

GOVERNMENT OF LESOTHO

THIRD QUARTER PERFORMANCE BUDGET AND FISCAL BULLETIN MINISTRY OF FINANCE



Ministry of Finance
Government of Lesotho

Budget & Fiscal Bulletin
Third Quarter Report – 2019/2020

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Foreword from Principal Secretary of the Ministry of Finance

As we complete yet another quarter of the financial year, the Ministry of Finance is obliged to report on the use of public funds. We continue to observe our commitment and responsibility in ensuring budget transparency by communicating successes, failures and challenges as we implement government policies and priorities set at the beginning of the financial year.

I am pleased to share the third quarter issue of the Budget and Fiscal Bulletin 2019/20 as a way of acknowledging the right of access to public sector information. This transparency tool is intended to reinforce the voice of the citizens by helping them to exert influence on decision making, among other reasons. Thus, it is imperative that it reaches all intended groups for it to be beneficial.

Fiscal transparency is an important element in the effective management of public finances, and it helps in building confidence of the general public in the work of government ministries and other public institutions. I should emphasize that the shared data in these documents are well analyzed and scrutinized since it makes it possible for the citizens, government, creditors and participants in the financial markets to precisely measure the financial position of our country.

This paper summarizes the fiscal performance of the third quarter covering performance of revenues and expenditure, within the context of quarterly projections. Emphasis is put on the effectiveness rather than efficiency of government revenue and expenditure as a measure to determine the extent to which government has collected and spent planned revenue and expenditure respectively. To measure effectiveness is to gauge the extent to which both revenue and expenditure have reached the (quarterly) mark of the annual budget estimates.

The bulletin is divided into three sections. Section one discusses the macroeconomic outlook and issues

that correspond with the submission of the FY 2019/20 budget to Parliament. Section two presents the budget and fiscal developments and is divided into three sub-sections, which deal with the execution of the Government's budgetary transactions (recurrent and capital expenditures) and revenue analysis. Section three provides a summary of the Government's initiatives in the PFM reform arena.

Introduction

This bulletin creates a platform for continuous sharing of information on how government generated its revenue and expended funds in various sectors. It gives a quarterly overview of revenue collections and cumulative expenditure performance. It communicates challenges and achievements as implementation rolls and allows for timely employment of corrective measures where necessary.

The Macroeconomic developments, together with Budget and Fiscal developments, are illustrated in this paper. The intention being to review, and share information on whether the government's budgetary objectives and policy intentions are being met or at the least, in progress.

The 2019/20 fiscal year's total Approved Budget is M19,012.5 million, of which the Recurrent Budget accounts for M13,844.0 million and the Capital Budget, for M5,168.5million. This compared with a total of M17,114.4 million for fiscal year 2018/19.

The bulletin is divided into two sections. Section one discusses the macroeconomic outlook. Section two presents the budget and fiscal developments and is divided into three sub-sections, which deal with the execution of the Government's budgetary transactions (recurrent and capital expenditures) and revenue collection.



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Section 2 – Budget and Fiscal Developments

Section 2:1 – The Third Quarter's Revenue Collection

Table 1: Budgetary Operations – Q3:2019/2020

Budget Operation September - December		
Millions of Maloti		
Revenue		3 995.0
Expenditure		5 360.1
of which:		
Recurrent		4 650.0
Capital		710.1
Budget Balance		(1 365.1)

Note: The budget balance is estimated due to certain discrepancy in data reconciliation.

The overall budget balance for this quarter is estimated at a M (1,365.1) million owing to lower than anticipated revenue especially with regard to the tax revenue and non-tax revenue.

Section 1 – Macroeconomic Developments

The current economic environment remains challenging. The macroeconomic stability being susceptible to volatile SACU revenues and high and rising recurrent expenditures. While capital spending in recent years and investments prospects remain largely unsatisfactory.

Section 2 – Budget and Fiscal Developments

This section discusses the overall trends on revenue and expenditure for the third quarter period. It compares quarter to quarter revenue as well as performance.

Section 2.1 – The Third Quarter Revenue Performance

During the quarter under review, total revenue collections recorded a downward trajectory. It declined by 7.6 percent against the target and also dropped marginally by 0.6 percent compared to the same period of last year. This was essentially due to a decline in tax revenue as well as non-tax revenue. Table 2

shows the different tax components and their performance against the same period of last year.

Tax revenue shrank by 2.5 percent against last year and 7 percent against target. Other revenues also recorded a decline of 37 percent and missed the target by 47 percent. While Grants grew by 6.2 percent.

Figure 1: Revenue Shares 2019/20 (in Millions of Maloti)

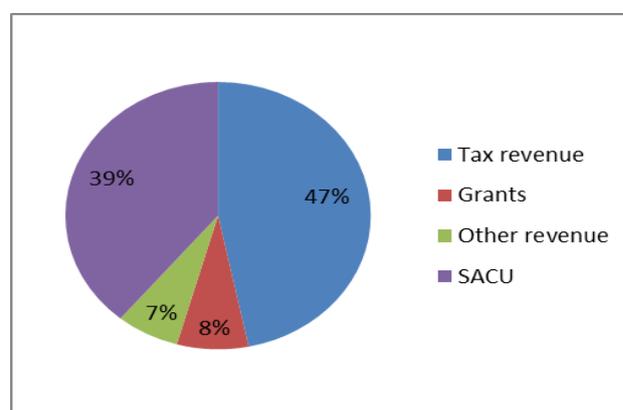


Figure 1 above presents the contribution of tax types as a total tax. Total tax is mainly supported by tax revenue at about 49 percent of the total revenue. This is followed by SACU receipts at about 39 percent while Grants and Other Revenue contributes 8 and 7 percent respectively.

Table 2: Revenue quarterly Performance (in Millions of Maloti)

Revenue Items	2018/19 quarterly	2019/20 quarterly	Growth in percent
Tax Revenue	1,925	1,868.9	-2.5%
Grants	285.3	303	6.2%
Other Revenue	423	266.3	-37%
SACU	1,385	1,556.6	12.5%
Total	4020.2	3,994.8	-0.6 %

Grants grew by 6.2 percent against the same period of last year. This are mainly capital grants which are funded from development partners primarily for sector projects.

Tax Revenue



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The main drivers under tax revenue, are personal income tax and consumption tax. Personal income tax comprises of pay- as - you earn and corporate tax. Personal income tax decreased by 11.4 percent compared to last year collections and missed the target by 6 percent. This is explained by unfavourable economic prospects.

Corporate Income tax (CIT) also registered a slight growth of 4 percent against the same period of last year but then registered 14 percent against the target.

VAT collections for the quarter recorded growth of 2.4 percent against the same period of last year. This was mainly brought by an insignificant increase in disposable income.

Other Revenue

Ministries are mandated to raise certain taxes, levies and duties but their ability to do so is limited. Table 2 depicts a decline in collections for this quarter at around M311 million against the actual collection of M423 million in 2018/19. Notwithstanding the upward revision of some fees/levies and charges in the current fiscal year, nontax collections remain below expectation. It has also missed the quarterly target by 37 percent. This is attributed by reduction in some revenue items. For example, it is worth noting that Lesotho was faced with drought around August –November 2019 such that the water transfer service was compromised. Thus, Water royalty's revenue realised a drop in collections.

SACU

It is worth mentioning that SACU revenue is divided into quarters which is four equal amounts of the fiscal year budget. Therefore, the third quarter, SACU receipts recorded M 1,556.6.6 million. This present a slight improvement in the collection owing to economic developments in the South African economy affecting the pool's scope and size.

Section 2:2 – The Third Quarter's Recurrent Expenditures

Table 5: 2019/20 Third Quarter Recurrent Budget Performance

THIRD QUARTER RECURRENT EXPENDITURE AS AT 31 DECEMBER 2019								
SUBHEAD	APPROVED BUDGET	REVISED BUDGET	WARRANT RELEASED	TOTAL EXP	CASH BALANCE	BUDGET BALANCE	Exp as % of Warrant Released	Exp as a % of Revised Budget
41- Compensation of Employees	7 245.9	7 081.5	6 100.7	5 121.4	979.3	1 960.1	84%	72%
42- Travel and Transport	489.7	511.2	423.8	334.8	89.0	176.4	79%	65%
43- Operating Costs	2 218.0	2 274.8	1 826.4	1 512.8	313.6	762.0	83%	67%
46- Interest	393.6	318.7	318.7	318.7	-	-	100%	100%
47- Transfers	1 984.3	2 187.4	1 687.6	1 539.5	148.1	647.9	91%	70%
48- Other Expense	631.9	654.7	648.2	639.0	9.2	15.7	99%	98%
51- Acquisition of Financial Assets	29.4	4.4	-	-	-	4.4	0%	0%
52- Acquisition of Monetary Gold and Special Drawing Rights	2.5	2.5	-	-	-	2.5	0%	0%
53- Acquisition of Non Financial Assets	35.7	49.4	47.4	41.9	5.5	7.5	88%	85%
59- Contingency Fund	100.0	6.0	-	-	-	6.0	0%	0%
62- Principal Repayments	737.0	811.9	561.6	561.6	-	250.3	100%	69%
Grand Total	13 868.0	13 902.5	11 614.4	10 069.7	1 544.7	3 832.8	87%	72%

Source: Ministry of Finance; Budget Department

The approved Recurrent Budget for the financial year 2019/2020 stands at M13.8 billion. It consists of the personal emoluments of M7.2 billion and M6.6 billion of the recurring yearly operations. The approved budget was revised to M13.9 billion as at 31st December 2019. Out of the revised budget, M11.6 billion was released to line ministries, of which M10.1 billion was spent. The recorded expenditure translates into 72 percent of the revised budget indicating good performance.

The recorded increase in this quarter's Recurrent Budget was due to the reallocation of the Capital Budget to the contingencies fund which was depleted. The reallocation to the contingency was to the tune of M73.6 million. Thus, the funds allocated under the Contingencies Fund increased to M173.6 million and were transferred to line ministries hence its remaining revised budget sat at M6.0 million. Out of the M73.6 million, M14.3 million was transferred back to the capital budget under different projects hence the difference between the approved and revised budget is M59.4 million.

Sub-Head Analysis:

Compensation of Employees



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Under this category, some ministries over budgeted the salaries hence the expenditure is below the expected 75 percent. Such funds were identified and proposed for reallocation to finance famine relief program that is on the pipeline and awaiting Cabinet Approval. The identified ministries include; Ministry of Agriculture and Food Security, Ministry of Health, Ministry of Public Works, Ministry of Defence and National Security, Ministry of Local government and Chieftainship Affairs.

On the other hand, close to half of the ministries were given funding under centralized items to finance shortfalls under compensation of employees, while the ministry of Water and ministry of Defence and National Security showed a decline in the revised budget of personal emoluments due to virements made to operating costs.

Travel and Transport

Under this segment, the revised budget increased from M489.5 million to M511.2 million. The increase was caused by virements within ministries and transfers from the contingencies fund. The key cost drivers being short term hire (M129.6 million), subsistence international (M88.3 million), subsistence local (M88.1 million), Fuel and lubricants (M69.3 million), fares international (M63.8 million) and vehicle maintenance and repairs (M62.5 million). The total amount of M19.4 million was transferred from Contingencies Fund to cater for international travel of the following ministries; Prime Minister's office, His Majesty's Office, National Assembly, Ministry of Tourism, Environment and Culture and Senate.

The total expenditure stood at M334.8 million, which is the spending incurred under; Subsistence International to the tune of M75.1 million, Short-Term Hire M73.2 million; and Subsistence Local and Fares International with approximately M49 million each.

Operating Costs

The budget of operating costs increased by M56.6 million putting the Revised Budget at M2.27 billion as a result of said reallocation from Capital Budget

to Recurrent Budget and virements from Personal Emoluments. The cumulative expenditure under this category stood at M1.5 billion which is 67 percent of the revised budget. The recorded expenditure consists mainly of; Purchases of Health Services with M752 million, Drugs of M206 million, Purchases and Production of material of M144.8 million, Rent and Lease of Building for government use of M97.4 million as well as Communications and Utilities of M45.6 million and M54.6 million respectively.

Debt Service

The Budget under Debt Service is disaggregated into Principal Repayments and Interest. The allocations were M737.1 million and M393.6 million for Principal Repayments and Interest respectively. In the third quarter, the cumulative payment of the external debt stood at M561.6 million while the external interest repayments accounted for M153.4 million. Interest paid for domestic borrowing was to the tune of M45.5 million for the Treasury Bills and M119.8 million under the Treasury Bonds. The total interest paid amounts to M318.7 million.

Transfers

The approved budget stands at M1.9 million which was revised to M2.3 million within the third quarter. The increase is as a result of virements from Centralised Items to the Ministry of Finance under the Youth Apprenticeship Program of M30.0 million which is budgeted under Centralised Items Head but spent under the Ministry of Finance, and virements to Lesotho Revenue Authority (LRA) M30.0 million to facilitate old arrears that were due to LRA. Ministry of Education and Training's budget was revised by M100.0 million from the Centralised Items Head which was to cater for; the issues of teachers' arrears, shortfalls under institutions of higher learning, particularly National University of Lesotho and Lesotho College of Education, utility grant which is provided by the government of Lesotho to supplement free primary education and shortfalls under fencing of the proposed school of fashion, design and textiles. Lastly, LHDA received an increase of M39.7million for refurbishment of Muela Hydro-power Station.



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A large chunk of the Transfers allocations goes to Pensions with M802.7 million, Lesotho Revenue Authority M332.0 million, Lesotho Highlands Development Authority M73.2 million and Institutions of Higher Learning M323.6 million and social assistance, both in-cash and in-kind at M192.0 million.

Section 2:3 – The Third Quarter’s Capital Expenditures

Table 6: 2019/20 Third Quarter Capital Budget Performance

THIRD QUARTER CAPITAL EXPENDITURE AS AT 31 DECEMBER 2019								
	APPROVED BUDGET	REVISED BUDGET	WARRANT RELEASED	TOTAL EXP.	CASH BALANCE	BUDGET BALANCE	Exp as % of Warrant Released	Exp as a % of Revised Budget
1- GoL	2 831.20	2 771.90	2 105.10	2 017.50	87.6	754.40	96%	73%
2- Dev Partner Grants	1 015.1	1 015.1	0	0	0	1 015.1	0%	0%
3- Dev Partner Loan	1 322.10	1 322.20	0.00	0.00	0	1 322.2	0%	0%
Grand Total	5 168.4	5 109.2	2 105.1	2 017.5	87.6	3 091.7	96%	73%

Source: Ministry of Finance; Budget Department

The approved Capital Budget funded by the Government of Lesotho for the financial year 2019/20 is M2.8 billion and was revised to M2.77 billion. As indicated above, funds were reallocated from projects with low performance to replenish the Contingency Fund and finance other projects that were performing beyond expectation and needed more funds. The warrants released are approximately equivalent to expenditure since most releases under this expenditure class are done upon request to pay invoices on work done.

The overall capital expenditure sits at M2.0 million which translates to 73 percent of the revised budget. Some ministries indicate high performance ranging from 60 percent to 95 percent of the revised budget.

Sectoral Analysis:

Economic Sector

Ministry of Agriculture and Food Security

The Ministry was allocated M34.8 million under government funding with the aim of increasing agricultural production and productivity. This is done

through implementation of the following projects in the current financial year: Mushroom Production Project, Irrigated crop Production, Wool and Mohair Production Project and Small Holder Development Project. The overall performance of the ministry under the government funding stands at 45 percent of the Revised Budget. The low expenditure is due to the following reasons;

- The mushroom production house burnt down hence production of mushroom spawn was moved to Agricultural College where it is done at a lower scale
- Main activities under the smallholder project are funded by Donor Grant and Loan. Government component finances mainly Gratuities thus significant expenditure will be realised at the end of a financial year.
- Construction works of wool sheds continues in all ten districts financed by Donor loans and Grants. The Government component caters main for VAT.
- Revamping of irrigation systems is in progress in the district of Butha Buthe at Nkhaketse and ‘Malere, even though there are challenges with the contractor which are being addressed. Procurement of irrigation material for Setibing is in progress and its expenditure will reflect in the following quarter.

Ministry of Trade and Industry

Government of Lesotho capital allocation under this ministry stood at M117.3 million to strengthen investment and trade promotion and promote standards and quality infrastructure. The objectives will be achieved through implementation of the following projects: Belo Industrial Infrastructure, Tikoe Industrial Infrastructure, Standards and Quality Infrastructure, Private Sector Competitiveness and Economic Diversification II and Economic Diversification Support Project. The budget was revised to M173.8 million during reallocation to facilitate speedy implementation of Belo Infrastructure Project. The overall expenditure recorded M162.9 million which is 94 percent of the revised budget.



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Belo Industrial Infrastructure: This project aims at developing infrastructure and sixteen factory shells.

- ✓ Superstructure steel work for all 16 factory shells is advancing well and is approaching completion for 13 of the 16 shells with 3 at less than 50 percent of completeness.
- ✓ Factory shell retaining walls are progressing and roof sheeting pressing and rolling has commenced on site.
- ✓ Road works construction including drainage works progress is at 65 percent.
- ✓ Sub surface services which include storm water drainage, sewer line, potable water line, electrical and telecommunications sleeves are at 85 percent.

Tikoe Industrial Infrastructure

All roads have been set out and excavations are progressing. Work on the estate fencing, sewerage reticulation system as well as 2 platforms that were already allocated before the project commenced have been prioritised on the works programme.

Ministry of Small Business Development, Cooperation and Marketing

The ministry was allocated M71.9 million towards increasing growth and market share coverage. This is done through the following projects: Capacity Building to SMME's, Market Centres, Slaughter House, Refurbishment of BEDCO Estates and Refurbishment of Lesotho Cooperative College. The ministry's expenditure M25.6 million showed poor performance hence funds M26.0 million were reallocated to high performing projects.

Ministry of Tourism and Environment

The ministry was allocated M91.0 million to develop and promote tourism industry as a generator of economic growth. The budget was revised to M73.0 million due to poor performance under National Museum and Art Gallery Project. The overall expenditure was M37.7 million which is 52 percent of the revised budget.

Ministry of Communications, Science and Technology

The approved capital budget under this ministry was M35.5 million which was geared towards providing

affordable, reliable, sustainable and accessible communications services. The projects of Transforming Broadcasting Mode and E-Government are aimed at achieving the ministry's goals. The overall expenditure was M31.7 million which translates to 89 percent of the revised budget.

Ministry of Mining

The ministry was allocated a modest budget of M17.9 million to increase investment in the mining sector. The following projects are implemented under this ministry; Lesotho Geo-Chemical Mapping and Construction of Geoscience Laboratory. The revised budget dropped to M7.9 million due to poor performance under the construction of Geoscience Laboratory. The aggregate performance recorded M2.2 million of the revised budget which translates into 27 percent of the revised budget.

Infrastructure Sector

Ministry of Local Government and Chieftainship Affairs

The ministry was allocated a significant chunk of M388.1 million to develop and upgrade rural roads and local councils' infrastructure. The expenditure recorded a 95 percent of the revised budget. Nonetheless, this might not be the actual expenditure on the ground since when funds are transferred from the consolidated fund to the commercial banks it is recorded as expenditure in the system. Thus, expenditure under Development of Rural Community Roads and Urban Roads Upgrading projects is incurred outside the system.

Ministry of Energy and Meteorology

The Ministry of Energy and Meteorology was allocated M200.6 million to increase energy access and to enhance climate change adaptation, mitigation and ozone layer protection. Its revised budget was increased to M220.6 million due to the high performance that was reported under Rural Electrification project which is implemented by Lesotho Electricity Company (LEC). Funds are also transferred to LEC account and recorded as expenditure in the system. Northern District Project was also given additional



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funding to complete minor activities that lagged behind preceding its closure in December 2019. The total expenditure sat at M207.7 million.

Ministry of Water

The ministry of Water was allocated M173.9 million which was revised to M154.6 million during reallocation. This decline was due to under performance in the following projects; Village Water Supply, Five Towns Water and Sanitation, Greater Maseru Water Supply and Integrated Catchment Management. The ministry's objectives include strengthening the development and management of water resources and increasing access to water and sanitation services to all consumers reliably, affordably and on a sustainable basis. It is implementing eleven projects with the aim of achieving its goals and the aggregate expenditure sat at 54 percent of the revised budget.

Ministry of Public Works

The ministry also takes a large share of M428.2 million towards implementation of 15 projects. The objective of the ministry centres on improving access to economic and social services through transport infrastructure. The revised Budget was elevated to M446.7 million to cater for shortfalls under Marakabei-Monontša Project. Pavement Strengthening was also given an increase of M3.5 million from the Contingency Fund in preparation of the King's birthday. The overall expenditure sat at M346.9 million, translating into 78 percent of the revised budget. Tele-Alwyn's Skop Road and Bethel Bridge (Construction) projects had been completed

Human and Social Development Sector

Ministry of Ministry of Health

The approved budget of the ministry was M103.4 million and during reallocation was reduced to M78.4 million. The reallocation was done from the following projects due to delayed implementation; Support to Immunisation, Construction of Cancer Treatment Centre and Construction of Maseru District Hospital. The aggregate expenditure sat at M53.7 million which is equivalent to 69 percent of the revised budget.

Ministry of Education and Training

The Ministry of Education and Training had an approved budget of M59.8 million, which was revised to M60.8 million. It is implementing five projects aimed at improving access to quality and relevant education and training at all levels. The overall expenditure sat at M20.9 million which is equivalent to 34 percent of the revised budget.

Ministry of Gender, Youth, Sports and Recreation

The approved Budget of the ministry was M58.4 million and was reduced to M52.7 million as a result of underperformance of Vocational Training Centres. The expenditure sat at M42.9 million which translates to 82 percent of the revised budget.

Section 3 – Public Financial Management & Human Resource Management Reforms

The following are actions delivered under the ongoing PFM and Public Sector Modernisation programs:

- 1. Launch of the Lesotho Poverty Assessment Report.** Following completion of technical input financed by the project, the World Bank in collaboration with key Government Ministries launched the Country Poverty Assessment report at Manthabiseng Convention Centre. The project disseminated 600 copies of the poverty profile report at this event (500 main reports, and 100 highlights/summary version reports). This report profiles the nature and evolution of poverty in Lesotho, and outlines progress and challenges to date.
- 2. Presentation of Findings of Human Resource Management Information System (HRMIS) Assessment.** The Ministries of Finance and Public Service were presented initial findings of the HRMIS/Payroll System Assessment. The assessment confirms that the system is unfit for purpose, not operating in compliance with policy/guiding legal frameworks, misaligned with HR processes, running on obsolete infrastructure and governed by economically unfavourable



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maintenance agreement to the Government of Lesotho. The assessing firm has advised Government to consider acquiring a new system in light of the vendor set to end support to the system.

3. Completion of HRMIS Business Processes.

Under the oversight of the Ministry of Public Service Technical Team, AH Consulting has delivered final reviewed business process document. This takes into account the findings of the HRMIS Assessment as well, and dovetails with recommendations of the same.

4. Biometric and Payroll Census.

The census work has been completed and quality assurance of the census data undertaken. The Ministry of Public Service is preparing for launch of a structured process for addressing anomalies identified by the census. This process will begin by publishing of names of individuals who were not found during the census. Names will be published at each respective Ministry. Civil Servants and Pensioners whose names shall appear on the lists will be expected to report to the census central office for a process to further verify their legitimacy to be on civil service payroll. This process is to take a full month following which names of those who will not present themselves will be suspended and eventually struck off the payroll.

5. Capacity Building of PAC and Economic Cluster portfolio Committees.

The Southern African Parliamentary Support Trust (SAPST) currently provides technical assistance to the Lesotho Public Accounts Committee (PAC). SAPST delivered two workshops for the portfolio committees. Aimed at the following (i) Understanding the Legal Framework Governing Public Finances; (ii) The Status of the AG Reports in Lesotho; (iii) OAG Reports analysis Techniques; (iv) Detailed Analysis – A Practical Approach; (v) Roles and Responsibilities of the PAC within PFM Systems; (vi) Tools and Strategies in the Budget Cycle; (vii) Value for Money (VFM) Audit; and (viii) Forensic Audits.

This Newsletter is published under the authority of the Minister of Finance.

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