

ADDENDUM TO THE BACKGROUND PAPER TO THE BUDGET SPEECH



LESOTHO

Ministry of Finance and Development Planning

Government of Lesotho

JULY 2010

1 INTRODUCTION

The proposed 2010/11 budget was presented to Parliament by the Honourable Minister of Finance and Development Planning, Dr. Timothy Thahane on 12th February 2010. It proposed total ministerial recurrent allocations of M5,612.2 million and total capital budget allocations of M3,549.6 million. Following Parliamentary budget discussions, these allocations were amended to M5,841.7 million (an increase of 4.1%) and M3,619.6 million (an increase of 2%) respectively.

This document addendum presents and summarises the key changes to the recurrent and capital budgets in the first section. The second section shows the impact of these changes on the Medium-Term Fiscal Framework, with a focus on the estimated impact on the current – 2010/11 – fiscal year.

2 BUDGET ADJUSTMENTS

2.1 MINISTERIAL RECURRENT EXPENDITURES

Table 1 below shows ministerial recurrent budget proposals as presented to Parliament and the allocations subsequently passed by Parliament. With the exception of the Ministry of Finance and Development Planning, all ministerial allocations were increased.

In most cases, increases in ministerial allocations are explained largely by the 3.5% salary increase award to public servants, which is presented separately in the Budget. In a number of cases, however, significant increases were awarded by Parliament.

Of note is an increase in the allocation to the Ministry of Education and Training from M1,487.0 million to M1,599.8 million – an increase of 7.6%. Other than *wages and salaries*, which increased by around M38 million, notable increases for this ministry include an increase in *goods and services* from M51.9 million to M63.6 million with the bulk of this coming from increases in vehicle and transport related items to M16.8 million from M6.7 million. In addition, there was a M42.4 million increase in *grants in aid to extra-budgetary units*.

A large increase of M48 million (16.9%) was also awarded to the Ministry of Foreign Affairs and International Relations taking their budget as passed by Parliament to M331.7 million. There was a significant increase of M31.1 million which was made in school and medical fees in the foreign missions. Apart from this increase, *subsistence international* was increased by M12.3 million. There was also a small increase which was made in official entertainment (M1.7 million).

The Ministry of Tourism, Environment and Culture saw an 11.4% increase in its budget from M53.2 million to M59.2 million. The increase in the budget for this ministry was in *non residential buildings constructed by government* – a change of M2.5 million. There was an increase of 6.7% from M303.8 million to M324.3 million for the Ministry of Local Government and Chieftainship. This is explained by the significant increase of around M20 million made in *current grants paid to local governments* and a very small increase in *short term hire of vehicles* – an increase of M0.2 million.

Table 1: Ministerial allocations presented to and passed by Parliament

Ministry	Amount presented to Parliament	Amount passed by Parliament	Percentage change
Agriculture and Food Security	144.4	147.6	2.2%
Health and social welfare	800.6	807.3	0.8%
Education and Training	1487.0	1599.8	7.6%
Finance & Development Planning	797.0	797.0	0.0%
Trade & Industry, Cooperatives and Marketing	52.2	53.0	1.4%
Justice, Human Rights and Rehabilitation	199.5	204.4	2.4%
Home Affairs and public safety	364.4	372.7	2.3%
Prime Minister's office	99.2	100.3	1.1%
Communications, science and Technology	75.9	76.7	1.1%
Law & Constitutional Affairs	60.6	61.5	1.5%
Foreign Affairs and International Relations	283.8	331.7	16.9%
Public Works and Transport	184.1	186.7	1.4%
Forestry and Land Reclamation	40.9	41.7	1.9%
Natural Resources	74.9	76.1	1.6%
Employment and Labour	35.4	35.9	1.4%
Tourism, Environment and culture	53.2	59.2	11.4%
Auditor general's office	17.8	18.3	2.9%
His Majesty' Office	6.6	6.7	1.5%
Public Service Commission	5.2	5.2	1.5%
Defense and National Security	349.6	356.8	2.0%
National Assembly	50.7	51.9	2.4%
Senate	12.6	12.8	1.6%
Ombudsman	5.3	5.4	1.3%
Independent Electoral Commission	27.4	27.7	1.3%
Local Government and Chieftainship Affairs	303.8	324.3	6.7%
Gender and Youth, Sports and Recreation	57.2	57.7	0.8%
Public service	23.0	23.5	2.1%
Total	5612.2	5841.7	4.1%

2.2 RECURRENT EXPENDITURE BY ITEM

This section focuses on the major increases and reductions made by Parliament to line items, but summed over all ministries. The following major adjustments were made:

- *Short term hire of vehicles* by 484% from M1.2 million to M6.9 Million (the major ministries responsible are: Foreign affairs and International Relations and Education and Training by around M3 and M2.8 million respectively).
- *Current grant paid to central Government* increased by M144.2 million (from M0.3 million to M144.5 million). Grants in aid to extra budgetary units by M79.3 million (from M0.2 million to M79.5 million).

Besides these major increases, a number of small increases were made in other items such as *salaries – established posts, wages – established posts, short term hire of vehicles, and allowances – non-statutory posts*.

Certain reductions were also made to the budget in order to keep overall expenditure as low as possible. These reductions include:

- *Salaries – new posts* by 66%
- *Private hire of vehicles* by 93%
- *Fares local* by 44%
- *Equine hire* by 49%
- *Standing charges* by 70%
- *Subsidies to financial public corporations* by 94%.

2.3 CAPITAL BUDGET ALLOCATIONS

Table 2 shows that the capital budget was passed by Parliament as it was presented. Compared with the previous year, GoL contribution has remained steady (excluding a M300 million stimulus package in 2009/10). In total, capital expenditure has increased compared with the previous year.

Table 2: Capital Budget by Fund Source

	GoL Financing	Donor Grants	Donor Loans
Budget presented to Parliament	1,688.9	1,379.1	501.6
Budget passed by Parliament	1,688.9	1,379.1	501.6

3 IMPACT ON THE FISCUS

This section presents the change in the expected fiscal situation resulting from the increased allocations by Parliament compared with the Budget presented. The estimations shown are probable outturns, which are, in part, based on the budget. Thus, it is expected that the increased allocations will result in increased expenditure under the current financing constraints.

3.1 SUMMARY

Government policies for the fiscal year 2010/11 focused on drastic reduction in expenditure by different government ministries and preserving sound financial management in order to facilitate achievement of macroeconomic stability consistent with the promotion of strong economic growth and poverty reduction.

3.1.1 Revenue

The initial budget document presented to Parliament in February showed that the government had planned to collect total revenue amounting to M8,145.7 million in 2010/11. However, following budget passed by the Parliament, this amount has increased to M8,173.5 million. The forecasts for 2011/12 and 2012/13 have also increased from M7,742.9 and M10,069.9 million to M7,782.6 million and M10,115.1 million, respectively. The major reason for this increase is as a result of increased Government expenditure (discussed below) as a small amount of Government spending is returned to it in tax (e.g. VAT).

Following the budget passed by the Parliament, out of the total amount of revenue expected to be collected in 2010/11, *tax revenue*, *grants* and *other revenue* amount to M3,478.5 million, M1,671.2 million and M863.7 million, respectively. When these estimates are compared to those initially presented to Parliament, there is a small increase in tax revenue. Other sources of income remain constant.

The increase in tax revenue can be attributed to higher expenditure on *salaries and wages* payable to government employees than previously estimated. As a result of this, the government also anticipates to collect a small amount of additional PAYE revenue.

The SACU estimate presented to and passed by Parliament remained the same at M2,161.9 million for the current fiscal year 2010/11 and at M1,694.7 million and M3,725.1 million for the forecast years 2011/12 and 2012/13 respectively.

3.1.2 Expense (Current Budget)

Looking at the current budget, it can be easily noticed that there is a significant increase in the overall recurrent estimate passed by Parliament compared to those initially presented. The initial total current estimate was M6,722.9 million for 2010/11, but this has increased to M6,871.5 million following the approval by the Parliament. The projected estimates for 2011/12 and 2012/13 have also increased from M6,556.2 million and M6,975.4 million to M7,080.8 million and M7,532.0 million, respectively. Despite cutting expenditure on all sub components under its current budget, the government could not avoid compensating remuneration to its employees against the adverse effect of the current global economic recession. Thus, the 3.5% increase in salaries and wages and grants paid by the government has contributed to overall 2.2% in total current budget while other sub components of the budget reflect a sharp decline.

3.1.3 Expense (Capital Budget)

Although the capital budget was passed as presented, M20 million of this was added just before the presentation of the budget and was incorrectly not captured by the initial estimates. This is corrected here. As a result, estimated expenses from the capital budget have increased slightly from M1,457.2 million to M1,466.3 million in 2010/11. The forecasts for 2011/12 and 2012/13 have also increased from M1,572.3 million and M1,516.8 million to M1,571.5 million and M1,515.9 million respectively.

3.1.4 Fiscal balance

The initial revenue and expense estimates suggest an overall fiscal deficit of 11.0% of GDP in 2010/11, but this has slightly increased to 11.9% following the budget passed by Parliament. The deficit is forecast to grow to 15.5% of GDP in 2011/12 before declining to 4.0% of GDP in 2012/13 due to expectations in global economic recovery leading to increased SACU revenues.

Table 3: Summary estimates as presented in Background Paper

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Revenue	3,607.6	4,248.2	4,661.2	6,464.5	7,257.6	8,888.5	9,377.1	8,145.7	7,742.9	10,069.9
1. Tax revenue	1,571.4	1,630.6	1,755.0	1,907.4	2,346.4	2,858.0	3,149.8	3,448.8	3,746.3	4,102.9
3. Grants	105.8	182.6	171.4	92.4	191.7	289.3	627.3	1,671.2	1,444.3	1,289.9
4. Other revenue	508.7	422.7	428.7	519.8	621.8	840.6	682.3	863.7	857.5	952.0
5. SACU	1,421.7	2,012.4	2,306.0	3,945.0	4,097.7	4,900.6	4,917.7	2,161.9	1,694.7	3,725.1
Expense (Current Budget)	-2,893.9	-3,065.6	-3,521.1	-4,232.8	-4,649.7	-5,728.0	-7,328.3	-6,722.9	-6,556.2	-6,975.4
1. Compensation of Employees	-1,206.4	-1,364.1	-1,431.9	-1,521.3	-1,820.3	-2,203.5	-2,834.1	-3,048.3	-3,144.5	-3,478.9
2. Use of goods and services	-932.4	-922.7	-1,023.0	-1,356.3	-1,330.2	-1,874.9	-2,172.9	-1,742.2	-1,742.2	-1,755.4
4. Interest Payments	-221.6	-152.0	-216.8	-308.1	-296.1	-118.9	-125.6	-178.6	-113.3	-112.4
5. Subsidies	0.0	0.0	0.0	0.0	0.0	-204.0	-11.0	-204.4	0.0	0.0
6. Grants	-296.1	-362.6	-434.5	-545.6	-647.3	-564.8	-743.8	-267.5	-286.0	-304.6
7. Social benefits	-12.0	-10.9	-148.6	-170.9	-223.0	-226.9	-652.1	-573.1	-579.7	-596.5
8. Other expense	-225.4	-253.4	-266.3	-330.6	-332.7	-535.1	-788.7	-708.8	-690.4	-727.5
Expense (Capital Budget)	-359.7	-345.9	-437.5	-451.3	-711.8	-790.7	-917.6	-1,457.2	-1,572.3	-1,516.8
1. Compensation of Employees	-58.9	-59.2	-67.2	-63.0	-77.7	-125.6	-114.0	-231.5	-249.8	-241.0
2. Use of goods and services	-194.1	-218.6	-237.7	-238.6	-441.5	-456.5	-580.6	-841.3	-907.7	-875.7
6. Grants	-51.7	-20.9	-92.7	-125.1	-149.7	-206.2	-221.9	-380.0	-410.0	-395.5
8. Other expense	-54.9	-47.2	-39.9	-24.6	-42.8	-2.4	-1.2	-4.4	-4.7	-4.6
Net Worth and its Changes	-423.4	-1,034.6	-890.6	-1,675.5	-1,519.2	-2,001.2	-1,859.4	34.4	385.6	-1,577.7
1. Nonfinancial assets	-270.9	-227.7	-312.5	-375.6	-549.4	-1,179.3	-1,822.5	-1,779.0	-1,923.5	-1,864.2
Current Budget	-21.3	-51.4	-60.8	-71.2	-92.4	-227.6	-210.9	-25.1	-31.1	-38.6
Capital Budget	-249.5	-176.3	-251.7	-304.4	-457.1	-951.7	-1,611.5	-1,753.8	-1,892.4	-1,825.6
2. Financial assets	-228.3	-144.4	-320.5	-1,369.1	-989.9	-365.8	235.6	1,745.8	2,231.9	165.3
3. Liabilities	75.7	-662.4	-257.6	69.2	20.1	-456.1	-272.5	67.6	77.3	121.2
Overall fiscal balance	83.1	616.5	399.9	1,414.2	1,359.4	1,191.6	-690.7	-1,806.7	-2,303.0	-281.1
Fiscal Balance (GoL)	82.7	616.5	396.4	1,412.9	1,357.8	588.7	-943.6	-1,809.1	-2,305.2	-283.5
Overall fiscal balance	1.1%	7.7%	4.6%	14.2%	11.7%	8.9%	-4.7%	-11.0%	-12.8%	-1.4%
Fiscal Balance (GoL)	1.1%	7.7%	4.5%	14.1%	11.7%	4.4%	-6.4%	-11.0%	-12.8%	-1.4%
Statistical Discrepancy	-69.5	-197.9	-188.0	104.9	376.9	368.5	-728.2	0.0	0.0	0.0

(Table 7 in the original document)

Two fiscal balances are presented. The Fiscal Balance (GoL) includes as expenditure additional items which are excluded from the standard international definition (Overall fiscal balance). This is largely pension liability payments amounting to M600 million in 2008/09 and M250 million in 2009/10. In addition, several minor financing items such as purchase of gold or SDRs are counted as expenditure in the GoL definition, but not in the standard definition.

Table 4: Summary estimates following final Budget

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Revenue	3,607.6	4,248.2	4,661.2	6,464.5	7,257.6	8,888.2	9,377.1	8,175.3	7,782.6	10,115.1
1. Tax revenue	1,571.4	1,630.6	1,755.0	1,907.4	2,346.4	2,858.0	3,149.8	3,478.5	3,787.5	4,149.7
3. Grants	105.8	182.6	171.4	92.4	191.7	289.0	627.3	1,671.2	1,442.5	1,287.9
4. Other revenue	508.7	422.7	428.7	519.8	621.8	840.6	682.3	863.7	857.9	952.4
5. SACU	1,421.7	2,012.4	2,306.0	3,945.0	4,097.7	4,900.6	4,917.7	2,161.9	1,694.7	3,725.1
Expense (Current Budget)	-2,893.9	-3,065.6	-3,521.1	-4,232.8	-4,649.7	-5,728.0	-7,328.3	-6,871.5	-7,080.8	-7,532.0
1. Compensation of Employees	-1,206.4	-1,364.1	-1,431.9	-1,521.3	-1,820.3	-2,203.5	-2,834.1	-3,312.6	-3,526.8	-3,879.4
2. Use of goods and services	-932.4	-922.7	-1,023.0	-1,356.3	-1,330.2	-1,874.9	-2,172.9	-1,730.2	-1,730.2	-1,747.7
4. Interest Payments	-221.6	-152.0	-216.8	-308.1	-296.1	-118.9	-125.6	-153.9	-113.3	-112.4
5. Subsidies	0.0	0.0	0.0	0.0	0.0	-204.0	-11.0	-27.3	0.0	0.0
6. Grants	-296.1	-362.6	-434.5	-545.6	-647.3	-564.8	-743.8	-403.9	-431.9	-459.9
7. Social benefits	-12.0	-10.9	-148.6	-170.9	-223.0	-226.9	-652.1	-565.7	-578.7	-595.4
8. Other expense	-225.4	-253.4	-266.3	-330.6	-332.7	-535.1	-788.7	-677.9	-700.1	-737.1
Expense (Capital Budget)	-359.7	-345.9	-437.5	-451.3	-711.8	-790.7	-917.6	-1,466.3	-1,571.5	-1,515.9
1. Compensation of Employees	-58.9	-59.2	-67.2	-63.0	-77.7	-125.6	-114.0	-233.0	-249.7	-240.9
2. Use of goods and services	-194.1	-218.6	-237.7	-238.6	-441.5	-456.5	-580.6	-846.5	-907.3	-875.2
6. Grants	-51.7	-20.9	-92.7	-125.1	-149.7	-206.2	-221.9	-382.4	-409.8	-395.3
8. Other expense	-54.9	-47.2	-39.9	-24.6	-42.8	-2.4	-1.2	-4.4	-4.7	-4.6
Net Worth and its Changes	-423.4	-1,034.6	-890.6	-1,675.5	-1,519.2	-2,001.2	-1,859.4	162.5	869.7	-1,067.2
1. Nonfinancial assets	-270.9	-227.7	-312.5	-375.6	-549.4	-1,179.3	-1,822.5	-1,788.7	-1,917.7	-1,856.8
Current Budget	-21.3	-51.4	-60.8	-71.2	-92.4	-227.6	-210.9	-24.0	-26.3	-32.3
Capital Budget	-249.5	-176.3	-251.7	-304.4	-457.1	-951.7	-1,611.5	-1,764.8	-1,891.4	-1,824.5
2. Financial assets	-228.3	-144.4	-320.5	-1,369.1	-989.9	-365.8	235.6	1,848.5	2,710.1	668.5
3. Liabilities	75.7	-662.4	-257.6	69.2	20.1	-456.1	-272.5	102.7	77.3	121.2
Overall fiscal balance	83.1	616.5	399.9	1,414.2	1,359.4	1,191.3	-690.7	-1,944.5	-2,781.3	-784.2
Fiscal Balance (GoL)	82.7	616.5	396.4	1,412.9	1,357.8	588.4	-943.6	-1,946.9	-2,783.5	-786.6
Overall fiscal balance	1.1%	7.7%	4.6%	14.2%	11.7%	8.9%	-4.7%	-11.8%	-15.5%	-4.0%
Fiscal Balance (GoL)	1.1%	7.7%	4.5%	14.1%	11.7%	4.4%	-6.4%	-11.9%	-15.5%	-4.0%
Statistical Discrepancy	-69.5	-197.9	-188.0	104.9	376.9	368.2	-728.2	0.0	0.0	0.0

Two fiscal balances are presented. The Fiscal Balance (GoL) includes as expenditure additional items which are excluded from the standard international definition (Overall fiscal balance). This is largely pension liability payments amounting to M600 million in 2008/09 and M250 million in 2009/10. In addition, several minor financing items such as purchase of gold or SDRs are counted as expenditure in the GoL definition, but not in the standard definition.

3.2 RECURRENT EXPENSES

The expected expenditure of M6,722.9 million in 2010/11 was presented to Parliament, with a forecast of a small reduction in 2011/12 followed by an increase in 2012/13 to M6,975.4 million. Following changes made by Parliament, recurrent expenditure is now expected to be M6,871.5 million in 2010/11 - a 2.2% increase compared with the previous forecast. Given that expected actual expenditure in outer years is dependent, in part, upon expenditure estimates in 2010/11, forecast expenditure in 2011/12 and 2012/13 have also increased.

The major increase was made in *grants* from M267.5 million to M403.9 million in 2010/11 – an increase of more than half. In 2010/11 *grants to extra budgetary units* were increased by M122.3 million and *grants to local Government* were increased by M15.9 million. Estimated outturn of *compensation of employees* increased by 8.6%. Based on historical trends and an increase in the base-year (2010/11) values, expected outturn in the outer years has also increased. However, restrictions on new positions and a policy of restraint in salary adjustment means that these figures should represent upper limits.

Following adjustments in the budget, certain reductions were also made. The major cut was made in *subsidies* by M177.1 million – an 87% reduction in 2010/11. Estimated outturn for *use of goods and services* has fallen by M12 million in 2010/11. Estimated *interest payments* were cut by M24.5 million in 2010/11. Estimated expenditure on *social benefits* has declined from M573.1 million to M565.7 million in the current fiscal year following adjustments in the budget and very small cuts of M1 million were made in 2011/12 and 2012/13 compared with the previous forecasts. In 2010/11, *other expenses* were reduced in student grants.

Table 5: Expected recurrent expenditure as presented in Background Paper

Current Budget	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Expense (current budget)	-2,893.9	-3,065.6	-3,521.1	-4,232.8	-4,649.7	-5,728.0	-7,328.3	-6,722.9	-6,556.2	-6,975.4
Compensation of Employees	-1,206.4	-1,364.1	-1,431.9	-1,521.3	-1,820.3	-2,203.5	-2,834.1	-3,048.3	-3,144.5	-3,478.9
Wages and salaries	-1,100.5	-1,188.8	-1,291.6	-1,394.9	-1,653.1	-2,017.7	-2,548.5	-2,685.6	-2,776.5	-3,074.9
Employer contributions	-105.9	-175.3	-140.3	-126.4	-167.2	-185.7	-285.6	-362.7	-368.0	-404.0
Use of goods and services	-932.4	-922.7	-1,023.0	-1,356.3	-1,330.2	-1,874.9	-2,172.9	-1,742.2	-1,742.2	-1,755.4
Interest Payments	-221.6	-152.0	-216.8	-308.1	-296.1	-118.9	-125.6	-178.6	-113.3	-112.4
Nonresidents	-95.7	-86.9	-171.0	-266.7	-246.6	-65.8	-62.6	-63.5	-73.9	-75.0
Residents other than general government	-125.9	-65.1	-45.8	-41.4	-49.5	-53.1	-63.0	-42.2	-39.4	-37.5
Subsidies	0.0	0.0	0.0	0.0	0.0	-204.0	-11.0	-204.4	0.0	0.0
Grants	-296.1	-362.6	-434.5	-545.6	-647.3	-564.8	-743.8	-267.5	-286.0	-304.6
Foreign Governments	0.0	0.0	0.0	0.0	0.0	-5.0	0.0	0.0	0.0	0.0
International organizations	-13.6	-11.3	-15.8	-30.2	-5.5	-19.3	-19.8	-20.4	-21.8	-23.2
Extra Budgetary Units	-266.1	-334.5	-375.9	-382.0	-424.5	-364.7	-407.6	-74.2	-79.4	-84.5
Local Government	-16.4	-16.8	-42.8	-133.4	-217.3	-175.8	-316.3	-172.9	-184.9	-196.9
Social benefits	-12.0	-10.9	-148.6	-170.9	-223.0	-226.9	-652.1	-573.1	-579.7	-596.5
Other expense	-225.4	-253.4	-266.3	-330.6	-332.7	-535.1	-788.7	-708.8	-690.4	-727.5
Student Grants	-215.1	-252.1	-265.5	-280.0	-280.0	-350.0	-498.4	-510.6	-492.3	-529.4
Other expense	-10.3	-1.2	-0.8	-50.6	-52.7	-185.1	-290.3	-198.1	-198.1	-198.1

(Table 14 in original document)

Table 6: Current expenditure estimates following final Budget

Current Budget	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Expense (current budget)	-2,893.9	-3,065.6	-3,521.1	-4,232.8	-4,649.7	-5,728.0	-7,324.8	-6,871.5	-7,080.8	-7,532.0
Compensation of Employees	-1,206.4	-1,364.1	-1,431.9	-1,521.3	-1,820.3	-2,203.5	-2,834.1	-3,312.6	-3,526.8	-3,879.4
Wages and salaries	-1,100.5	-1,188.8	-1,291.6	-1,394.9	-1,653.1	-2,017.7	-2,548.5	-3,004.9	-3,102.6	-3,415.7
Employer contributions	-105.9	-175.3	-140.3	-126.4	-167.2	-185.7	-285.6	-307.7	-424.2	-463.7
Use of goods and services	-932.4	-922.7	-1,023.0	-1,356.3	-1,330.2	-1,874.9	-2,172.9	-1,730.2	-1,730.2	-1,747.7
Interest Payments	-221.6	-152.0	-216.8	-308.1	-296.1	-118.9	-122.1	-153.9	-113.3	-112.4
Nonresidents	-95.7	-86.9	-171.0	-266.7	-246.6	-65.8	-62.6	-92.5	-73.9	-75.0
Residents other than general government	-125.9	-65.1	-45.8	-41.4	-49.5	-53.1	-59.6	-61.4	-39.4	-37.5
Subsidies	0.0	0.0	0.0	0.0	0.0	-204.0	-11.0	-27.3	0.0	0.0
Grants	-296.1	-362.6	-434.5	-545.6	-647.3	-564.8	-743.8	-403.9	-431.9	-459.9
Foreign Governments	0.0	0.0	0.0	0.0	0.0	-5.0	0.0	0.0	0.0	0.0
International organizations	-13.6	-11.3	-15.8	-30.2	-5.5	-19.3	-19.8	-18.5	-19.8	-21.1
Extra Budgetary Units	-266.1	-334.5	-375.9	-382.0	-424.5	-364.7	-407.6	-196.5	-210.2	-223.8
Local Government	-16.4	-16.8	-42.8	-133.4	-217.3	-175.8	-316.3	-188.8	-201.9	-215.0
Social benefits	-12.0	-10.9	-148.6	-170.9	-223.0	-226.9	-652.1	-565.7	-578.7	-595.4
Other expense	-225.4	-253.4	-266.3	-330.6	-332.7	-535.1	-788.7	-677.9	-700.1	-737.1
Student Grants	-215.1	-252.1	-265.5	-280.0	-280.0	-350.0	-498.4	-470.1	-492.3	-529.4
Other expense	-10.3	-1.2	-0.8	-50.6	-52.7	-185.1	-290.3	-207.8	-207.8	-207.8

3.3 CAPITAL BUDGET

A proposed budget of M3,549.6 million for capital expenditure was presented to the Parliament, in 2010/11, of which around M3,211.0 was expected to be spend. The expected spending was lower because, for the *loans*, M501.6 million was budgeted but only M301.0 million was anticipated to be spend. Actual expenditure is also expected to be slightly lower than budgeted for *grants* and the *Millennium Challenge Account*. No changes were made in following the budget.

Table 7: Budgeted and expected capital expenditure as presented in Background Paper

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Budget	842.7	1,043.4	1,252.1	1,924.2	2,157.1	3,450.4	3,549.6	3,846.2	3,728.2
Government of Lesotho				1,103.5	1,111.8	1,988.9	1,668.9	1,688.9	1,688.9
Loans				330.7	354.8	383.0	501.6	552.5	606.0
Grants			429.8	490.0	581.2	618.6	689.1	758.9	832.4
Millennium Challenge Account					109.3	459.9	690.0	845.9	600.8
Actual Expenditure	521.8	689.3	755.5	1,169.1	1,742.2	2,529.1	3,211.0	3,464.7	3,342.4
Government of Lesotho	197.9	447.7	481.1	756.8	1,111.8	1,530.5	1,668.9	1,688.9	1,688.9
Foreign loans	141.3	70.2	182.0	220.6	409.3	371.3	301.0	331.5	363.6
Foreign grants	182.6	171.4	92.4	191.7	221.1	212.0	620.2	683.0	749.2
Millennium Challenge Account						415.3	621.0	761.3	540.7

(Table 19 in the original document)

4 CONCLUSION

Achievement of macroeconomic stability, consistent with promotion of strong economic growth and poverty reduction, requires broader participation of all government ministries and departments in appreciating and joining the concerted efforts by the government in its path to fiscal consolidation and sound Public Financial Management practices. Sound Public Financial Management System has potential to contribute to economic growth.

The 2010/11 budget has not been an easy exercise for the government, given a sharp decline in SACU revenue that has traditionally constituted over 50 percent government revenue. The main challenge has been to prioritise expenditure areas with the aim of reducing expenditure while minimising negative effects on service delivery by the government and ensuring that economically disadvantaged and vulnerable Basotho are protected. In 2010/11, the total revenue collection is expected to fall from its historical M9,377.1 million in 2009/10 to M8,145.7 million in 2010/11 due to massive decline in SACU revenues. Although, there are prospects of growth in tax revenue, grants and other revenue receivable by the government, their magnitude is not large enough to offset the wider gap created by the fall in SACU revenues. Total government revenue is further expected to decline to M7,782.6 million in 2011/12 before rising sharply to M10,115.1 in 2012/13 due to expectations of a global economic recovery.

The overall reduction in total revenue has forced the government to review its expenditure patterns, prioritise expenditure areas and cut recurrent budget expenses from M7,328.3 million in 2009/10 to M6,722.9 million in 2010/11. The recurrent expenses are expected to fall to M6,556.2 million in 2011/12 and M6,975.4 in 2012/13. Nevertheless, the government continues to commit more funds to infrastructure development in the country. In this respect, the government has increased domestically funded allocations for capital budget expenses from M917.6 million in 2009/10 to M1,466.3 million in

2010/11. Government plans to increase infrastructure allocations and spending capacity over the medium to long term.