2023/24 FIRST QUARTER BUDGET PERFORMANCE BULLETIN

JUNE 30, 2023

MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

Budget Department, Finance House, Maseru

TABLE OF CONTENTS

OVERVIEW

The Government of Lesotho has been implementing the Medium-Term Expenditure Framework (MTEF) for nearly two decades, making a significant progress in its evolution. Learning from past challenges and setbacks provided a valuable opportunity to overhaul the budgeting systems and revamp the implementation of the MTEF. The overarching aim of these reforms is to fortify public financial management, with a particular focus on improving budget-related components.

As a tangible outcome of these transformative efforts, the budget for the fiscal year 2023/24 has been meticulously crafted, aligning with programmes derived from the National Strategic Development Plan II (NSDP II). This alignment serves to strengthen the vital nexus between strategic planning and budget allocation, ensuring that government spending harmonizes with the nation's developmental objectives.

Furthermore, the forthcoming Budget Execution Reports are meant to concentrate on the effective implementation of these programmes. These reports will also analyse the contributions from various branches of government, facilitating a comprehensive oversight and transparency in resource utilization and programme execution.

INTRODUCTION

The Approved Expenditure Budget for fiscal year 2023/24, encompassing both Recurrent and Capital Budget, amounts to M21,796 million, while the below-the-line expenditure plans amount to M4, 879 million. Therefore, the total expenditure plan for the year 2023/24 totals M26, 675 million.

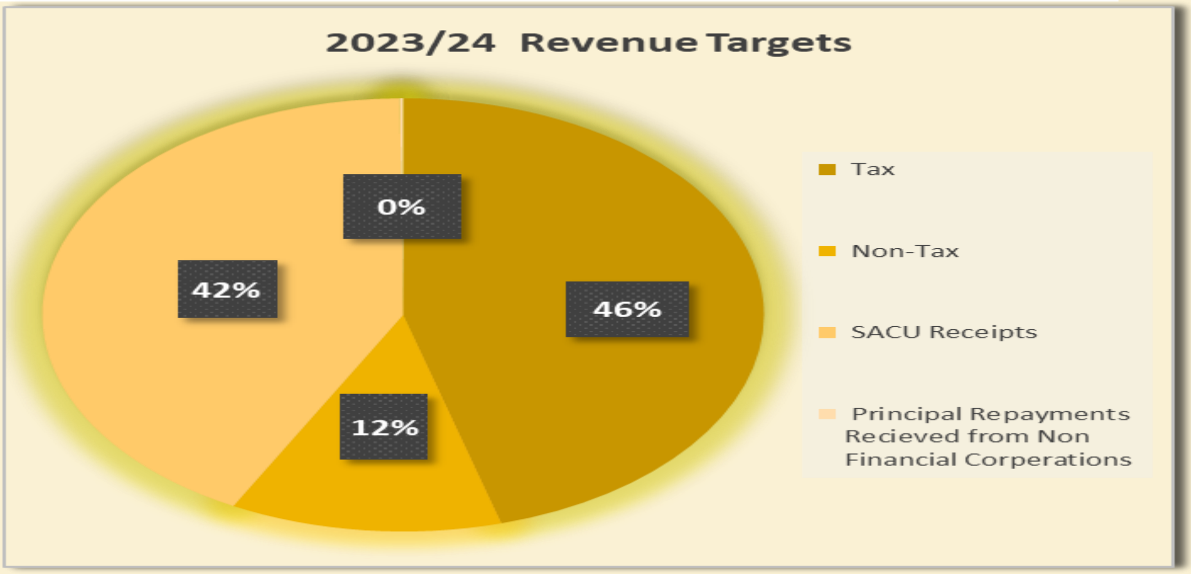
The financing will be derived from various sources, including Government Revenues targeted at M24,127 million, Donor Grants amounting to M1,026 million, and External Loans totalling M2,607 million.

The central aim in the current fiscal year is to propel inclusive economic growth, with a particular focus on generating employment opportunities and reducing poverty. This strategy revolves around key priorities, including enhancing food self-sufficiency through agricultural productivity improvements, fostering aggressive industrialization, developing robust value chains and simultaneously investing in the rehabilitation and construction of critical infrastructure that supports the private sector.

RECURRENT REVENUE

2023/24 REVENUE SHARE

Figure 1



As illustrated in Figure 1, the Government Revenue, will primarily be derived from taxes comprising of 46 percent of the total target. Following closely behind is the SACU revenue projected at 42 percent. Non-tax holds a modest share at 12 percent while, revenue from the on lend borrowing extended to State-

Owned Entities (SOE) for the development purposes registers at approximately zero percent. It is noteworthy, though, that this zero percent figure translates to a substantial M34 million in absolute terms.

The 2023/24 overall revenue target has experienced a significant increase of 38 percent. This boost is attributed to a substantial increase of 88 percent anticipated from SACU receipts coupled with an average increase of 15 percent on tax and non-tax revenues projections.

REVENUE COLLECTION

The table below presents revenue collection for the first quarter compared to the annual target for the fiscal year 2023/24.

Table 1

2023/24 REVENUE COLLECTION FOR THE FIRST QUARTER			
Revenue Sources	**Approved Budget (in millions)**	**Quarter 1 Expenditure (in millions)**	**Collection as % of Approved Budget**
Tax	11 007,1	1 912,8	17%
Non-Tax	2 937,0	325,8	11%
SACU Receipts	10 148,4	2 537,1	25%
Principal Repayments Received from Non-Financial Corporations	34,5	7,5	22%
Grand Total	**24 127,1**	**4 783,2**	**20%**

Source: Budget Department – Ministry of Finance and Development Planning

In the first quarter of the year, revenue collection amounted to M4,783.2 million which marks a notable increase compared to the M3, 691 million collected during the same period in 2022/23. However, despite the increase in absolute terms, the proportional collection for the current quarter was slightly lower by one percent. Typically, the first quarter is expected to contribute approximately 25 percent of the annual revenue target for each component. Unfortunately, in this quarter, both tax and non-tax revenues fell short of the expectations.

Non-tax revenue saw a decline from M417 million to M325 million primarily due to reduced collections in areas such as royalties, dividends and rand monetary compensations. Furthermore, there were no recorded sales of electricity from Muela during the reporting quarter. It is essential to emphasize that there has been no documentation of revenue from electricity sales over the years. The critical inquiry here is the cost at which Muela has been providing electricity to the Lesotho Electricity Company (LEC). Is it possible that LEC has been receiving electricity for free? This situation poses a significant risk to revenue projections that may not materialize.

The tax revenue remained static at M1.9 million, failing to meet the currently higher projections. This suggests that, while there has been an overall increase in revenue collection, certain revenue streams have not performed as expected in the first quarter of the fiscal year 2023/24.

MAJOR TAX REVENUE COLLECTIONS

The main sources of tax revenue, as depicted in Table 2, are expected to be substantial, with billions projected to be generated from Value Added Tax (VAT), Personal Income Tax (PIT) and the Company Income Tax (CIP):

Table 2

MAJOR TAX REVENUE COLLECTION COMPONENTS		
Revenue Sources	**Revenue Targets**	**Quarter 1 Collections**
Value Added Tax	4 429,7	898,7
Personal Income Tax	2 575,6	593,0
Company Tax	2 111,0	112,7
Withholding Tax	989,4	182,9
Oil Levy	387,6	97,8
Tobacco and Alcohol Levy	439,5	20,4

Source: Budget Department – Ministry of Finance and Development Planning

In the current fiscal year, there have been adjustments in the revenue targets for various tax components. Notably, the Personal Income Tax (PIT) target has been set lower than last year's target, reducing by 5 percent from M2,702 million. Conversely, the targets for Company Income Tax (CIT) and Withholding Tax have increased by 27 percent and 4 percent, respectively. However, it is important to note that monitoring collections under these three components has proven challenging due to difficulties faced by the Revenue Service Lesotho Authority (RSL) in accurately recording their collections.

In terms of Value Added Tax (VAT), Government collected M898 million, a significant increase compared to the M840 million collected in the same period in 2022/23. This represents a significant increase of M59 million in just three months.

Additionally, the implementation of tobacco and alcohol levies yielded Government collections of M20 million during the first quarter, with a significant portion of this revenue generated in June. This highlights the success of these specific levies as valuable sources of government income. Furthermore, it is worth noting that the introduction of these levies is expected to contribute to the preservation of the lives and well-being of the Basotho people.

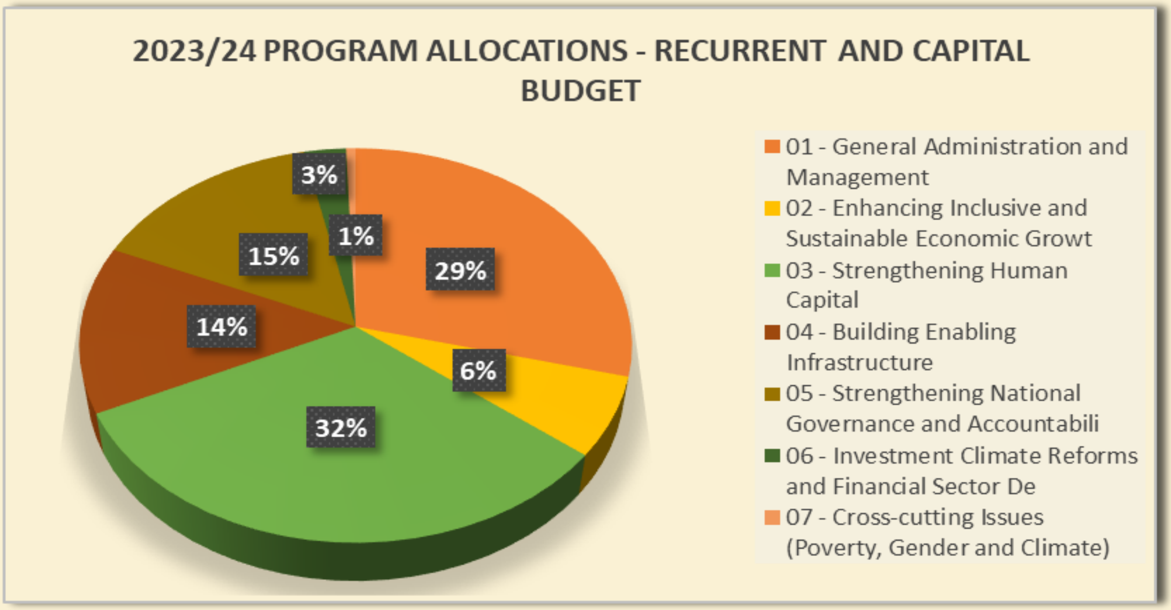
EXPENDITURE PERFORMANCE

The Government is firmly committed to achieving the milestones outlined in the in the NSPD II and has taken deliberate steps to align these objectives with the resource allocation. To foster this alignment, a set of programmes have been meticulously crafted, each tailored to advance specific objectives outlined in the national plan. The activities within these programmes are strategically designed to work towards the attainment of NSDP II goals:

- General Administration and Management
- Enhancing Inclusive and Sustainable Economic Growth
- Strengthening Human Capital
- Building Enabling Infrastructure

- Strengthening National Governance and Accountability
- Investment Climate Reforms and Financial Sector Development
- Cross-cutting Issues (Poverty, Gender and Climate)

Figure 2

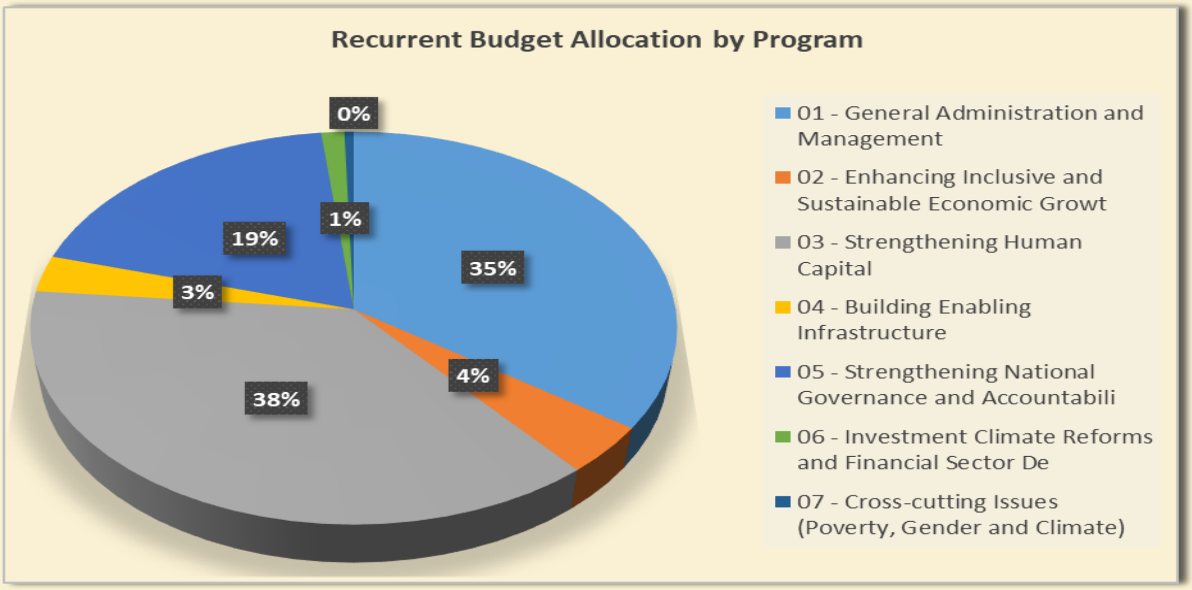


Source: Budget Department – Ministry of Finance and Development Planning

The budget allocation for each programme is visually represented in Figure 2, offering a clear and comprehensive overview of how financial resources have been allocated to support the government's strategic programmes aligned with the NSDP II. This alignment reflects the government's commitment to efficient and effective resource utilisation in pursuit of its developmental objectives.

RECURRENT BUDGET ALLOCATION BY PROGRAMME

Figure 3



Source: Budget Department – Ministry of Finance and Development Planning

The illustration in figure 3 highlights the allocation of the recurrent budget revealing how financial resources are distributed among various programmes: A significant portion accounting to 38 percent is dedicated to investing in human capital. This allocation predominantly supports education at M2,687 million, health at M2,169 million, social protection at M1,267 million and tertiary student grants at M1,125 million. General Administration and Management also claims 38 percent of the budget while strengthening national governance and accountability receives a notable share, amounting to 19 percent of the recurrent budget. The remaining programmes collectively share the remaining 8 percent. This allocation strategy underscores the government's commitment to prioritizing investment in human capital, efficient administration, and the enhancement of governance and accountability, all in pursuit of its broader developmental objectives.

PERFORMANCE BY PROGRAMME

Table 3

2023/24 FIRST QUARTER RECURRENT EXPENDITURE BY PROGRAMME			
Programmes	**Approved Budget (In Millions)**	**Quarter 1 Expenditure (In Millions)**	**Expenditure as % of Approved Budget**
01 - General Administration and Management	7 081,86	1 068,59	15%
02 - Enhancing Inclusive and Sustainable Economic Growth	828,63	126,06	15%
03 - Strengthening Human Capital	7 657,26	1 681,93	22%
04 - Building Enabling Infrastructure	607,14	84,15	14%
05 - Strengthening National Governance and Accountability	3 814,83	660,25	17%
06 - Investment Climate Reforms and Financial Sector Development	258,46	60,71	23%
07 - Cross-cutting Issues (Poverty, Gender and Climate)	103,02	9,86	10%
Grand Total	**20 351,20**	**3 691,54**	**18%**

Source: Budget Department – Ministry of Finance and Development Planning

In the first quarter, the overall recurrent expenditure amounted to M3,691 million. Specifically, within ***General Administration and Management programme***: an amount of M442 million was spent on public debt management, expenditure of M279 million made on civil pensions and M59 million on Subscriptions to International Organisations. Furthermore, within the same "General Administration and Management" programme the recurrent expenditure on specific categories was on personal emoluments at M458 million and other operating cost at M610 million. These expenditures reflect the distribution of recurrent expenditure within the "General Administration and Management" programme for the first quarter of the fiscal year.

In the context of the ***Strengthening Human Capital*** programme, the first quarter expenditure details are as follows: M128 million was spent on Subsidies-Non-Financial Public Corp (health), M110 million spent on purchase of health services and M51 million on subventions for tertiary institutions, ECOL and CHE. The expenditure on school feeding programme was M10 million while expenditure on student grants distributed through the National Manpower Development Secretariat amounted to M300 million. The social Safety Nets for the Old Age Pensioners and towards Orphans and Vulnerable Children bursary was M222 million and M32 million, respectively. Additionally, within the "Strengthening Human Capital" programme, the recurrent expenditure on specific categories was on personal emoluments and other operating cost were M738 million and M944 million, respectively. These expenditure figures provide a breakdown of how financial resources were allocated within the "Strengthening Human Capital" programme during the first quarter of the fiscal year.

Within the ***Strengthening National Governance and Accountability*** programme the first quarter expenditure details are as follows: The Independent Electoral Commission (IEC) has spent M32 million under the grants in aid received from Government while an amount of M59 million financed Non-Life Insurance Premiums for Defence Aircrafts. Exchange rate loses experienced in this quarter amounted to M21 million. Additionally, within the "Strengthening National Governance and Accountability" programme, the recurrent expenditure on personal emoluments was M486 million and other operating cost was M177 million. These expenditure figures provide a breakdown of how financial resources were utilized within the "Strengthening National Governance and Accountability" programme during the first quarter of the fiscal year.

Within the ***Enhancing Inclusive and Sustainable Economic Growth*** programme the first quarter expenditure comprise: An authority to spent (warrant) of M276 million was issued towards purchasing of agricultural inputs (fertilizer, pesticides and seeds) but only M5 million was spend due to procurement challenges experienced by the ministry which took time to resolve. An expenditure of M8,7 million was directed toward Grants in Aid Paid to entities supported by government. These entities include Lesotho Tourism Development Corporation (LTDC), Lesotho Opportunities Industrialisation Centre (LOIC) and Basotho Enterprise Development Corporation (BEDCO). In addition, the recurrent expenditure on personal emoluments and other operating cost for this programme were M96 million and M31 million, respectively. These expenditure figures offer insights into how financial resources were allocated and utilized within the "Enhancing Inclusive and Sustainable Economic Growth" programme during the first quarter of the fiscal year.

Building enabling infrastructure – This programme is mainly supported under development budget. For the recurrent component, M18 million was spend towards Grants in Aid while M11.5 million paid for the Microsoft licenses essential for government operations. The recurrent expenditure for this programme included M36 million for personal emoluments and M29 million other operating cost.

Investment Climate Reforms and Financial Sector Development: Lesotho Millennium Development Agency invested M60 million in maintenance of Health Facilities encompassing activities such as environment and waste management, soft and hard facilities management and Information and Communications Technology management. The recurrent expenditure for this programme consisted of M10 million for personal emoluments and M63 million other operating costs.

Cross-cutting Issues (Poverty, Gender and Climate): The recurrent expenditure for this programme encompassed M8.3 million for personal emoluments and M1.5 million for other operating cost. These expenditures were directed toward addressing key areas related to poverty alleviation, gender equality, and climate change mitigation

This presentation serves as a comprehensive summary of the financial outlays within each programme for the specified period, shedding light on the allocation of resources and the financial commitment to address these critical cross-cutting issues.

RECURRENT EXPENDITURE BY SUB-HEAD

The table below shows the recurrent financial performance by sub-head

Table 4

2023/24 FIRST QUARTER RECURRENT EXPENDITURE BY SUB-HEAD						
Sub-Head	**Approved Budget**	**Revised Budget**	**Quarter 1 Warrant Allocations**	**Quarter 1 Expenditure**	**Expenditure as % of Warrant Allocation**	**Expenditure as % of Revised Budget**
41 - Compensation of Employees	8 541,38	8 542,02	3 577,34	1 821,08	51%	21%
42 - Travel and Transport	417,83	431,09	129,86	38,21	29%	9%
43 - Operating Costs	2 521,28	2 548,25	1 037,47	286,75	28%	11%
46 - Interest	1 036,57	1 036,57	214,00	157,36	74%	15%
47 - Transfers	4 145,89	4 154,50	1 170,62	716,90	61%	17%
48 - Other Expense	1 216,70	1 216,53	368,82	365,34	99%	30%
49 - Losses	50,00	50,00	20,71	20,59	99%	41%
51 - Acquisition of Financial Assets	22,17	22,17	0,00	0,00	0%	0%
52 - Acquisition of Monetary Gold and Special Drawing Rights	2,82	2,82	0,00	0,00	0%	0%
53 - Acquisition of Non-Financial Assets	42,87	43,02	36,01	0,30	1%	1%
59 - Contingencies Fund	300,00	250,54	0,00	0,00	0%	0%
61 - Repayment of Domestic Liabilities	860,34	860,34	0,00	0,00	0%	0%
62 - Repayments of Foreign Liabilities	1 193,35	1 193,35	356,37	285,01	80%	24%
Grand Total	**20 351,20**	**20 351,20**	**6 911,19**	**3 691,54**	**53%**	**18%**

Source: Budget Department – Ministry of Finance and Development Planning

In the reported quarter, the Recurrent Budget amounted to M20,351.2 million with an expenditure rate of 18 percent. As is customary, a significant portion of these of funds goes toward **compensation of employees,** and 21 percent of the approved budget in this sub-head was expended. The total expenditure on established salaries reached M1 411 million as opposed to M1 381 that was spent during the same period in the previous year (2022/23). This, however, signifies a lower-than-anticipated utilization for this quarter. The primary reason behind this reduced expenditure can be attributed to a hiring moratorium and the cessation of expenditure on wages that did not adhere to proper procedures. This information sheds light on the expenditure and allocation trends within the Recurrent Budget, with specific attention to employee compensation during the reported quarter.

The initial budget allocation for the **travel and transport** category was M417.8 million, which was subsequently revised to M431.1 million. However, the actual expenditure for travel and transport in the reported period amounted to M38 million, a decrease from the M88 million recorded in the previous year. This decrease in expenditure is attributed to lower spending on vehicle maintenance, short-term private hire and fuel consumption compared to the previous year. Specifically, vehicle repair and maintenance utilised only 3 percent of the allocated budget while procurement of fuel and hiring of short-term vehicles accounted for 27 percent and 20 percent of the budget, respectively. These figures illustrate the adjustments in the budget and the factors contributing to the lower expenditure in the "Travel and Transport" category during the reported period.

Despite policies aimed at curbing international travel costs, expenditures related to international travel increased significantly, from M5.5 million in the previous year to M16 million. Conversely, for subsistence at the local level, expenditures amounted to M3.2 million, representing a decrease from the M9 million recorded in the previous year. These figures highlight the contrasting trends in international and local travel expenses, suggesting a need for a more in-depth examination of cost-saving measures for international travel. These figures provide insights into the budget adjustments and the factors contributing to the lower expenditure within the "Travel and Transport" category during the reported period.

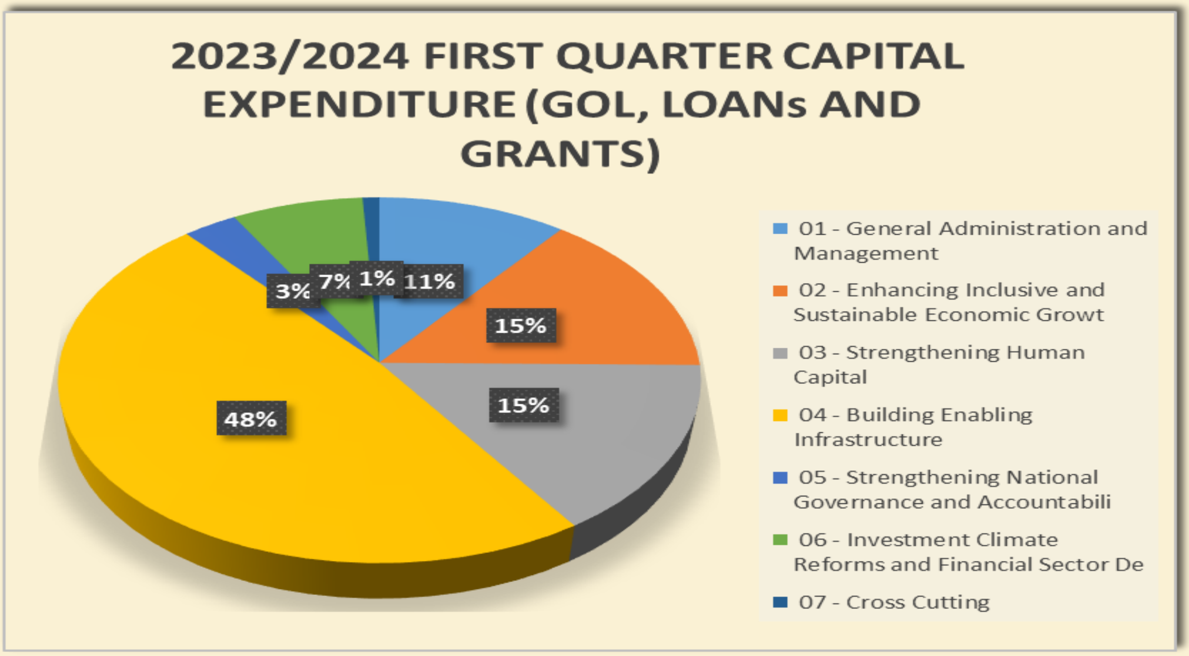
The approved budget for **Operating Costs** stood at M2,521.3 million and by the end of the quarter, it had accumulated to M2,548.3 million. This increase was primarily attributed to additional funds received from the contingencies fund specifically allocated to cater for passport booklets. In terms of expenditure, M286.8 million was recorded constituting 28 percent of the warrants allocated and 11 percent of the approved budget. This information highlights both the budget increase due to contingencies and the utilization of funds for operating costs during the reported quarter.

The approved budget for **Transfers** experienced an increased growing from M4,145.9 million to M4,154.5 million. This change was a result of funds being transferred from the Centralised Items budget to the Ministry of Defence. These funds were allocated for the compensation of 120 Lesotho Defence Force (LDF) personnel who served in SADC Mission in Mozambique. In terms of expenditure, M716.9 million was recorded, which accounted for 61 percent of the warrants allocated and 17 percent of the approved budget. Moreover, it is crucial to emphasize that despite the aforementioned high expenditure, funds have not been transferred to RSL, a situation that has persisted since the third quarter of fiscal year 2022/23. This raises questions about the organisation's financial stability. The unresolved transfer of funds represents a missed opportunity to substantially enhance the current performance levels. This information underscores the need for budget adjustments related to the transfer of funds and the appropriate utilisation of funds within the Transfers category for their intended purpose.

DEVELOPMENT EXPENDITURE

The allocation of the 2023/24 Development Budget by programme is illustrated in figure 4 below:

Figure 4



Source: Budget Department – Ministry of Finance and Development Planning

A significant portion of the Development Budget for the fiscal year 2023/24 totalling 48 percent has been directed to development of Infrastructure projects. This underscores the government's commitment to enhancing and expanding critical infrastructure within the country. Additionally, two key programmes, namely Strengthening Human Capital and Enhancing Inclusive and Sustainable Economic Growth collectively account for 30 percent of the budget, with each programme receiving an equal share. The remaining 22 percent of the

Development Budget is allocated to other programmes, highlighting a diversified approach to developmental priorities. This allocation strategy aims to address various aspects of national development, including infrastructure, human capital development, and economic growth, in line with the government's overarching goals for the fiscal year.

PERFORMANCE BY PROGRAMME

Table 5

2023/24 FIRST QUARTER GOVERNMENT OF LESOTHO CAPITAL BUDGET EXPENDITURE			
Programmes	**Approved Budget (in millions)**	**Quarter 1 Expenditure (in millions)**	**Expenditure as % of Approved Budget**
01 - General Administration and Management	459,3	10,4	2%
02 - Enhancing Inclusive and Sustainable Economic Growth	290,1	260,0	90%
03 - Strengthening Human Capital	272,5	1,2	0%
04 - Building Enabling Infrastructure	1 510,0	145,1	10%
05 - Strengthening National Governance and Accountability	142,3	0,0	0%
06 - Investment Climate Reforms and Financial Sector Development	10,0	0,0	0%
07 - Cross Cutting	6,4	0,0	0%
GRAND TOTAL	**2 690,5**	**416,6**	**15%**

Source: Budget Department – Ministry of Finance and Development Planning

The table above illustrates that the budget under the programme "Enhancing Inclusive and Sustainable Economic Growth" has seen a significant utilization rate of 90 percent. This higher utilization is primarily attributed to the settlement of outstanding bills for the projects of Tikoe Industrial Infrastructure phase 3 and Belo Industrial Infrastructure Buildings. On the other hand, within the programme focused on the development of enabling infrastructure, 10 percent of the budget has been expended. The expenditure in this category was primarily directed towards key projects such as the Mpiti-Sehlaba-Thebe Road, Marakabei Monontša Road and Ramarothole 70MW Solar Generation Project. These expenditure trends provide insights into how resources have been allocated and utilized within these specific development programmes, reflecting the progress and priorities within each category.

CONCLUSION

In summary, the government's fiscal outlook for the 2023/24 fiscal year involves a significant increase in the total revenue target, with taxes and SACU receipts as the primary income sources. While there was a notable absolute rise in revenue collection during the first quarter, the proportional contribution differed slightly from expectations.

Non-tax revenue declined due to reduced collections in specific areas like royalties and dividends. The lack of documented revenue from electricity sales by Muela raises concerns about the cost of electricity supplied to the Lesotho Electricity Company (LEC), potentially jeopardising revenue projections.

Tax revenue remained unchanged and fell short of heightened first-quarter projections. This suggests that while overall revenue collection increased, certain revenue streams underperformed in the initial quarter of the 2023/24 fiscal year. Continuous monitoring and adjustments may be necessary to ensure the government achieves its annual revenue targets.

In conclusion, the first-quarter expenditure report for the fiscal year 2023/24 provides valuable insights into Lesotho's financial performance during this period. Several key observations and takeaways emerge from this report:

1. **Budget Execution**: The government has made substantial progress in executing the budget for the first quarter, with notable expenditure across various programmes and categories.

2. **Prioritization of Programmes**: The allocation of funds reflects a strategic prioritisation of programmes, with a significant focus on critical sectors such as infrastructure development, human capital, and economic growth.
3. **Efficiency and Challenges**: While progress is evident, challenges in budget execution have been encountered, such as delays in procurement and lower-than-expected expenditure in certain areas. Addressing these challenges will be crucial for optimising resource utilisation.
4. **Alignment with National Objectives**: The report highlights a commitment to aligning budgetary allocations with the goals outlined in the National Strategic Development Plan II (NSPD II), emphasising the government's dedication to achieving developmental milestones.
5. **Transparency and Accountability**: Transparent reporting of expenditure and budget utilisation is vital for building trust and ensuring accountability in financial management.
6. **Resource Allocation**: The allocation of resources to specific projects and initiatives, such as infrastructure projects and social safety nets, underscores the government's dedication to inclusive and sustainable development.

As Lesotho progresses through the fiscal year, it is essential to continue monitoring expenditure patterns, addressing challenges, and optimising the allocation of resources to ensure that developmental objectives are met effectively and efficiently.