

# **GOVERNMENT OF LESOTHO**

**2020/2021 SECOND QUARTER  
PERFORMANCE**

**BUDGET AND FISCAL  
BULLETIN**

**MINISTRY OF FINANCE; P.O BOX 395; MASERU 100**



Ministry of Finance  
Government of Lesotho

**Budget & Fiscal Bulletin**  
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**FOREWORD FROM PS FINANCE**

In an effort to foster integrity and transparency in Government finances, I present the second quarter “Budget and Fiscal Bulletin” on its 6<sup>th</sup> year of development and publication. The implementation of the 2020/21 budget is carried out under stringent financial conditions amidst the coronavirus Disease-19.

The coronavirus Disease-19 has created a global crisis that has affected aspects of our everyday lives. Confronted by this unprecedented pandemic, we were all forced to deal with disruptions and deviations in our lives and now are facing a reality of having to deal with the “new normal”. It has radically altered life as the World knew it.

The economic impact of COVID-19 has been severe. Lesotho anticipates a negative impact on real GDP in the current financial year. Unemployment, poverty levels and food insecurity are expected to worsen hence Government must act strategically in mitigating the impact.

To support economic recovery, it is critical that the fiscal imbalances do not continue to widen beyond sustainable levels. With mounting debt repayments and interest payments claiming a significant portion of our revenue, the public finances need to be monitored closely. Stabilizing debt to avoid such a crisis will require significant expenditure reductions across Government.

Through these bulletins, Government continues to communicate the developments in our fiscal policy together with accomplishments and impediments during implementation. This is done with an intention of keeping the Public, and the International community in the light.

**INTRODUCTION**

The presented bulletin summarizes the fiscal performance of the second quarter covering actuals of revenue and expenditure, within the context of quarterly execution. This paper puts more emphasis on the effectiveness of spending units during implementation, thus gauging expenditure against the warrants released and the revised budget each quarter.

In July 2020 special adjustments were approved by Cabinet to the budget in an environment of extreme uncertainty. The revised recurrent budget by the end of the second quarter accounted for 82 percent of the total budget, lowering capital investment further to 18 percent of the total Government funding.

The bulletin is divided into three sections. Section one discusses the macroeconomic outlook and issues that correspond with the submission of the 2020/21 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.

**SECTION 1 – MACROECONOMIC DEVELOPMENTS**

Lesotho’s economic growth path point to a weak economic activity largely due to a sluggish global economic growth in advanced economies coupled with the weaker momentum in the South African economy. This outcome was mainly ascribed to the intensified US-China trade tensions.

Slow economic activity in the domestic economy was felt during the second quarter of 2020, driven by weak performances across sectors. The decline was observed in the key sectors, such as mining, manufacturing, tourism, transport, wholesale and retail



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trade. This was due to the COVID-19 negative impact in supply chain, thus hampering trade as most textiles and apparel firms in the country source raw materials from China, which is the epicentre of the pandemic. While the decline observed in the mining sector was largely because of lower production activity during the lock down coupled with reduction in diamond price. In light of the prevailing developments, the projected growth for 2020/21 was revised downwards to -3.3 percent from the pre COVID-19 expected growth of -1.3 percent.

In the medium term, economic growth is expected to slowly recover, boosted by construction-related projects including construction works associated with the second phase of the Lesotho Highlands Water Project (LHWP II), the Lesotho Lowlands Water Development Projects as well as green energy projects .

**Table 1: Budgetary Operations – Q2:2020/2021**

| Millions of Maloti    |                |
|-----------------------|----------------|
| <b>Revenues</b>       | <b>4 485.1</b> |
| <b>Expenditures</b>   |                |
| of which              |                |
| <b>Recurrent</b>      | <b>3 397.6</b> |
| <b>Capital</b>        | <b>1 616.5</b> |
| <b>Budget Balance</b> | <b>(529)</b>   |

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

During the quarter in review, Table 1 presents the budget balance as estimated at deficit of M529 million, mainly due to a rise in loan disbursements following resumption of projects implementation after the budget approval and easing lockdown conditions.

## SECTION 2 – BUDGET AND FISCAL DEVELOPMENTS

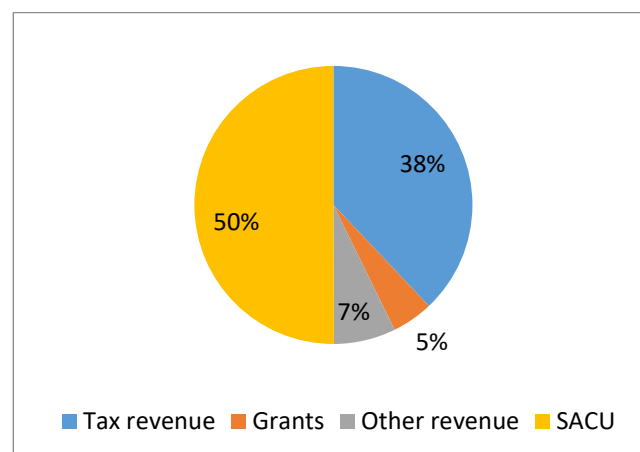
### SECTION 2:1 – THE SECOND QUARTER REVENUE PERFORMANCE

During the second quarter, the government put in place several tax reliefs measures to mitigate against

and ameliorate the economic impact of the pandemic on the economy. Therefore, total revenue collections were estimated to decline sharply during this period compared to the previous fiscal year, despite higher SACU receipts. This is also owing to subdued economic activity.

The total tax collections grew by 6.2 percent recording M4, 485.1 million compared to the same period of the previous year. This increase was mainly observed in SACU revenues, while other tax types declined (see Table 2).

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



However, the contributions by tax type, maintained the old pattern, where SACU receipts is the largest share of the total revenues at about 50 percent of the total revenue. This is followed by Tax revenue receipts at 38 percent while Other Revenue and Grants contributes 7 and 5 percent respectively (Figure 1).

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

| Revenue Items | 2019/20 Quarter | 2020/21 Quarter | Growth in percent |
|---------------|-----------------|-----------------|-------------------|
| Tax Revenue   | 2,079.5         | 1,702.1         | -18.1%            |
| Grants        | 253.8           | 214.9           | -15.3%            |
| Other Revenue | 333.1           | 323             | -3%               |
| SACU          | 1,556.6         | 2,245.1         | 44.2%             |
| <b>Total</b>  | <b>4,223.0</b>  | <b>4,485.1</b>  | <b>6.2 %</b>      |



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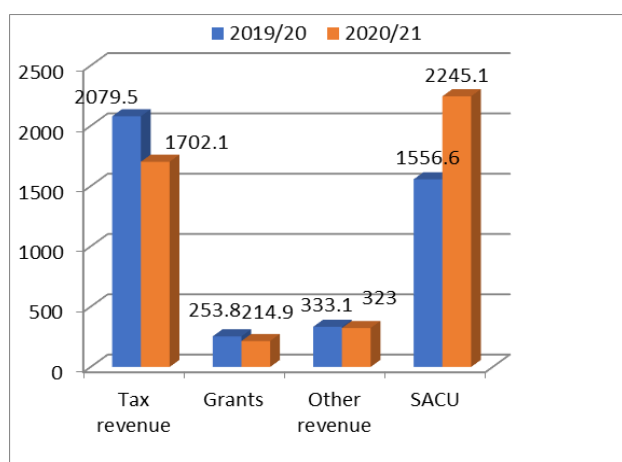
**Tax Revenue**

Under tax revenue the main drivers are personal income tax and VAT. Personal income tax comprises of pay- as - you earn and corporate tax. Personal income tax recorded only 9 percent compared to the same period of last year. It constitutes 39 percent of the tax revenue. This growth was due to the increase in civil servant's salaries which includes first quarter arrears following approval of salary increment in June.

Corporate Income tax (CIT) generates substantial revenues but is constrained by tax reliefs in a form of incentives and generous depreciation rules, which together result in forgone revenues. It saw the highest decline of 76 percent against the same period of last year and contributed 3 percent of the total tax revenue.

VAT collections for the quarter contracted by 3 percent against the same period of last year. This collection contributed around 37 percent of the tax revenue. This was attributable to the decline in retail and wholesale sector and the reduction in disposable income coupled with uncertainty caused by the pandemic.

**Figure 2: Revenue Performance (in millions of Maloti)**



**Other Revenue**

Table 2 depicts a decline in collections for this quarter at around M323 million against the M333 million of 2019/20. This is the revenue which Ministries are mandated to collect, such as levies and duties but

their ability to do so is limited. In the same quarter of 2019/20, other revenue made up only 7 per cent of total revenue and while this quarter it has declined by 3 per cent. This can be attributed to lack of effective monitoring and management of non-tax revenues by the ministry of Finance.

**SACU**

It is worth mentioning that SACU revenue is divided into quarters which is four equal amounts of the fiscal year. Therefore, the second quarter, SACU receipts recorded M 2, 245.1million. This present a 44 percent increase in the collection owing to the anticipated economic developments in the South African economy before the COVID-19 pandemic negative impact.

**SECTION 2:2 – THE SECOND QUARTER RECURRENT EXPENDITURES**

**Table 3: 2020/21 Second Quarter Recurrent Budget Performance**

|                                   | APPROVED BUDGET | REVISED BUDGET  | WARRANT RELEASE Q2 | WR TO DATE     | EXPENDITURE Q2 | EXP TO DATE    | BUDGET BALANCE | EXP TO DATE %WR TO DATE | EXP TO DATE %RB |
|-----------------------------------|-----------------|-----------------|--------------------|----------------|----------------|----------------|----------------|-------------------------|-----------------|
| 41- Compensation of Employee      | 7 768,3         | 7 779,4         | 1 916,6            | 3 840,9        | 1 714,3        | 3 228,4        | 3 938,6        | 84%                     | 41%             |
| 42- Travel and Transport          | 543,6           | 417,4           | 76,3               | 143,9          | 50,4           | 86,6           | 273,5          | 60%                     | 21%             |
| 43- Operating Costs               | 2 027,2         | 1 994,3         | 396,6              | 1 316,0        | 461,3          | 719,2          | 678,2          | 55%                     | 36%             |
| 46- Interests                     | 504,8           | 518,8           | 226,5              | 346,4          | 226,5          | 346,4          | 172,5          | 100%                    | 67%             |
| 47- Transfers                     | 3 329,2         | 3 570,4         | 1 059,4            | 1 741,0        | 1 085,1        | 1 637,2        | 1 829,4        | 94%                     | 46%             |
| 48- Other Expense                 | 952,3           | 952,3           | 234,5              | 468,2          | 233,9          | 464,2          | 484,1          | 99%                     | 49%             |
| 49- Losses                        | 100,0           | 100,0           | 1,9                | 3,9            | 1,7            | 1,7            | 96,1           | 44%                     | 2%              |
| 51- Acquisition of Financial Asse | 4,5             | 4,5             | 4,5                | 4,5            | 4,5            | 4,5            | -              | 0%                      | 100%            |
| 52- Acquisition of Monetary Gol   | 2,8             | 2,8             | 2,8                | 2,8            | 2,8            | 2,8            | -              | 0%                      | 100%            |
| 53- Acquisition of Non Financial  | 25,4            | 27,9            | 10,6               | 13,0           | 2,2            | 2,2            | 14,9           | 17%                     | 8%              |
| 61- Redemption of Bonds           | 907,0           | 1 284,3         | 112,4              | 379,0          | 112,4          | 312,2          | 905,0          | 82%                     | 24%             |
| 62- Repayments                    | 761,3           | 770,0           | 240,7              | 728,0          | 240,7          | 728,0          | 41,9           | 100%                    | 95%             |
| <b>Grand Total</b>                | <b>16 926,4</b> | <b>17 422,1</b> | <b>4 282,8</b>     | <b>8 987,6</b> | <b>4 135,8</b> | <b>7 533,4</b> | <b>8 434,2</b> | <b>84%</b>              | <b>43%</b>      |

Source: Ministry of Finance; Budget Department

The Recurrent Budget for 2020/21 as per the above table, recorded a Revised Budget of M17,422.1 million from the approved M16,926.4 million by the end of the second quarter, as shown on Table 3 above. Following the approval of the Budget by Parliament in June 2020, the Cabinet reallocated M374 million and M810 million from Recurrent and Capital Budget respectively, into the contingencies fund, to finance the prevention and mitigation measures for the COVID 19 pandemic.



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The contingencies fund continued to finance mainly, salaries subsidy of the industrial/ factory workers and implementation of COVID 19 response plan for the social protection mitigation to cater for vulnerable people and the elderly. Furthermore, funds were allocated for implementation of the response plan for the SMMEs' cash flow, of which Government has mandated LRA to implement the rent relief scheme as part of the economic relief measures to the business sector. Additionally, a supplementary budget was allocated in accordance with the obligation of clearing arrears.

The above contributed into the total injection of M894 million into the Recurrent Budget. The budget adjustments resulted in the overall additional balance of M495 million hence the revised budget of M17,422.1 as illustrated in table 3.

Focusing on the actual performance, the released second quarter warrants amounted to M4,282.7 million of which M4,135.8 million was spent. The cumulative expenditure as a percentage of warrants released to date and revised budget were 84 percent and 43 percent, respectively.

The expenditure under **Compensation of Employees** in the second quarter accounted for M1,714.3 million resulting into the cumulative expenditure of M3, 228.4 million which translates into 84 percent of the warrants released and 41 percent of the revised budget. Thus, the annual expenditure is expected to fall within the budgeted parameters.

Under **Travel and Transport**, the expenditure sat at M50.4 million hence the cumulative expenditure of M86.6 million which translates into 60 percent of the warrants released and 21 percent of the revised budget. Expenditure under this category continued to be low due to observance of COVID 19 restrictions.

The second quarter expenditure for **Operating Costs** amounted to M461.3 million, hence the cumulative expenditure of M719.2 million, which is attributable to 55 percent of the warrant release and 36

percent of the revised budget. The major focus continued to be on implementation of COVID 19 mitigations measure to protect the health status and livelihoods of Basotho in these trying times.

The second quarter expenditure on **transfers** recorded M1,085.1 million resulting into a cumulative expenditure of M1,637.2 million, which converts into 94 percent of the warrant released and 46 percent of the revised budget. This expenditure continues to finance mainly the Ministry of Health for transfers to Queen Mamohato Memorial Hospital, CHAL and other health institutions, Ministry of Education for grants to institutions of higher learning, Ministry of Finance for grants to LRA and to Pensions.

**Table 4: Public Debt Management**

|                              | Q4<br>2019/20   | Q1<br>2020/21   | Q2<br>2020/21   |
|------------------------------|-----------------|-----------------|-----------------|
| <b>Guarantees</b>            | 135,1           | 135,1           | 135,1           |
| <b>OUTSTANDING DEBT</b>      | <b>18 704,4</b> | <b>18 346,0</b> | <b>18 846,3</b> |
| <b>EXTERNAL DEBT</b>         | <b>15 756,7</b> | <b>15 398,3</b> | <b>15 804,4</b> |
| <b>Disbursements</b>         | 257,8           | 319,0           | 625,5           |
| <b>Total Debt Service</b>    | <b>287,0</b>    | <b>236,0</b>    | <b>295,1</b>    |
| <b>Principal Repayments</b>  | 202,3           | 197,8           | 199,4           |
| <b>Interest Payments</b>     | 84,7            | 38,2            | 95,7            |
| <b>DOMESTIC DEBT</b>         | <b>2812,6</b>   | <b>2812,6</b>   | <b>2906,8</b>   |
| <b>T-Bonds</b>               | 2382,6          | 2382,6          | 2476,8          |
| <b>T-Bills (Fiscal only)</b> | 430,0           | 430,0           | 430,0           |

Total public and publicly guaranteed debt stock at the end of second quarter was recorded at M18,846.3 million, an increase of M500.3 million from the previous quarter. External debt amounted to M15,804.4 million, an increase of M406.1 million from the previous quarter. External disbursements for the quarter amounted to M625.5 million (increased by M306.5 million from previous quarter), dominated by EXIM



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Bank China at M473.1 million while the rest came from Multilateral creditors.

Domestic debt stock on the other hand increased by M94.2 million to M2,906.8 million after the bond issuance of September 2020. Guarantees remained unchanged from the previous quarter at M135.1 million. The stock of T-Bills also remained unchanged at M430 million, (monetary policy T-Bills M882.1 million not included). There were no securities falling due during the second quarter.

**Section 2:3 – The Second Quarter’s Capital Expenditures**

**Table 6: 2020/21 Second Quarter Capital Budget Performance**

|                       | APPROVED BUDGET | REVISED BUDGET | WARRANT RELEASED Q2 | WR TO DATE     | EXPENDITURE Q2 | EXP TO DATE    | BUDGET BALANCE | EXP AS % OF WR | EXP AS % OF RB |
|-----------------------|-----------------|----------------|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 1. GOL Funding        | 2 689,7         | 1 931,4        | 736,6               | 912,1          | 681,3          | 837,7          | 1 023,0        | 92%            | 43%            |
| 2. Dev. Partner Grant | 858,2           | 858,2          | -                   | -              | -              | -              | 858,2          | 0%             | 0%             |
| 3. Dev. Partner Loan  | 2 056,8         | 2 056,8        | 935,2               | 1 253,8        | 935,2          | 1 253,8        | 2 056,8        | 100%           | 61%            |
| <b>GRANT TOTAL</b>    | <b>5 604,7</b>  | <b>4 846,4</b> | <b>1 671,8</b>      | <b>2 165,9</b> | <b>1 616,5</b> | <b>2 091,5</b> | <b>3 938,0</b> | <b>97%</b>     | <b>43%</b>     |

Source: Ministry of Finance; Budget Department

The approved Capital Budget for the year 2020/21 is M5,604.7 million. The Government of Lesotho (GOL), Donor Grants and Donor Loans are the sources of funding with contributions of M2,689.7 million, M858 million and M2,056.8 million, respectively.

The total Capital Expenditure for the second quarter stood at M681.3 million, hence the accumulated expenditure of M1,156.3 million, which represents 97 and 43 percent of the warrant released and revised budget, respectively. Owing to the unplanned need to finance COVID 19 mitigation measures and restrictions that emerged, investment on capital projects was scrutinised and paused where possible.

**SECTION 3 – PUBLIC FINANCIAL MANAGEMENT REFORMS**

The resumption of normalcy in Government operation presented an opportunity to slowly pick up several activities that had been on hold for the first quarter.

**1. NSDP II Financing Strategy.** The strategy has been completed and endorsed by the Ministry of Development Planning. It is important to note that the underlying assumptions of the financing strategy were updated to reflect early COVID-19 pandemic conditions, however, there is a need to continuously analyze and update the strategy to align with prevailing conditions.

**2. Citizens Feedback Mechanism (CFM).** The CFM system has been configured and synced with Econet and Vodacom through one single pathway connection routing through Econet. End-to-end testing for the SMSs to both telecoms users was done successfully. **System Configuration** - The system is now fully configured and available on the following link: <http://cfm-lesotho.org:0808>. **Training** – The International Consultant is currently working on development of the training material and system manual. The training dates for Key Users and Selected Pilot Ministries in November 2020.

**3. Review of the Performance Management System (Civil Service and Teaching Service).** The assignment has been completed. A report on the activity has been approved by Ministry of Public Service. The report contains the following key elements:

- The vision of the GOL on the new PMS and its expectations of the system.
- Key design principles emanating from the expectations and vision of the system.
- The methodology and approach that will be used to implement the PMS.
- The implementation approach which will take advantage of the Space for Change identified in the process of unpacking the system



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vision and its implementation during engagements with the key stakeholders.

- The Change Management Program (CMP) to support the implementation of the system.
- A high-level implementation program of the system which aligns with the CMP and the dependencies outlined in the Interim Report of this project.
- Detailed implementation plan for performance management system.

**4. Change Management.** The Consultant has delivered a two-day virtual training on Change Management to the Ministry of Public Service technical committee. This training is a refresher and prerequisite for planned workshops on the following subject matters:

- HR Policy Changes and Operationalization of the same.
- HR Business Processes that are new and Operationalizing the same; and
- Development of Ministry Change Plans with the HR Directors and Monitoring the same.

**5. Finalization of Procurement Suite: Regulations, SBDs, Operations Manual, and Planning and Reporting Tools.**

- The first draft of procurement regulations has been completed and is being validated by Public Procurement Advisory Department to assure comprehensiveness and alignment with Procurement Bill.
- The Organizational Structure and Job Descriptions of the Central Tender Board have been completed and submitted for review and approval.
- A Revised/updated procurement operational manual has been completed and submitted for review and approval
- Standard Bidding documents for: Goods (i) [National/International Competitive; Tenders] and (ii) Request for Quotations; Works [(i) National/International Competitive Tenders], Consultancy Services [(i) National/International Competitive Tenders and (ii) Request for Proposal], and Non-consultancy

services [(i) National/International Competitive Tenders and (ii) Request for Quotations] have all been completed and await approval.

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