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QUARTER PERFORMANCE



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Ministry of Finance
Government of Lesotho

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Third Quarter Report – 2020/2021

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Foreword from Principal Secretary of the Ministry of Finance

I present to you the third quarter Budget and Fiscal Bulletin 2020/21 at a time when Lesotho is undergoing grief consequent to disasters imposed by COVID-19 on its people and their livelihoods. The COVID-19 has not only been a health crisis but has also impacted adversely on the economy. The economic crisis induced by this health calamity is debilitating.

This unprecedented pandemic simultaneously disrupted the demand and supply in our economy. The business activity contracted as countries implemented containment and mitigation measures. The disruptions in supply and value chain dampened the demand for goods, resulting in layoffs, hence a fall in household consumption and firms' investment.

On the other hand, the gaps in health systems and infrastructure have left the country susceptible to more demises hence the health sector continues to be the paramount priority for the Government.

Amidst this global turmoil, the government continues to carry forth its transparency obligation by communicating its revenue collection and expenditure during the third quarter which I here present.

Introduction

This Budget and Fiscal Bulletin summarises the fiscal performance of the third quarter, covering the performance of revenues and expenditure.

It follows a three-sectional structure. Section one conveys 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 the following sub-sections; revenue analysis, execution of the Government's budgetary transactions (recurrent and capital expenditures) and the status of public debt. Section three provides a summary of the Government's initiatives in the Public Financial Management (PFM) reform arena.

The feeble economic activity at the global and national level continue to adversely affect revenue collection. On aggregate the tax and non-tax revenue collection continues to be below the targeted levels regardless of the revenue mobilisation efforts which include the introduction of higher tax rates and broadening of the tax base. These reflect adverse effects of COVID-19 as well as the prevailing deficiency of effective monitoring and management of non-tax revenue.

In the 2020/21 fiscal year, the appropriated annual budget was M23,789.5 million, constituting the recurrent budget of M18,084.8 million and the capital budget of M5,604.8million.

The expenditure recordings under the recurrent component reflect lower than usual levels due to the government policy of reprioritising and curbing expenditure by releasing warrants by month. This policy was undertaken to manage the cash flows and maintain the deficit at sustainable levels.

The capital budget consists of Government funding, Grants and Loans of M2, 689.7 million, M858.2 million and M 2,056.8 million, respec-



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tively. Under this component, warrants continued to be released per request and expenditure recorded 52 percent of the revised budget.

Section 1 – Macroeconomic Developments

The economic setting persists to battle with the negative impact of the COVID-19 pandemic since the beginning of 2020. The first two quarters of the calendar year of 2020, the global production came to a standstill due to the lockdown measures in the fight to contain the spread. However, in the third quarter, there seemed to be a slight economic activity which was brought by the ease of the lockdown restrictions.

This presented a slight improvement in revenues for the quarter in response to the economic activity as well as government interventions to cushion the economy and fight against the pandemic.

Section 2 – Budget and Fiscal Developments

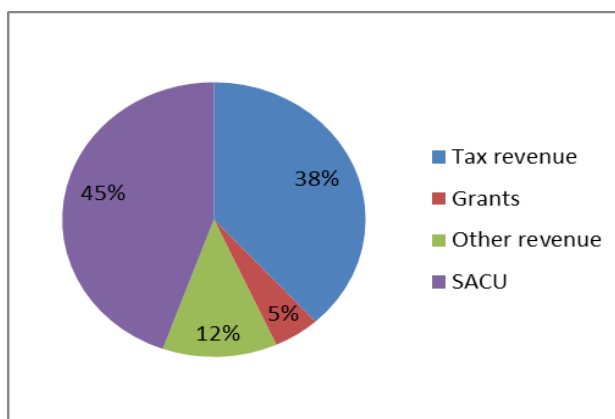
Section 2:1 – The Third Quarter Revenue Performance

During the quarter under review, total revenue collections recorded a growth of 28 percent against the same period of last year and by 20 percent relative to the target. This present a significant growth in collections which is mainly observed in increases in other revenue and SACU revenue with 128 percent and 44 percent, respectively.

Tax revenue also grew slightly by 3.4 percent, even though it missed the quarterly target by 4 percent. This was due to other negative factors but amongst others the losses associated to

COVID-19 related costs which brought slower economic activity.

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



Source: Ministry of Finance

Figure 1 presents the revenue components where SACU revenue contributes the largest share of the total revenues at about 45 percent. This is followed by Tax revenue at about 38 percent while Other Revenue and Grants contributes 12 and 5 percent, respectively.

Table 1: Revenue quarterly Performance (in Millions of Maloti)

Revenue Items	2019/20 Quarterly	2020/21 Quarterly	Growth in percent
Tax Revenue	1,868.90	1,932.10	3%
Grants	261.1	249.3	-5%
Other Revenue	269.8	616.1	128%
SACU	1,556.60	2,245.10	44%
Total	3,956.40	5,042.60	28%

Source: Ministry of Finance

Tax Revenue

Under tax revenue the main drivers are personal income tax and consumption tax. *Personal income tax* comprises of pay- as - you earn and corporate tax. Personal income tax recorded a significant growth of 34 percent compared to



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last year and 29 percent growth against the target. This is attributable to the fiscal support measures to help businesses and households aimed at preserving private sector and the labor market, such that taxable employees could manage to pay their taxes as a normal situation.

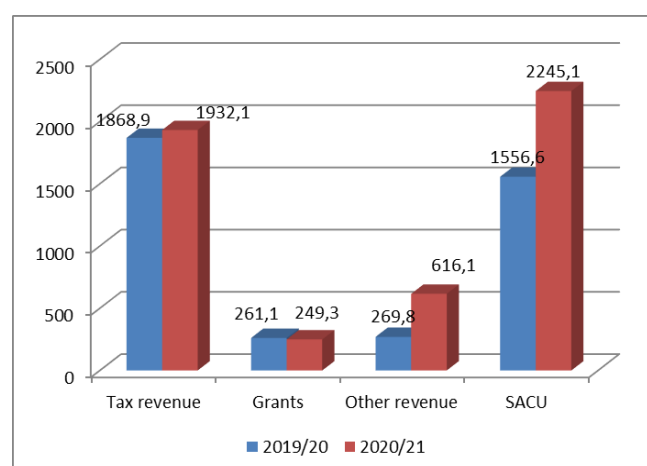
While *corporate income tax (CIT)* declined significantly by 89 percent against the same period of last year and by 91 percent against the target. This was mainly influenced by higher-than-expected growth in refunds claims largely from both mining and finance and insurance sector.

VAT collection recorded growth of 13 percent against the same period of last year. This is attributable to the relief measures which were put in place to support households through the adverse effects of the pandemic. This was realised by a big growth of 19.3 percent of inland VAT collections.

Grants

Grants declined by 4.5 percent against the same period of last year. This are mainly capital grants which are funded by development partners primarily for sector projects. It is important to note that the capital grants are diminishing with time.

Figure 2: Revenue performance (in Million Maloti)



Source: Ministry of Finance

Other Revenue

Figure 2 depicts a notable growth in other revenue collections for this quarter at around M616 million against the M269.8 million of 2019/20. It has also exceeded the quarterly target of M385.4 million.

Over the years, the dominant components of other revenue have been sales of goods and services, in particular, water royalties, which contribute 47 percent of total non-tax revenue and property income mainly mining royalties constituting about 49 percent of the total non-tax revenue. Dividends also play a major part in the collection but there is no collection this quarter.

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 2,245.1 million. This is the revenue that was forecasted prior to the COVID-19 pandemic.

SACU revenue constitutes collections from customs duties and to a lesser extent, excise taxes. It is very volatile since it is a trade related revenue which is procyclical. The 2021/22 revenue forecast was revised downwards during the mid-term budget such that we will have a negative adjustment in time t +2.

Section 2:2 Third Quarter Recurrent Budget Performance

The recurrent approved budget for the current fiscal year is set at M16,926.4 million, excluding the centralised items head. It recorded an upward revision at M18,021.4 million by the end of the third quarter as shown in Table 2. This uptick is ascribed to funds allocated from the contingencies fund and the centralized items



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to cater for specific activities under various line ministries.

Table 2: 2020/21 Third Quarter Recurrent Budget Expenditure

MINISTRY/SUB-HEAD	APPROVED BUDGET	REVISED BUDGET	Q3 WARRANT RELEASE	WR TO DATE	Q3 EXPENDITURE	EXP TO DATE	BUDGET BALANCE	EXP AS % OF WR	EXP AS % OF RB
41- Compensation of Employees	7,768.3	7,776.5	2,698.8	6,539.7	1,731.8	4,960.2	1,236.8	76%	64%
42- Travel and Transport	543.6	419.8	124.1	268.0	68.0	154.6	151.8	58%	37%
43- Operating Costs	2,027.2	2,262.7	458.4	1,774.4	533.3	1,252.5	488.3	71%	55%
46- Interests	504.8	650.2	383.8	650.2	383.7	650.2	-	100%	100%
47- Transfers	3,329.2	3,892.9	1,301.7	3,042.7	985.8	2,623.0	850.2	86%	67%
48- Other Expense	952.3	945.4	238.7	706.9	237.6	701.8	238.4	99%	74%
49- Losses	100.0	100.0	1.1	5.0	4.9	4.9	95.0	95%	2%
51- Acquisition of Financial Assets	4.5	4.5	-	4.5	-	4.5	-	100%	100%
52- Acquisition of Monetary Gold and	2.8	2.8	-	2.8	-	2.8	-	100%	100%
53- Acquisition of Non Financial Asset	25.4	43.7	16.2	29.2	8.3	10.5	14.5	36%	24%
61- Domestic Repayments	907.0	1,153.0	20.0	400.7	20.0	400.7	752.3	100%	35%
62- External Repayments	761.3	770.0	184.6	581.6	184.6	581.6	188.3	100%	76%
Grand Total	16,926.4	18,021.4	5,407.1	14,005.7	4,158.0	11,347.2	4,015.6	81%	63%

Source: Ministry of Finance; Budget Department

In the third quarter, an aggregate of M5,407.1 million was released resulting in an accumulated warrant released of M14,005.7 million. The total expenditure accounted for 81 percent of the released warrants, translating into 63 percent of the revised budget. Under normal circumstances, in the third quarter, the expectation is that the expenditure will record 75 percent of the revised budget. Nonetheless, the recorded expenditure does not reflect under-performance but is consequent to expenditure rationing.

Plunging into performance per expenditure categories, **compensation of employees'** budget increased from M7,768.3 million to M7,776.5 million by the end of the third quarter. The 2020/21 third quarter expenditure recorded M1,731.8 million which translates into 64 percent of the revised budget. The below-expected performance is mainly caused by over budgeting in some ministries.

Travel and transport recorded the expenditure of M68 million in the period under review. It thus accumulated to M154.6 million which

translates into 37 percent of the revised budget. The low expenditure under this category continues to follow the COVID-19 containment measures which include restricted movement locally and internationally.

The warrants released to cater for **operating costs** increased by 12 percent from the second quarter. This rationalised release mainly facilitated purchases of health services, drugs, subsidised agricultural inputs and other obligations to the government. The accumulated release under this category recorded M1 774.4 million of which M1 252.5 million was spent. This translates into 55 percent of the revised budget.

With regard to **transfers**, warrants released were not rationed due to the vulnerability brought by the COVID-19 pandemic. The warrants released increased by 45 percent from the second quarter. Its expenditure was chiefly directed towards the provision of safety nets, support to institutions of higher learning and to meet the government's obligation towards other entities that receive subvention from the government. The accumulated warrants released recorded M3 042.7 million of which M2 623.0 million has been spent to date. The recorded expenditure translates to 67 percent of the revised budget.

Public Debt Management

The outstanding total public debt, including publicly guaranteed debt, was M17, 999.7 million (excluding M877.2 million monetary T-bills) as at the end of third quarter. External debt accounted for M14, 657.8 million, domestic debt was M3, 206.8 million and guarantees were M135.1 million. Guarantees remained the same as the previous quarter while external debt declined by M1,146.6 million as exchange



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rate continues to recover after huge losses suffered at the beginning of the financial year. Disbursements during the quarter amounted to M61.7 million, all disbursed by multilateral creditors, World Bank (IDA) M45.8 million and African Development Fund M15.9 million. Domestic debt increased by around M300 million from the previous quarter after two auctions in October and December which generated M240.1 and M52.7 million respectively.

Total debt service during the third quarter amounted to M546.0 million. External debt service was M219.6 million, made up of principal repayments of M184.6 and interest payments of M35 million. Domestic debt service on the other hand amounted to M326.4 million, comprising interest of M29.9 million, domestic arrear settlement of M19.5 million as well as M277 million towards partial redemption of M544 million 7 years bond maturing in 2022.

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

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.

Table 3: 2020/21 Third Quarter Capital Budget Performance

	APPROVED BUDGET	Q3 REVISED BUDGET	WARRANT RELEASED Q3	WR TO DATE	EXPENDITURE Q3	EXPENDITURE TO DATE	BUDGET BALANCE	EXP AS % OF WR	EXP AS % OF RB
1. GOL Funding	2,689.7	2,085.4	1,341.2	429.0	410.2	1,247.9	741.9	96%	60%
2. Dev. Partner Grants	858.2	858.2	-	-	-	-	858.2	0%	0%
3. Dev. Partner Loan	2,056.8	2,056.8	2,027.6	2,027.6	1,489.9	2,027.6	29.2	100%	99%
GRANT TOTAL	5,604.70	5,000.40	3,368.80	2,456.60	1,900.10	3,275.50	1,629.30	97%	52%

Source: Ministry of Finance; Budget Department

In the third quarter, the GOL revised budget increased to M2, 085.4 million against the second quarter. Nonetheless, it is still lower than the appropriated budget, as depicted in Table 3 above. The recorded increase of M154 million in the current quarter was funded from the contingencies fund.

The projects which benefited from this funding include the Rural Electrification Project to lay the ground for the power distribution in seven districts. NDSO Warehouse Project was also funded to wrap up its construction by the end of the current financial year. Furthermore, additional funding was directed towards the finalisation of Special Operation Unit (SOU) complex design. The plan is to commence its construction by April 2021.

The third quarter expenditure recorded M1 900 million leading to a cumulative expenditure of M3 275.5 million. Thus, 52 percent of the revised budget was utilised in the implementation of various projects by the end of December 2020. The low utilisation rate is as a result of the COVID-19 impact on implementation of projects. The capital budget is anticipated to fall within the budgeted parameters.



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Section 3 – Public Financial Management Reforms

Generally, the challenge encountered during this report period is the issue of the COVID-19 pandemic. The movement of international consultants was negatively affected as a result of travelling restrictions. However, there is still a notable progress on the implementation of Public Financial Management Reforms.

Asset Management: This assignment has been completed. The objective of the assignment was to develop an Asset Management Policy that outlines a clear framework and principles for the sustainable and effective lifecycle management of all infrastructure assets owned, controlled and/or maintained by the Government of Lesotho.

The consultant has successfully submitted the following documents as last deliverables:

1. Final Asset Management Policy
2. Final Government Structures for Asset Management
3. Final Government Operating Procedural Guidelines
4. Final Roadmap for implementation of the government Asset Management Policy.

Finalisation of Procurement Regulations, Operational Manual and Standard Bidding Documents: The Consultancy firm has been engaged with an objective to assist the Ministry of Finance, Public Procurement Advisory Division (PPAD), with the revision of procurement regulations, operational manual, and standard bidding documents to ensure compatibility with international best practices. The draft documents have been cleared by both the bene-

ficiary and the bank. The final documents: Procurement Regulations, Manual and Bidding Documents are under review.

Account Balances/Statement of Affairs: This assignment is ongoing. The consultant has submitted the Final Statement of Affairs Report and awaiting clearance from the Treasury. The consultant is currently reviewing the cash book statements for the Trust Account.

Risk Based Audit: The training on risk-based Audit, Fraud risk assessment and a pilot audit using the current audit manual did not commence due to travel restrictions. It has therefore been postponed to the first Quarter of 2021/22.

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The newsletter is available on the Ministry of Finance website: <http://www.finance.gov.ls>.



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