

# **GOVERNMENT OF LESOTHO**

**SECOND QUARTER PERFORMANCE  
BUDGET AND FISCAL  
BULLETIN  
MINISTRY OF FINANCE**



Ministry of Finance  
Government of Lesotho

**Budget & Fiscal Bulletin**  
**Second Quarter – 2015/2016**

Vol. 1, Issue 2

**Foreword from the Principal Secretary of the Ministry of Finance**

On behalf of the Ministry of Finance and Government of Lesotho, I am pleased to release the second quarterly issue of the Budget and Fiscal Bulletin 2015/2016. As I noted in the first quarter bulletin, it is our obligation and commitment as the Ministry of Finance to ensure that the issues pertaining to public funds are transparent and communicated to the public. We have already launched the first issue. For availability and accessibility please visit: <http://www.finance.gov.ls>.

This bulletin continues to support our efforts in the area of fiscal transparency and for the public, as taxpayers, to be informed of the use of public resources.

The bulletin is divided into three sections. Section one summarizes the quarterly fiscal outcome and implementation of the budget in line with the appropriation of the FY 2015/16 budget by Parliament. Section two presents the budget and fiscal developments and is divided into three subsections, which deal with the execution of the Government's budgetary transactions (recurrent and capital expenditures) and revenue collection. Section three provides a summary of the Government's initiatives in the PFM reforms.

**Introduction**

This bulletin reports and informs various ministries and agencies, the public, donors, and civil society about Government's revenue and expenditure performance. It reports revenue collections and expenditure outlays for the second quarter of FY 2015/16.

The second quarter recurrent expenditure is at 43 percent of the approved budget of M11, 993 million, whilst the capital budget is at 34 percent of M5, 132 million.

The revenue collection for the second quarter is M3, 964 million which is 26 percent of the estimated annual target.

**Section 1 – Summary Quarterly Fiscal Outcome**

In the second quarter of 2015/16 (July-September), total revenue recorded M 3, 964.1million, reflecting an increase of M524 million or growth of 15 percent more than last year in the same period. This was attributed to the increase in tax revenues, other revenue collections as well as increase in donor grants. SACU receipts continued to struggle, recording a decline of the same rate as the first quarter of 10 percent.

**Table 1: Budgetary Operations – Q2:2015/2016**

Budgetary Operations: July- September 2015	
Millions of Maloti	
Revenues	3,964
Expenditures	4,203
of which	
Recurrent	2,863
Capital	1,340
<b>Budget Balance</b>	<b>- 239</b>

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

It is worth noting that the first quarter is traditionally a low spending period as a result of delays in release of funds. Therefore, fiscal balance for the second quarter is estimated at a deficit of M-239 million as ministries started to spend, especially regarding higher execution rate of capital budget than the first quarter.

**Section 2 – Budget and Fiscal Developments**

**Section 2:1 – The Second Quarter's Revenue Collection**

This section discusses revenue performance for the second quarter of 2015/16 fiscal year. The total revenue collection for the quarter was M 3, 964.1



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million which is 26 percent of the total annual target of M15, 321.4. This is 13 percent higher than the first quarter collections. This reflects a slight increase in performance relative to an estimated quarterly target of M 3,830.4 million.

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

Revenue Items	2014/15 Q2	2015/16 Q2	Growth in percent
Tax Revenue	1,176.7	1,567.4	33%
Grants	117.4	233.1	99%
Other Revenue	387.5	496.2	28%
SACU	1,758.5	1,577.5	-10%
<b>Total</b>	<b>3,440.1</b>	<b>3,964.1</b>	<b>15%</b>

**Tax Revenue**

During the reporting period, tax revenue responded positively in all categories against the estimated target. Tax revenue recorded M 1, 567.4 million against the target of M1, 548.8 million. This represented a slight growth of 1.2 percent from the estimated target. This growth was observed mainly in VAT and other revenue.

Despite the slow economic growth forecasts, personal income tax registered a growth of 2.5 percent from the first quarter and 40 percent from last year. This is due to the responsive downward revision of income tax rates policy which was adopted in 2014/15. This somehow confirms that lower tax rates improve compliance. VAT recorded 15 percent growth from the first quarter of 2015/16 and 17 percent growth compared to the same period of 2014/15.

Corporate income tax exceeded the target by 2 percent recording M 239.7 million against target of M235 million. This was attributed to the revenue gain resulting from taxation of the manufacturing exports to extra-SACU market as well as the mining sector. Other revenue recorded a 25 percent growth from the first quarter and 131 percent from the previous year of the same period.

**Grants**

These are donor grants from development partners which are divided into two categories, namely, budget support and capital grants. Budget support is predominantly recurrent budget, while capital grants finance development budget. Total quarterly grants increased from M 117.4 million in 2014/15 to M 233.1 million in 2015/16, resulting from the major inflow of capital grants. Although the total grants performed as envisaged, it should be noted that there is a persistent problem of under reporting by the spending ministries.

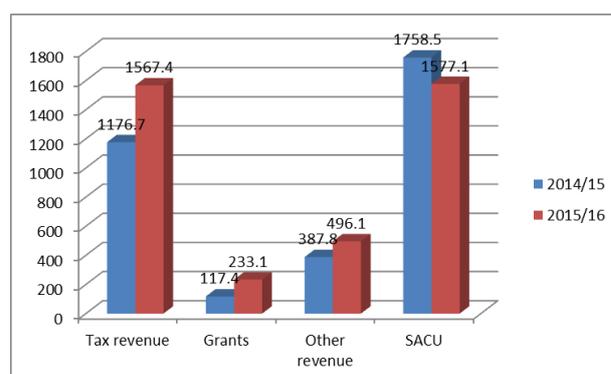
**Other Revenue**

This is a non- tax revenue which consists of administrative fees and charges, fines and forfeits and property income. Property income is the major driver of the revenue collections under this category. The second quarter registered M496.2 million against the target of M362.5 million. Much of the revenue is attributed to the dividends from mining as well as Central Bank of Lesotho.

**SACU**

SACU revenues continue to decline by 10 percent relative to the second quarter of the 2014/15 fiscal year. This follows the developments in the South African economy affecting the pool's scope and size and the fact that the source provides equal quarterly receipts throughout the year.

**Table 3: Revenue performance (in Millions Maloti)**





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**Section 2:2 – The Second Quarter’s Recurrent Expenditures**

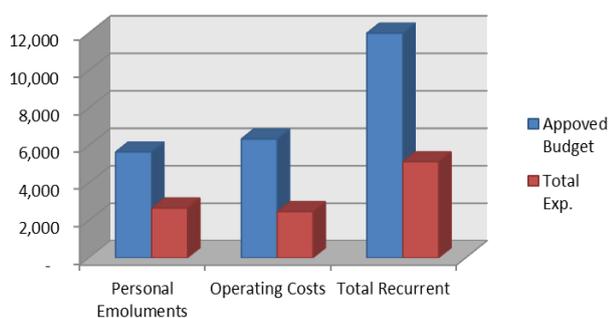
Recurrent budget spending for the second quarter is M 5, 132 million (73 percent of 2015/16 Q2 warrant(s) released). When comparing expenditure with warrant(s) released (M 6, 995 million), this reflects a slower utilization rate than anticipated. Furthermore, expenditure stands at 43 percent of approved budget. (See Table 4)

**Table 4: Recurrent Budget Performance**

Expenditure Type	Approved Budget 2015/2016	Warrant Released	Total Expenditure	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
Total Personal Emoluments	5,650	3,189	2,661	2,989	83%	47%
Total Operating Costs	6,343	3,806	2,471	3,872	65%	39%
Total Recurrent	11,993	6,995	5,132	6,861	73%	43%

*Note: Amounts are in millions of Maloti*

**2nd Quarter Recurrent Expenditure**



In the second quarter, personnel emoluments and operating costs (principally goods and services) are at 47 and 39 percent, respectively, of the approved budget for FY 2015/16. This indicates a moderate utilization of the budget as compared to the first quarter where there were only 22 and 16 percent expenditure on personnel emoluments and operating costs, respectively. Although, this is a stage where government operations should have stabilized, operating costs are still low. Government is in the process of identifying the challenges leading to

low utilization to be able to institute measures for improving execution.

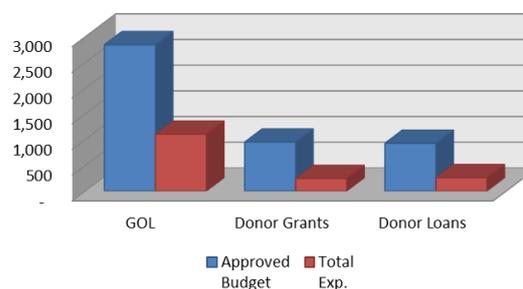
**Section 2:3 – The Second Quarter’s Capital Expenditures**

**Table 5: Capital Budget Performance**

Expenditure Type	Approved Estimates	Warrant Released (RIE'S)	Total Expenditure	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
GOL Total	2,844	1,297	1,105	1,739	85%	39%
Donor Grants Total	952	250	244	708	97%	26%
Donor Loans Total	930	261	261	669	100%	28%
<b>TOTAL</b>	<b>4,726</b>	<b>1,809</b>	<b>1,610</b>	<b>3,116</b>	<b>89%</b>	<b>34%</b>

*Note: Amounts are in millions of Maloti*

**2nd Quarter Capital Expenditure**



Capital spending for the quarter is at M 1,610 million, which is 89 percent of warrants released and 34 percent of the total approved budget, respectively. The releases on development budget are as per ministerial requests, not quarterly basis as is the case with the recurrent budget. Total development budget performance indicates a huge improvement from 6 percent in the first quarter to 34 percent in the second quarter.

This is due to the fact that in the first quarter, warrants on the development budget were only issued for payments of salaries and wages for projects personnel whilst awaiting approval of the budget by the Parliament. The improved utilization in the second quarter is largely brought by developmental activities that have taken-off.



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Capital expenditure for the second quarter has been lower than expected due to a number of reasons including delays in release of the first quarter's warrants that affected the start-up of activities that were planned for the period but postponed to the second quarter. The demerger of some of the ministries caused delays in: requests of funds by the new ministries and agencies; long procurement procedures; and disbursement of funds from development partners which continue to be a daunting challenge.

### Section 3 – PFM Reforms

Important developments in the Public Financial Management Reform Project (PFMRP) took place during July to September 2015. The PFM Improvement and Reform Steering Committee (PFM-IRSC), as the high-level policy and strategic body, had its first meeting in August 2015, where it approved its Terms of Reference (ToRs) and the PFM reform component work plans for 2015/16. These high-level approvals provided useful policy guidance and the motivation to the implementation of the project.

The PFM Reform Technical Committee (PFM-RTC) also approved its ToRs paving way for its monthly meetings with the responsibility to provide technical guidance to the component leaders and help resolve any implementation challenges. The lowest level, component leaders committee, also had its monthly meetings institutionalized and held meetings in all the three (3) months of the reporting period.

Through the assistance of the budget expert, component 2 – *Transparency and Effectiveness of Policy Oriented Annual Budgets* – identified critical budgeting and macro-fiscal areas with considerable progress involving; i) preparation of a quarterly budget/fiscal bulletin to inform the general public on government's financial transactions; ii) periodic analysis of the financial operations of the State-Owned-Enterprises and Parastatals to establish their financial position and possible liabilities.

The Organisation of Economic Cooperation and Development (OECD) Methodology for Assessing

Procurement Systems (MAPS) was introduced to the Procurement Policy and Advisory Department as well as the concept of Framework Agreements and Contracts. These are the initial steps towards the envisaged procurement reforms.

All these notwithstanding, there remains plenty of room for improvement as well as challenges that require concerted effort across the PFM stakeholding. Robust and routine engagement of the heads of departments with their component leaders on individual reform areas is an important challenge that requires resoluteness. More time should be dedicated to the reforms as this inherently constitutes a relatively sound PFM system going forward and this is what components should strive for.

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