire to renegotiate the revenue sharing formula. This means that we must

be prudent in managing our revenue windfalls and put away some into Reserves for a rainy day.

9. The third risk is from the activities of many unlicensed schemes that take hard-earned savings of our people and disappear with them across the border. Some have exploited loopholes and weaknesses in our laws and financial regulations. Thusano, Letsema, Young Stars and others come to mind. Unlicensed schemes promise huge returns that no honest investment can provide in order to attract deposits. They exploit the ignorance and desire of our people to get out of poverty quickly but in the end they leave them more impoverished. In the coming year, the Government will review our regulation and supervision laws in order to ensure adequate regulation and supervision of these entities that take deposits from the public. It will also be necessary to do thorough background checks on their sponsors as well as train our law enforcement organs accordingly. In Albania the operations of unlicensed schemes caused the collapse of an elected Government in addition to leaving depositors helpless.

Building a Conducive Investment Climate is a Long Process

10. The Government's development philosophy is clear. Government finances are limited because they come from taxes. They must therefore be used wisely to create infrastructure; human skills; effective institutions of governance, law enforcement and accountability that will encourage local and foreign private investors to invest their savings in productive economic activities and services in our country. That is why in my Budget Statement last year, I emphasized the Government's programme to build a Minimum Infrastructure Platform (MIP) to support enhanced investment by the private sector.
11. A number of actions have been taken this year to reduce the cost of doing business. A one-stop shop has been created to reduce the number of steps required to register and licence companies by the Ministry of Trade and Industry, Cooperatives and Marketing. Streamlining of import and export procedures to obtain export permits have been reduced from several days to 15 minutes by bringing LRA and Trade officials under one roof and by delegating the Principal

Secretary's authority to them. Also, Exporters do not have to apply for rebates in respect of each item anymore. An application for manufacturing licence that took 16 pages to fill has been reduced to two. Where traders used to fill 5 pages of applications they now require one. These are a few examples of how we can speed up things.

12. Serious consideration is now being given to bringing all the services that have to do with vehicles under one roof. These will include registration, licensing, testing, VAT, Police Clearance, Drivers Licences, etc. Such a move will reduce fraud and make it easier for law-abiding citizens to register their vehicles quickly and to obtain drivers licences without running from office to office.
13. The creation of a Government complex where all public services can be obtained in the districts will also be considered in the coming year. Effective from April 2008 all Sub-Accountancies in the districts will open from 8.00 am through lunch time and up to 4.30 pm in order to serve the public better. There is no reason why they should close at 3.00 pm.
14. The Ministry of Home Affairs, with the support of The World Bank and the Millennium Challenge Corporation is working on introducing the National Identity Cards that are essential for business. They are also working on reducing the delays in issuing work and residence permits.
15. The Ministries of Home Affairs and Public Safety, and of Parliamentary Affairs and of Finance and Development Planning through the LRA will be launching a M35 million Project next week to refurbish and construct additional facilities to ease traffic congestion at Maseru and Maputsoe Bridges. Another M150 million will be spent over the next two to three years to improve public facilities at other Border Crossings. These improvements will facilitate the free movement of people initiative signed for by the Right Honourable Prime Minister and President Mbeki and the One-Stop border initiative being designed by the Revenue Authorities of Lesotho and South Africa. These initiatives will significantly reduce the time and burden on exporting Lesotho's goods through South Africa.
16. Government has also been concerned about the access to and cost of finance by the small entrepreneurs and the youth in the informal and rural sectors. A number of initiatives are underway to address

this problem First, the Government will engage the commercial banks on how best to deliver credit and training to small entrepreneurs, especially women and youth. The Ministry of Gender, Youth and Sports has launched with the support of the Commonwealth, a pilot project to train young people to run their own businesses with injection of micro loans. If successful, it will be expanded country-wide. The Millennium Challenge Corporation will also make funds available to support small women entrepreneurs including women who work in the markets.

17. To provide financial services in the rural and mountain areas, the Government has partnered with the International Fund for Agricultural Development (IFAD) to strengthen the management of the Postbank and expand its branch network to these areas. LNDC is also finalizing a Credit Guarantee Scheme to underwrite the lack of collateral by SMMEs.
18. Lastly, to build an investor friendly environment also needs the creation of a secure and safe environment that is free from crime and other lawlessness. Our Police, have been working hard, under difficult conditions, at the forefront of this exercise of law enforcement. The Government has asked the Commissioner of Police to develop a Medium Term Programme of improvement, modernization, equipping and training of Police so that their needs can be addressed in a systematic and holistic manner. As a start, for this year an allocation of M50 million has been included in the Budget to address their immediate needs of uniforms and transport and to establish a dedicated fire brigade that will in time extend to all the urban capitals.

Madam Speaker

19. These are examples of Government's focus to create a conducive and supportive business environment for small and medium enterprises and for making Lesotho a better place in which to do business.

The Way Forward

Madam Speaker

20. The economic outlook for Lesotho is positive and stable although there are some risks that must be managed ahead. This outlook has been affirmed for the third year in a row by the independent market rating agency “FITCH Rating Agency” last August. FITCH rated Lesotho “BB- with stable outlook”. It placed Lesotho in the same rating category with countries such as Gabon, Indonesia and Turkey and above Ghana.
21. In the same way, the United States Government Millennium Challenge Corporation (MCC) has assessed Lesotho for continued eligibility for Grant Assistance from MCC. It assessed it against three criteria:
 - **Ruling Justly**, by observing the Rule of Law, Political and Civil Liberties and Fighting Corruption;
 - **Investing in People**, as measured by immunizations, expenditures on primary education and girls’ completion rates in primary schools; and,
 - **Economic Freedom** as measured by the quality of financial regulations, land rights and access, business start up, fiscal and trade policies.

In the last two years Lesotho has ranked among the top five countries out of seventeen eligible countries. In Africa it has ranked first.
22. As a result of these ratings, the MCC signed a Compact with Lesotho last July giving it a grant of \$362.5 million or over M2.5 billion to be spent within five years. The European Commission has also recognized Lesotho’s good governance and agreed to increase its Indicative Aid allocation under European Development Fund (EDF) 10 by 25% to €135 million. Equally, the Arab Funds (i.e. BADEA, Kuwait Fund, OPEC Fund, and SAUDI Fund) have agreed to fund the design and construction of Metolong dam which will supply water to

Maseru, Roma, Morija and Maseru. In addition to construction of the National Parliament, China has increased its commitment to Lesotho by adding two secondary schools and \$30 million soft loan for telecommunications upgrading and expansion. Japan and Ireland have continued their strong support to Lesotho together with a new partner, Cyprus. The support of the Clinton Foundation, Baylor College of Medicine, Columbia University, the Global Fund and other NGOs in the fight against HIV and AIDS and training has continued strongly.

23. All these commitments by bilateral, multilateral and non-governmental agencies provide Lesotho with a good base from which to accelerate growth, improve health conditions, expand education and create jobs. The challenge, which Government is prepared for, is to effectively coordinate and monitor the use of all these resources and to account for them.

2008/2009 Budget Priorities and Allocation

24. The Government will continue to focus its expenditure plans in this budget period on construction and maintenance of urban and rural roads; rural and urban water supplies; expansion of electricity and telecommunications; improvement in the quality of and access to health and education at primary and secondary school levels. In terms of sectors, expenditures will be directed towards manufacturing, tourism and agro-industries. A major initiative in the public sector will be the reform of the Pension system which entails a switch from the unfunded Defined Benefit Scheme to Pre-funded Defined Contribution Scheme. Its launch will create space in the future to finance an increasing share of our development needs.
25. To address the competitiveness needs and to deepen local skills in the Textile and Garment sectors, two Skills Development Centres are being established at Maputsoe and Maseru. About 300 sewing machines have already been acquired for these centres. In addition, the Government will work closely with the Lesotho Textiles Exporters Association to diversify the markets and to develop new products.
26. Agriculture contributes less than 10% to the GDP but about 82% of the population still depends on it or live in the rural areas. The challenge is how to develop a well-targeted and measurable

programme for increasing output and developing firm marketing channels. In the coming year, the Government will focus on developing a clear and holistic programme that can be supported with a strong extension system. The Government has supported Block Farming this year with loans of up to M105 million from the Bank. It expects all farmers to repay all these loans. The funds to be collected will go towards the establishment of an Agricultural Development Fund. M208.8 million is proposed for Agriculture with M50.6 million earmarked for development expenditures. Given the unpredictability of the weather, Government expects irrigation to be at the top of the Ministry's initiatives.

Public Financial Reforms

Madam Speaker

27. I talked earlier about the importance of accountability to Parliament for the stewardship of public finances and the right of Parliament to exercise its oversight function through the audit of public accounts. Parliament cannot exercise its function or Government its role to account for the amounts of moneys collected from the public in the form of taxes and for the use to which those funds have been put unless there are good and regularly monitored or audited financial systems that have been put in place and are working properly in the Treasury. The evidence that these systems are working well is when the Public Accounts are produced and audited on time and with unqualified opinion.
28. In the case of Lesotho the last unqualified Public Accounts were produced over 35 years ago. Since then, public accounts have been produced late, in batches of three years and with heavy qualifications by the Auditor General. As time went on, the errors and omissions in one set of accounts have become compounded in succeeding periods as earlier records disappear and people with firsthand knowledge of what happened also disappear through retrenchments and deaths.

Madam Speaker

29. This situation cannot go on unchecked. The Government has decided to tackle the problem once and for all. It will not be easy, but it must be faced head on. We have therefore embarked on a public financial management reform programme that encompass the following components:
- Planning and budgeting;
 - Accounting and auditing;
 - Procurement; and,
 - The clearance of a backlog of accounts for 1996/97 to 2000/01 through the preparation of a Financial Statement of Affairs.
30. The Budget, which has been circulated to Honourable Members will change significantly in the future as we move from focus on inputs such as salaries, transport, vehicles, drugs and dressings, fuel, etc to outputs and results. Instead, the Budget will focus on what has to be achieved by each Ministry and at what cost. Ministries will be required to indicate what they planned to achieve over the next three years and the associated costs. Portfolio Committees can then monitor what the Ministry plans to achieve for this country through the use of public funds. This is the essence of what I have previously called "The Medium Term Expenditure Framework". Next year's Budget will be presented in this format following a review by the Budget Committee and by the Cabinet.
31. Lesotho has had a poor record of public accountability that dates as far back as 1974/75. Since then there has been late or non-submission of public accounts for Parliament to scrutinize. When the democratic Government came in 1993 it made every effort, without success, to correct this situation. In an effort to put an end to this problem, Parliament authorized me to prepare accounts from 2001/2002 onwards while working on the backlog of 1996/97 to 2000/01.
32. The audited accounts for 2001/02 and 2002/03 have been submitted to Parliament. I will soon table those of 2002/2003. The ones for 2003/2004 have also been completed and submitted to Parliament. Those of 2004/2005 and 2005/2006 are under audit, while those for

the year ending March 31, 2007 will be submitted for audit before the end of next month.

Madam Speaker

33. Although the Government is beginning to comply with the legal requirements to prepare and submit accounts for audit, their accuracy is undermined by the accumulated errors, omissions and mispostings of the last three decades. There is an urgent need to address this problem and the Government is fully determined to do so. I will address this Honourable House on this matter later in the session.
34. An important reform that is underway involves the replacement of the accounting system in the Treasury which is popularly known as GOLFIS (Government of Lesotho Financial Information System). The system has become problematic and vulnerable to catastrophic failure. With the support of our Development Partners, we will introduce by September 1, 2008 a new and much more sophisticated system called IFMIS (Integrated Financial Management Information System) This system will be fully automated and decentralized to the Ministries. It will ensure that all procurement requirements have been met and funds are available for commitment. It will also track the payments to suppliers. With this system in place, it will be easier for the Treasury and for the office of the Auditor General to meet their legal requirements.
35. Procurement has already been decentralized from the Ministry of Finance and Development Planning. The role of Finance has changed from control to compliance monitoring. But, to reap the full benefits, we have to intensify the training. The Institute of Development Management in cooperation with the Chartered Institute of Purchase and Supply (CIPS) in the UK is offering certified training in Procurement. 32 public servants have already attained this certificate while 25 others are at various levels of study. The Centre for Accounting Studies enrolled over 76 students in 2007 for certified training in Chartered Institute for Public Finance and Accountancy. It will enrol 150 later this year, with training also decentralized to regional centres of Leribe and Mohale's Hoek.

Medium Term Key Issues and Priorities and allocations for 2008/2009

36. The 2008/09 budget estimates propose total expenditure of M9,095.9 million of which M6,956.7 million is recurrent budget and M2,157.1 million is capital budget. These expenditures will be financed through Government Revenue of M8,006.0 million, Grants from Lesotho's Development Partners and soft external loans of M690.5 million and M354.8 million, respectively. This results in a budget deficit of M399.4 million or 3.0 percent of GDP.
37. The Government will continue to focus its expenditure plans in this budget period on improvement of the investment climate. The specific actions to be supported will include infrastructure development including construction and maintenance of urban and rural roads, rural and urban water supplies; expansion of access to electricity; improvement in the quality and access to health and education at primary, secondary, and tertiary levels.
38. For the construction and maintenance of urban and rural roads M687.0 million has been set aside. To support further private sector development and the creation of a conducive environment for local and foreign investment, M63 million has been set aside to finance industrial infrastructure development in Maseru and strengthening of the legal and institutional framework. A related allocation has been set aside for solid and liquid waste management in the amount of M20.0 million. M263.0 million has also been set aside for rural and urban water supply, including M212.7 million for the construction of the Metolong Dam and related infrastructure.
39. In the education sector, the budget proposes M1,997.7 million (22 percent of the budget) to consolidate free primary education and its impact on teacher training; expansion of classrooms at primary; the introduction of a programme for the expansion of secondary schooling and to finance tertiary education through the provision of bursaries and subvention. To expand Lesotho's technical skills development, arrangements are underway to open the Limkokwing University of Design and Technology. M35.0 million has been set aside to finance loan bursaries for this university.

40. The requirements for funding loan bursaries have over the years increased sharply, driven by various factors. Institutions at which scholarships are tenable have continued to increase fees, posing a major challenge to Government in the provision of bursaries to all students in international and local institutions. Over the coming year, Government will restructure and strengthen the management of the loan bursary scheme in order to achieve transparency and predictability.
41. The budget further proposes M991.4 million for the health sector, of which M74.0 million will be for HIV and TB control. The key areas that will be addressed in health will be free access to services and drugs, replacement of the Queen Elizabeth II hospital and the strengthening of the management of the existing hospitals and clinics. The construction of the replacement of Queen Elizabeth II Hospital will also begin under Private Public Partnership.
42. The current power shortages being experienced in South Africa will most likely affect Lesotho's electricity supply coming from South Africa, particularly during the winter months when consumption is high. During the coming year, the Government will study the power supply situation and the possibilities for increasing our local hydro power production to counter the possible supply disruptions. In the meantime, M26 million will be utilised for rural electrification in 2008/2009.

Pension Reform

Madam Speaker

43. The most fundamental reform in our Public Service Finances is the Pension for Public Servants. Currently, the Government operates an unfunded pension scheme that promises a certain pension when a person retires. That pension will be paid from the Recurrent Budget of that year. There are two risks that surround our current pension system. If there happens to be unforeseen emergency demands on that year's Budget, the Government of that day may suspend or reduce the pension, thereby causing undue hardship on the pensioner. Another feature of this scheme is that when the pensioner

dies, the pension also ceases thereby leaving the spouse or the children without any benefit. The reform which Government is introducing is to change the pension scheme from the unfunded one, to a Pre-funded one where the Government and the employee make annual contributions that go into a Fund that is then invested. At retirement, a pensioner will receive a share of that Fund plus interest based on his or her years of service. That pension can be left to his spouse or children at death.

44. There are currently about 37,000 employees in the public service and about 4,500 pensioners. Clearly the civil service is still very young and growing. At present, the liability to Government for the past service of these employees is about M4 billion. As most of them reach retirement, this liability will have grown so significantly that Government may have difficulty funding it.
45. The Government proposes to establish a Pension Fund to be administered by an Independent Board of Trustees. Based on what the Government can afford, it proposes to pay the existing liability of public servants 40 years of age and below which is about M600 million. This amount will be put into the new Pension Fund in the names of each and everyone 40 years of age and below. The staff will contribute 5% of their annual salary to this Fund, while Government will contribute 11.2%. Together, Government and the staff will contribute 16.2% of the current wage bill to the Pension Fund. Once it is fully operational, the scheme will result in a reduction in the annual recurrent budget, thereby creating financing space for more capital projects.
46. Why does the Government not include everyone? If we included everyone, the upfront liability would be M3.4 billion with additional annual contributions of M240million. If we cut off at 50 years and under, the upfront liability would be M1, 400 million with an annual Government contribution of M200 million. Clearly, the current size of our fiscus is not large enough to afford these. It was therefore decided that those who are above 40 years of age will continue to be administered under the current scheme of Defined Benefit until retirement. But if resources permit in the future they will also be considered for conversion into the Defined Contribution Scheme.

47. To illustrate the advantage of this change to public servants, let us take two people who are 40 years old. One converts to the new scheme while one remains under the old one. If their annual salary of M77, 316 remains unchanged until 60 years of age and the annual contributions of one are invested at 4% return. When the one who does not convert retires, he or she will be entitled to a total pension of M199,750. The one who converts at 40 years of age will get a pension of over M400,000. This is clearly to the benefit of public servants.

Salary Review

48. The Government commissioned consultants to review the competitiveness of public service salaries based on job evaluation. The study has not yet been completed although the Consultant has recommended an increase of between 10% and 30% depending on affordability. The Government has decided to award an across the board salary adjustment of 15%.
49. However, given the introduction of the Defined Contribution Pension Scheme for those 40 years and under, the take-home for them will be 10%, with 5% going into their Pension Fund as their contribution. Government contribution will be 11.2%. For those who do not convert, their take-home pay will be 15%. As Government hopes to convert them in future to the new Contributory Pension Scheme, Government advises that they use their 5% to buy pension products that will supplement their Defined Benefit Pension in the future.

Personal Income Tax (PAYE) Adjustment

50. Two years ago, the Government gave companies a tax relief because of the difficulties that were being experienced by our exporters. Last year Government offered a tax break to the low income earners by adjusting the amount of tax credit and the threshold.
51. In the last budget speech I promised a comprehensive review of Personal Income Tax. To reduce the burden on compliant tax payers, I am happy to announce the following Tax relief proposals:

- Tax credit of M3,500 be increased to M4,500.
 - The lower tax rate be reduced from 25% to 22%
 - The threshold to be increased from M35,065 to M37,378
52. These proposals will mean that individuals who paid tax on incomes above M14000 will no longer pay any tax up to an income of M20,454. Individuals earning more than M20,454 will save between M1,382 and M2,881 annually. In aggregate the Government is giving back M100 million to tax payers.

Madam Speaker

53. As I have already indicated, the focus of all our efforts should be to accelerate economic growth to create opportunities for jobs for our people. Our success lies however, in first achieving peace and stability and focusing single-mindedly on expanding the economy.
54. In conclusion I want to thank the Chair and Members of the Cabinet Budget Committee who shaped the proposed Budget for 2008/2009 and the Cabinet for the guidance and direction given during the preparation of this Budget. I also wish to thank Government officials whose joint efforts in the last few weeks have led to the finalization of this Budget and speech. In particular, I wish to thank the Finance Budget Team, many of whom are now in the districts to discuss and explain the messages of this Budget to the people. My thanks also go to the people in all the ten districts whose previous comments have also contributed to shaping this Budget. We have tried to incorporate their recommendations to the extent possible. The Budget is an embodiment of our national aspirations; we must own it and implement it together.

Thank You!

Annex 2A

Functional Classification of Total Expenditure (million Maloti, current prices)

	Budget 07/08	Budget 08/09	Budget 07/08 (% GDP)	Budget 08/09 (% GDP)	Budget 08/09, percentage change over 07/08	Percentage of 08/09 budget
General Public Services, Public Order, Safety and Defence	2384.8	2702.0	20.3	20.0	13.3	29.7
General Public Services	1490.8	1523.4	12.7	11.3	2.2	16.7
Defence	292.4	364.0	2.5	2.7	24.5	4.0
Public Order, Safety, and Defence	601.6	814.7	5.1	6.0	35.4	9.0
Social Services	2913.8	4193.3	24.7	31.1	43.9	46.1
Public Health Affairs and Services	838.1	940.4	7.1	7.0	12.2	10.3
Social security and Welfare Affairs	499.0	1249.6	4.2	9.3	150.4	13.7
Education, Culture and Recreation	1576.7	2003.4	13.4	14.8	27.1	22.0
<i>Of Which Education</i>	1464.2	1832.1	12.4	13.6	25.1	20.1
			0.0	0.0		
Housing and Community Amenity	476.2	625.6	4.0	4.6	31.4	6.9
Economic Services	947.3	1143.0	8.0	8.5	20.7	12.6
Agriculture	176.9	208.8	1.5	1.5	18.0	2.3
Forestry and Land Reclamation	51.3	59.6	0.4	0.4	16.0	0.7
Natural Resources	52.6	106.8	0.4	0.8	103.3	1.2
Trade and Industry	70.8	102.8	0.6	0.8	45.1	1.1
Tourism: Admin	26.1	32.2	0.2	0.2	23.4	0.4
Other Economic Affairs	569.5	632.9	4.8	4.7	11.1	7.0
Unallocable and other purposes	511.6	431.8	4.3	3.2	-15.6	4.7
Total	7233.7	9095.7	61.4	67.4	25.7	100.0
GDP at market prices	11775	13501				
GNI at market prices	14764	16994				

Annex 2B

Functional Classification of Recurrent Expenditure (million Maloti, current prices)

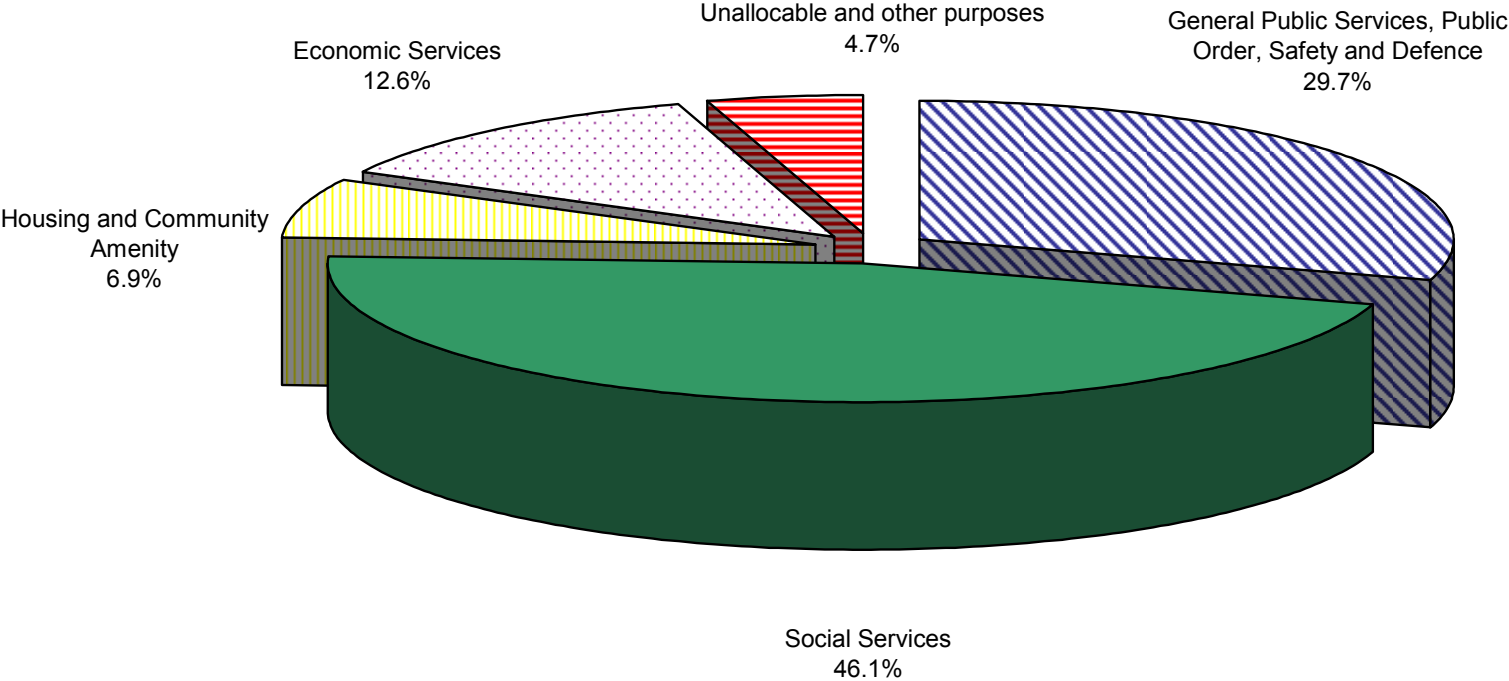
	Budget 07/08	Budget 08/09	Budget 07/08 (% GDP)	Budget 08/09 (% GDP)	Budget 08/09, percentage change over 07/08	Percentage of 08/09 budget
General Public Services, Public Order, Safety and Defence	1819.2	2269.3	15.4	16.8	24.7	32.7
General Public Services	934.1	1138.7	7.9	8.4	21.9	16.4
Defence	292.4	341.0	2.5	2.5	16.6	4.9
Public Order, Safety, and Defence	592.6	789.7	5.0	5.8	33.3	11.4
Social Services	2479.9	3652.0	21.1	27.1	47.3	52.6
Public Health Affairs and Services	530.1	698.0	4.5	5.2	31.7	10.1
Social security and Welfare Affairs	503.5	1249.6	4.3	9.3	148.2	18.0
Education, Culture and Recreation	1446.3	1704.4	12.3	12.6	17.8	24.6
<i>Of Which Education</i>	1365.7	1582.0	11.6	11.7	15.8	22.8
Housing and Community Amenity	97.9	114.4	0.8	0.8	16.9	1.6
Economic Services	405.5	471.1	3.4	3.5	16.2	6.8
Agriculture	141.1	158.2	1.2	1.2	12.1	2.3
Forestry and Land Reclamation	41.4	46.6	0.4	0.3	12.4	0.7
Natural Resources	23.8	30.1	0.2	0.2	26.0	0.4
Trade and Industry	50.3	60.3	0.4	0.4	19.8	0.9
Tourism: Admin	26.1	32.2	0.2	0.2	23.4	0.5
Other Economic Affairs	122.7	143.9	1.0	1.1	17.2	2.1
Unallocable and other purposes	511.6	431.8	4.3	3.2	-15.6	6.2
Total	5314.0	6938.6	45.1	51.4	30.6	100.0
GDP at market prices	11775	13501				
GNI at market prices	14764	16994				

Annex 2C

Functional Classification of Capital Expenditure (million Maloti, current prices)

	Budget 07/08	Budget 08/09	Budget 07/08 (% GDP)	Budget 08/09 (% GDP)	Budget 08/09, percentage change over 07/08	Percentage of 08/09 budget
General Public Services, Public Order, Safety and Defence	393.7	432.7	3.3	3.2	9.9	20.1
General Public Services	384.7	384.7	3.3	2.8	0.0	17.8
Defence	-	23				
Public Order, Safety, and Defence	9.0	25.0	0.1	0.2	178.1	1.2
Social Services	438.3	541.4	3.7	4.0	23.5	25.1
Public Health Affairs and Services	308.0	242.4	2.6	1.8	-21.3	11.2
Social security and Welfare Affairs	0.0	0.0	0.0	0.0	-	-
Education, Culture and Recreation	130.3	299.0	1.1	2.2	129.4	13.9
<i>Of Which Education</i>	98.5	250.1	0.8	1.9	153.9	11.6
Housing and Community Amenity	378.4	511.2	3.2	3.8	35.1	23.7
Economic Services	541.8	671.9	4.6	5.0	24.0	31.1
Agriculture	35.8	50.6	0.3	0.4	41.3	2.3
Forestry and Land Reclamation	9.9	13.0	0.1	0.1	30.9	0.6
Natural Resources	28.7	76.8	0.2	0.6	167.4	3.6
Trade and Industry	20.5	42.5	0.2	0.3	107.3	2.0
Tourism: Admin	0.0	0.0	0.0	0.0	-	0.0
Other Economic Affairs	446.8	489.0	3.8	3.6	9.4	22.7
Total	1752.1	2157.1	14.9	16.0	23.1	100.0
GDP at market prices	11775	13501				
GNI at market prices	14764	16994				

Annex 2D: Functional Classification of 2008/2009 Budget (Percentage Shares)



Annex 3A: Recurrent and Development Budget for Fiscal Year 2008/2009, Ministerial Allocations (Million Maloti)												
	2007/2008 Budget (approved)						2008/2009 Budget (approved)					
	Recurrent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total budget financed by GOL	Recurrent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total budget financed by GOL
Ministry/Cost Centre												
1 Agriculture & Food Security	141.1	35.8	10.0	25.8	176.9	151.1	158.2	50.6	30.0	20.6	208.8	188.2
2 Health & Social Welfare	530.1	308.0	190.7	117.3	838.1	720.8	698.0	242.4	110.0	132.4	940.4	808.0
3 Education & Training	1 077.0	98.5	50.4	48.1	1 175.5	1 127.5	1 224.4	250.05	65.0	185.1	1 474.5	1 289.4
4 Finance & Devt. Planning	578.6	481.0	282.1	198.9	1 059.6	860.7	795.0	332.9	155.0	177.9	1 127.9	950.0
5 Trade & Industry	50.3	20.5	10.5	10.0	70.8	60.8	60.3	42.5	22.5	20.0	102.8	82.8
7 Justice	157.8	5.0	5.0	0.0	162.8	162.8	209.3	11.5	11.5	0.0	220.8	220.8
8 Home Affairs	247.3	4.0	4.0	0.0	251.3	251.3	365.7	12.5	12.5	0.0	378.2	378.2
9 Prime Minister's Office	115.6	0.0	0.0	0.0	115.6	115.6	125.9	0.0	0.0	0.0	125.9	125.9
10 Communications, Science & Tech.	58.7	5.0	5.0	0.0	63.7	63.7	86.1	5.0	5.0	0.0	91.1	91.1
11 Law & Constitutional Affairs	49.1	0	0	0.0	49.1	49.1	60.9	1.0	1.0	0.0	61.9	61.9
12 Foreign Affairs	204.2	0	0	0.0	204.2	204.2	240.7	0.0	0.0	0.0	240.7	240.7
13 Public Works & Transport	168.2	369.4	262.3	107.2	537.6	430.5	201.0	436.0	202.0	234.0	637.0	403.0
14 Forestry & Land Reclamation	41.4	9.9	9.1	0.8	51.3	50.5	46.6	13.0	13.0	0.0	59.6	59.6
15 Natural Resources	63.7	313.3	95.2	218.0	377.0	159.0	74.7	436.0	205.9	230.1	510.7	280.6
16 Employment & Labour	35.4	0	0	0.0	35.4	35.4	37.7	0.0	0.0	0.0	37.7	37.7
17 Tourism, Environment & Culture	49.3	30.0	15.0	15.0	79.3	64.3	56.1	34.9	19.9	15.0	91.0	76.0
18 Auditor General	13.3	0	0	0.0	13.3	13.3	16.1	0.0	0.0	0.0	16.1	16.1
19 His Majesty's Office	7.9	2.0	2.0	0.0	9.9	9.9	8.4	2.0	2.0	0.0	10.4	10.4
20 Public Service Commission	3.6	0.0	0.0	0.0	3.6	3.6	5.6	0.0	0.0	0.0	5.6	5.6
22 Interest Charges	366.6	0.0	0.0	0.0	366.6	366.6	146.6	0.0	0.0	0.0	146.6	146.6
23 Pensions and Gratuities	411.2	0.0	0.0	0.0	411.2	411.2	1 149.8	0.0	0.0	0.0	1 149.8	1 149.8
24 Statutory Salaries and Allowances	13.1	0.0	0.0	0.0	13.1	13.1	14.7	0.0	0.0	0.0	14.7	14.7
25 Subscriptions to International Institutions	16.9	0.0	0.0	0.0	16.9	16.9	20.5	0.0	0.0	0.0	20.5	20.5
26 Refunds on erroneous receipts	3.0	0.0	0.0	0.0	3.0	3.0	3.5	0.0	0.0	0.0	3.5	3.5
34 Highlands		114.6	88.0	26.6	114.6	88.0		98.0	90.0	8.0	98.0	90.0
37 Defence	292.4	0.0	0.0	0.0	292.4	292.4	341.0	23.0	23.0	0.0	364.0	364.0
38 National Assembly	52.2	0.0	0.0	0.0	52.2	52.2	55.2	0.0	0.0	0.0	55.2	55.2
39 Senate	13.8	0.0	0.0	0.0	13.8	13.8	15.2	0.0	0.0	0.0	15.2	15.2
40 Ombudsman	4.4	0.0	0.0	0.0	4.4	4.4	6.3	0.0	0.0	0.0	6.3	6.3
41 Independent Electoral Commission	21.5	0.0	0.0	0.0	21.5	21.5	27.1	0.0	0.0	0.0	27.1	27.1
42 Local Government	368.7	112.4	64.6	47.8	481.1	433.3	373.0	136.8	118.0	18.8	509.8	491.0
43 Gender, Youth, Sports & Recreation	43.3	14.9	9.6	5.3	58.2	52.9	61.5	29.0	25.5	3.5	90.5	87.0
44 Public Service	19.4	0	0	0.0	19.4	19.4	25.5	0.0	0.0	0.0	25.5	25.5
Total	5 219.4	1 924.2	1 103.5	820.7	7 143.6	6 322.9	6 710.29	2 157.1	1 111.8	1 045.3	8 867.4	7 822.1
21 Principal Repayments	268.9	0.0	0.0	0.0	268.9	268.9	219.64	0.0	0.0	0.0	219.6	219.6
Contingencies	90.0	0.0	0.0	0.0	90.0	90.0	250.0	0.0	0.0	0.0	250.0	250.0
Grand Total	5 578.3	0.0	0.0	0.0	7 502.5	6 681.8	7 179.9	0.0	0.0	0.0	9 337.1	8 291.7

Annex 3B: Recurrent and Development Budget for Fiscal Year 2008/2009, Ministerial Allocations (percent of column)													
		<u>2007/2008 Budget (approved)</u>						<u>2008/2009 Budget (approved)</u>					
		Recurrent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total budget financed by GOL	Recurrent Budget	Capital Budget	Capital Budget financed by GOL	Capital budget financed by loans and grants	Total Budget	Total budget financed by GOL
Ministry/Cost Centre													
1	Agriculture & Food Security	2.7	1.9	0.9	3.1	2.5	2.4	2.4	2.3	2.7	2.0	2.4	2.4
2	Health & Social Welfare	10.2	16.0	17.3	14.3	11.7	11.4	10.4	11.2	9.9	12.7	10.6	10.3
3	Education & Training	20.6	5.1	4.6	5.9	16.5	17.8	18.2	11.6	5.8	17.7	16.6	16.5
4	Finance & Devt. Planning	11.1	25.0	25.6	24.2	14.8	13.6	11.8	15.4	13.9	17.0	12.7	12.1
5	Trade & Industry	1.0	1.1	1.0	1.2	1.0	1.0	0.9	2.0	2.0	1.9	1.2	1.1
7	Justice	3.0	0.3	0.5	0.0	2.3	2.6	3.1	0.5	1.0	0.0	2.5	2.8
8	Home Affairs	4.7	0.2	0.4	0.0	3.5	4.0	5.4	0.6	1.1	0.0	4.3	4.8
9	Prime Minister's Office	2.2	0.0	0.0	0.0	1.6	1.8	1.9	0.0	0.0	0.0	1.4	1.6
10	Communications, Science & Tech.	1.1	0.3	0.5	0.0	0.9	1.0	1.3	0.2	0.4	0.0	1.0	1.2
11	Law & Constitutional Affairs	0.9	0.0	0.0	0.0	0.7	0.8	0.9	0.0	0.1	0.0	0.7	0.8
12	Foreign Affairs	3.9	0.0	0.0	0.0	2.9	3.2	3.6	0.0	0.0	0.0	2.7	3.1
13	Public Works & Transport	3.2	19.2	23.8	13.1	7.5	6.8	3.0	20.2	18.2	22.4	7.2	5.2
14	Forestry & Land Reclamation	0.8	0.5	0.8	0.1	0.7	0.8	0.7	0.6	1.2	0.0	0.7	0.8
15	Natural Resources	1.2	16.3	8.6	26.6	5.3	2.5	1.1	20.2	18.5	22.0	5.8	3.6
16	Employment & Labour	0.7	0.0	0.0	0.0	0.5	0.6	0.6	0.0	0.0	0.0	0.4	0.5
17	Tourism, Environment & Culture	0.9	1.6	1.4	1.8	1.1	1.0	0.8	1.6	1.8	1.4	1.0	1.0
18	Auditor General	0.3	0.0	0.0	0.0	0.2	0.2	0.2	0.0	0.0	0.0	0.2	0.2
19	His Majesty's Office	0.2	0.1	0.2	0.0	0.1	0.2	0.1	0.1	0.2	0.0	0.1	0.1
20	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
22	Interest Charges	7.0	0.0	0.0	0.0	5.1	5.8	2.2	0.0	0.0	0.0	1.7	1.9
23	Pensions and Gratuities	7.9	0.0	0.0	0.0	5.8	6.5	17.1	0.0	0.0	0.0	13.0	14.7
24	Statutory Salaries and Allowances	0.3	0.0	0.0	0.0	0.2	0.2	0.2	0.0	0.0	0.0	0.2	0.2
25	Subscriptions to International Institutions	0.3	0.0	0.0	0.0	0.2	0.3	0.3	0.0	0.0	0.0	0.2	0.3
26	Refunds on erroneous receipts	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
34	Highlands	0.0	6.0	8.0	3.2	1.6	1.4	0.0	4.5	8.1	0.8	1.1	1.2
37	Defence	5.6	0.0	0.0	0.0	4.1	4.6	5.1	1.1	2.1	0.0	4.1	4.7
38	National Assembly	1.0	0.0	0.0	0.0	0.7	0.8	0.8	0.0	0.0	0.0	0.6	0.7
39	Senate	0.3	0.0	0.0	0.0	0.2	0.2	0.2	0.0	0.0	0.0	0.2	0.2
40	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
41	Independent Electoral Commission	0.4	0.0	0.0	0.0	0.3	0.3	0.4	0.0	0.0	0.0	0.3	0.3
42	Local Government	7.1	5.8	5.9	5.8	6.7	6.9	5.6	6.3	10.6	1.8	5.7	6.3
43	Gender, Youth, Sports & Recreation	0.8	0.8	0.9	0.6	0.8	0.8	0.9	1.3	2.3	0.3	1.0	1.1
44	Public Service	0.4	0.0	0.0	0.0	0.3	0.3	0.4	0.0	0.0	0.0	0.3	0.3
6	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0