



2023/24 SECOND QUARTER BUDGET EXECUTION BULLETIN



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MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

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CONTENTS

| | |
|---|----|
| EXECUTIVE SUMMARY: | 2 |
| INTRODUCTION..... | 2 |
| REVENUE COLLECTION PERFORMANCE | 3 |
| Table1 | 3 |
| Table 2 | 4 |
| RECURRENT BUDGET PERFORMANCE..... | 5 |
| EXPENDITURE PERFORMANCE BY SUBHEAD..... | 6 |
| Table 3 | 6 |
| DEVELOPMENT BUDGET PERFORMANCE..... | 10 |
| CONCLUSIONS..... | 12 |

EXECUTIVE SUMMARY

Lesotho's second-quarter financial review highlights positive revenue trends, with increased royalties and SACU receipts countering specific tax declines. Modest rises in the Compensation of Employees budget and variations in Travel and Transport expenditures were noted.

Adjustments in Operating Costs, facilitated by Contingencies Fund reallocations, addressed critical needs. However, the capital budget faced a 7 percent decrease due to reduced contributions.

Implementation challenges, such as delays in building design services and contractor interruptions, necessitate strategic interventions. Despite challenges, certain ministries exhibited higher expenditures, highlighting areas for improvement.

The summary underscores the importance of addressing challenges, enhancing financial practices, and improving coordination among ministries. Timely project initiation and optimal fund utilization are critical for successful navigation in the fiscal year.

This summary guides informed decision-making, ensuring effective resource use for successful fiscal outcomes in Lesotho.

INTRODUCTION

The Ministry of Finance and Development Planning, through its Department of Budget, is delighted to issue the Budget Performance Bulletin for the second quarter of the financial year 2023/24. This quarterly report serves a dual purpose. Firstly, it highlights the financial performance, including revenues and

expenditure. Secondly, it aims to provide valuable information to the Government, citizens, and pertinent stakeholders fostering transparency in accordance with global practices as well as responsibility bestowed upon by the PFMA Act 2011.

This quarterly report presents a comprehensive overview of the government’s operating revenues and expenditures offering a comparative analysis with the previous year. It explains any noteworthy changes or trends in the numerical data, facilitating a clear understanding of the financial dynamics during the specified period.

REVENUE COLLECTION PERFORMANCE

Overall, the revenues for the second quarter show a positive trend compared to the corresponding quarter last year. At the end of the quarter, net revenue collections reached M4,793.3 million, surpassing the M3,907.3 million collected during the same quarter in the 2022/23 fiscal year.

TABLE 1

| 2023/24 REVENUE COLLECTION FOR THE SECOND QUARTER (in million Maloti) | | | |
|--|-----------------------------------|-----------------------------|---|
| Collecting Items | Targeted Annual Collection | Quarter 2 Collection | Collection as % of annual collection |
| Taxes | 11 007 | 1 622 | 15% |
| Other Revenue | 2 937 | 634 | 22% |
| SACU Receipts | 10 148 | 2 537 | 25% |
| Disposal of Financial Assets | 34 | | 0% |
| Grand Total | 24 127 | 4 793 | 20% |

As depicted in Table 1 **tax collections** at the end of the quarter amounted to M1,621.8 million, in contrast to the M2,154.6 million collected during the same quarter last year. The decline is chiefly attributed to a reduction in the Personal Income Tax collection recorded for this quarter.

Conversely, **other revenue and SACU** (Southern African Customs Union) **receipts** exhibited an upturn as at the end of the reported quarter compared to the collection in the previous financial year. This upswing is primarily attributed to the increase in the collection of royalties and an increase in the SACU share for the corresponding period in the current.

The table presented below illustrates the key components responsible for collecting major tax revenues.

TABLE 2

| Major Tax Revenue Collections Components (in million Maloti) | | | |
|---|---|----------------------|---|
| Components | Revised Annual Target Collection | Q2 Collection | Collection as % of annual collection |
| Personal Income Tax | 2576 | 533 | 21% |
| Company Tax | 2111 | 50 | 2% |
| Withholding Tax | 989 | 161 | 16% |
| Value Added Tax | 4430 | 738 | 17% |
| Oil Levy | 388 | 90 | 23% |
| Tobacco and Alcohol Levy | 440 | 39 | 9% |

The collection of Personal Income Tax recorded 21 percent, a notable decrease from the 41 percent recorded in the corresponding quarter of the previous year. it is worth noting that the 41 percent included both company and withholding taxes, as they were recorded under one item. Additionally, both Value Added

Tax and Oil Levy recorded lower than those collected in the second quarter of 2022/23 fiscal year. In summary, all tax revenue items witnessed a decrease in collection compared to the figure recoded in the same period last year.

RECURRENT BUDGET PERFORMANCE

The Recurrent Budget for the 2023/24 financial year was initially set at M20,351.2 million, and by the end of the reported quarter, the revised budget reached M20,851.1 million. This increase is attributed a supplementary budget amounting to M500.0 million.

Actual expenditure amounted to M5,334.3 million reflecting an approximate 26 percent rise compared to the financial year 2022/23 which recorded M4,232.3 million in expenditure during the same period. The cumulative warrant allocations and expenditure totalled M11,319.3 million and M9,078.0 million respectively, representing 80 percent of the allocated warrants and 44 percent of the revised budget. It is noteworthy that, typically, 50 percent of the adopted budget is utilized by the end of the second quarter.

EXPENDITURE PERFORMANCE BY SUBHEAD

The table below is an illustrative summary of the expenditure per subhead.

TABLE 3

| 2023/2024 SECOND QUARTER RECURRENT EXPENDITURE BY SUB-HEAD (in millions) | | | | | | | | |
|--|-----------------|----------------|---------------------|-----------------------|-----------------------|--------------------|---|--|
| Sub Head | Approved Budget | Revised Budget | Warrant Allocations | Quarter 1 Expenditure | Quarter 2 Expenditure | Expenditure Todate | Expenditure Todate as Percentage of Warrant Allocations | Expenditure Todate as Percentage of Revised Budget |
| 41 - Compensation of Employees | 8541 | 8551 | 4355 | 1821 | 1992 | 3813 | 88% | 45% |
| 42 - Travel and Transport | 418 | 433 | 246 | 38 | 90 | 129 | 52% | 30% |
| 43 - Operating Costs | 2521 | 2541 | 1604 | 287 | 504 | 791 | 49% | 31% |
| 46 - Interest | 1037 | 1037 | 492 | 157 | 239 | 396 | 80% | 38% |
| 47 - Transfers | 4146 | 4329 | 2139 | 717 | 1092 | 1809 | 85% | 42% |
| 48 - Other Expense | 1217 | 1235 | 694 | 365 | 327 | 693 | 100% | 56% |
| 49 - Losses | 50 | 50 | 50 | 21 | 9 | 30 | 60% | 60% |
| 51 - Acquisition of Financial Assets | 22 | 30 | 12 | | 12 | 12 | 100% | 41% |
| 52 - Acquisition of Monetary Gold and Special Drawing Rights | 3 | 3 | | | | | 0% | 0% |
| 53 - Acquisition of Non Financial Assets | 43 | 60 | 48 | | 5 | 6 | 12% | 10% |
| 59 - Contingencies Fund | 300 | 29 | | | | | 0% | 0% |
| 61 - Repayment of Domestic Liabilities | 860 | 1856 | 1178 | | 923 | 923 | 78% | 50% |
| 62 - Repayments of Foreign Liabilities | 1193 | 698 | 502 | 285 | 192 | 477 | 95% | 68% |
| Grand Total | 20351 | 20851 | 11319 | 3692 | 5386 | 9078 | 80% | 44% |

When breaking down expenditure into subheads, the approved budget for **Compensation of Employees** in this financial year amounted to M8,541.4 million. This represents an increase of approximately 6 percent from an approved budget in the previous year, which was M8,063.4 million. By the end of the third quarter, this budget was revised upwards by M9,7 million mainly due to funds from Contingencies Fund issued to the Ministry of Public Service, Labour and Employment. These funds were allocated to address the additional financial requirements for the termination of former Principal Secretaries and the expiration of contracts.

Expenditure for the specified quarter amounted to M1,991.6 million, compared to M1,844.4 million recorded in the corresponding quarter in the last financial year. This reflects a modest increase of 8 percent from the previous year. The cumulative expenditure reached M3,812.7 million, depicting 88 percent and 45 percent of the cumulative warrants allocated and revised budget respectively.

Under this specific subhead, it is mandated that expenditure per the revised budget must be at 50 percent. However, all MDAs are currently below this threshold, except for the Ministry of Finance and Development Planning which stands at 53 percent. Among the ministries, those with the lowest expenditure, registering less than 40 percent as percentage of the revised budget include:

1. Public Service Commission: 39 percent. It is important to note that the assessment centre was budgeted under the Public Service Commission, but as implementation commenced, expenditure occurred under the Ministry of Public Service, Labour, and Employment.
2. Foreign Affairs Ministry: Expenditure for foreign missions under this subhead occurs outside the system, leading to a reflection of low expenditure.
3. Directorate on Corruption and Economic Offences: Only percent of the revised budget has been expended.

These observations highlight areas for attention and potential improvements in expenditure management.

The approved budget for **Travel and Transport** for the current year was M417.8 million, and by the end of the quarter, it had accumulated to M432.6 million. When compared to the same quarter last year, the travel and transport budget had accumulated to M439.5 million, reflecting a slight increase of 2 percent.

Expenditure by the end of the quarter reached M90.4 million, while cumulative expenditure amounted to M128.7 million. This was represented by 52 percent and 30 percent of cumulative warrants allocated and revised budget, respectively. It is noteworthy that expenditure stood at M87.8 million during the same quarter last year.

All items under this specific subhead have expended less than 50 percent of the cumulative warrants allocated, with the exception of fares and subsistence international, short-term hire of vehicles, and fuel and lubricants, which have utilized 50 percent and more. Given that warrants are released based on the execution plans submitted by the MDAs, there is a strong recommendation for MDAs to submit realistic and accurate plans to prevent funds from remaining idle. These emphasize the importance of aligning execution plans with actual expenditure needs for effective financial management.

The approved budget for **Operating Costs** was set at M2,521.3 million and had accumulated to M2,541.5 million by the end of the quarter. This increase is attributed to funds from Contingencies Fund allocated to the Ministry of the Public Service, Labour and Employment for maintenance of Human Resource Management and Information System as well as Psychometric Assessment Unit. Additionally, funds from the Contingencies Fund were issued to the Judiciary services to cater for the resuscitation of the Judiciary digital court recording system.

The approved budget under this category has increased as compared to last year's budget, which recorded M1,993.3 million. The specific items that experienced a budget increase this year include:

1. Purchases of Production Materials: The increase is primarily allocated to the Ministry of Agriculture and Food Security to facilitate the procurement of fertilizers and seeds.
2. Purchases of Health Services: The budget increase is attributed to an elevated subvention to the Christian Health Association of Lesotho.

These adjustments reflect a strategic allocation of funds to address specific needs and priorities within the Ministry of Agriculture, Food Security and Nutrition and the Health sector.

In terms of expenditure, this category recorded M504.2 million and had accumulated to M791.0 million. This represents 49 percent of the aggregate warrants allocated and 31 percent of the revised budget. However, it is important to note that the expenditure recorded during the same period in the last financial year was higher, standing at M518.4 million. The decrease in this year's expenditure compared to last years is attributed to major budgeted items that did not perform as expected. This variance underscores the impact of unforeseen factors on budget execution within this category.

Concerning **Transfers**, the initial approved budget was M4,145.9 million and was subsequently revised up to M4,328.7 million in the second quarter. This adjustment is a result of funds being reallocated from Contingencies Fund to the Ministry of Education and Training. The funds were necessitated to cover the expenses for one hundred and seventy-eight (178) unsponsored students, in line with the commitment made by the Government of Lesotho to provide financial support to the National University of Lesotho on a 50/50 basis for fees due in the 2022/23 academic year. Additionally, funds from the Contingencies Fund were allocated to the Ministry of Natural Resources as a form of financial

assistance to settle outstanding debt of the Lesotho Electricity Commission to Electricidade De Mozambique.

In terms of quarter two expenditure, M1,091.6 million was recorded, leading to a cumulative expenditure of M1,808.5 million. This represents 85 percent of the cumulative warrants allocated and 42 percent of the revised budget, respectively.

As illustrated in the table above, **Contingencies Fund** revised budget had decreased to M29,084.3 million at the reported quarter. This reduction is attributed to the reallocation of funds from the Contingencies Fund to the implementing Ministries, Departments and Agencies (MDAs). It is important to note that expenditure for this subhead is captured under MDAs, and therefore, no expenditure is realised directly under the Contingencies Fund. The decrease in the revised budget reflects the distribution of funds to address specific needs across various MDAs.

DEVELOPMENT BUDGET PERFORMANCE

The approved capital budget for the year 2023/24 is M6,323.4 million, indicating a decline of 7 percent from the approved budget of the previous fiscal year. The decrease is a result of reduced contributions from the Government of Lesotho and donor grants in the current financial year. The Government of Lesotho (GOL), Donor grants and donor loans with respective contributions of M2,690.5 million, M1,025.7 million and M2,607.2 million.

The second quarter expenditure for the capital budget recorded M377.8 million, excluding donor funding, as expenditure under donor funds are executed outside the IFMIS. The cumulative expenditure at the end of the reported

quarter stood at M794.5 million, constituting 84 percent of the warrants allocated and 30 percent of the revised budget. It is worth noting that warrants under this budget class are issued on request by MDAs. The 30 percent utilization of the revised budget indicates relatively slow progress compared to the same quarter last year, which recorded 33 percent utilisation. This observation suggests a potential need for improved efficiency or a closer examination of the factors contributing to the slower utilization of the capital budget.

By the end of the quarter, most ministries had expended below 50 percent of their approved GOL budget, except for the following ministries:

1. Ministry of Agriculture, Food Security and Nutrition: 64 percent utilization.
2. Ministry of Trade, Industry, Business Development and Tourism: 98 percent utilization.
3. Ministry of Justice and Law: 52 percent utilization.
4. Ministry of Natural Resources: 60 percent utilization.

These ministries have demonstrated varying levels of expenditure relative to their approved GOL budgets.

Furthermore, it's noteworthy that certain projects, namely the Districts Bus Terminals, Construction of Royal Palace, and NSS Headquarters, had not requested any funds since the beginning of the year, indicating a lack of financial activity or progress in these particular projects during the specified period.

Several challenges have been encountered during the implementation, including but not limited to:

1. Delays caused by Building Design Services in the Ministry of Public Works: The process of designing buildings appears to be a bottleneck, causing delays in the overall implementation timeline.
2. Ministries not commencing tendering processes before the financial year commences: Failure to initiate tendering processes in a timely manner can result in delays in project commencement and completion.
3. Contractors stopping work due to delays in payments: Delays in processing payments to contractors have led to interruptions in project execution, affecting the progress and timely completion of projects.

Addressing these challenges will likely involve streamlining building design services, emphasizing the importance of early tendering by ministries, and ensuring prompt and regular payments to contractors to keep projects on track.

CONCLUSIONS

In conclusion, the second-quarter review of the financial year 2023/24 has provided valuable insights into the budget and expenditure performance. Noteworthy points include:

Revenue Trends: Overall, second-quarter revenues have exhibited a favorable trend, with net collections at M4,793.3 million, reflecting a positive trajectory compared to the same quarter last year.

Tax Collections: While tax collections experienced a decline, particularly in personal income tax, other revenue streams like royalties and SACU receipts demonstrated an increase, contributing to the overall revenue picture.

Expenditure Overview: Expenditure patterns indicate an 8 percent increase in overall spending compared to the same quarter last year. The cumulative

warrant allocations and expenditure stood at M11,319.3 million and M9,078.0 million, respectively, constituting 80 percent of allocated warrants and 44 percent of the revised budget.

Compensation of Employees: The Compensation of Employees budget showed a 6 percent increase, with specific adjustments made to accommodate additional funds for the termination of former Principal Secretaries and expired contracts.

Travel and Transport: While the overall budget for Travel and Transport saw an increase, the expenditure trends indicate variations in subcategories, with some items showing utilization below the 50 percent threshold.

Operating Costs: The Operating Costs budget witnessed adjustments due to funds reallocated from the Contingencies Fund, addressing specific needs in the Ministry of Public Service, Labour, and Employment, as well as the Judiciary.

Transfers: Funds from the Contingencies Fund were directed towards supporting education and settling outstanding debts, showcasing the flexible nature of budget allocations to address urgent requirements.

Capital Budget: The capital budget for the year has decreased by 7 percent, primarily due to reduced contributions from the Government of Lesotho and donor grants.

Implementation Challenges: Notable challenges include delays in building design services, ministries initiating tendering processes, and contractor interruptions due to payment delays.

Considering these findings, there is a need for strategic interventions to address challenges, streamline budget execution processes, and enhance financial management practices for optimal utilization of allocated funds. Improved

coordination among ministries, timely project initiation, and efficient payment systems will be crucial in ensuring the successful implementation of the budget for the remainder of the fiscal year.