GOVERNMENT OF LESOTHO

SECOND QUARTER PERFORMANCE

BUDGET AND FISCAL BULLETIN

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Kingdom of Lesotho's Public Finances: Serving the Nation

Ministry of Finance
Government of Lesotho

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Second Quarter – 2016/2017

Foreword from PS Finance

Publication of the quarterly budget and fiscal bulletins is now in its second year having been introduced under the ongoing Public Financial Management (PFM) Reforms in 2015/16 fiscal year. The bulletins continue to entrench Government's responsibility and commitment, through the Ministry of Finance, to institutionalize transparency in the use of public resources and to consistently report to the public, as tax payers. The bulletins also recognize the need for government to communicate to the international community on the periodic budget and fiscal developments, and in particular to the Lesotho's Development Partners, who continue to play a very pivotal role in Lesotho's development programme.

It should be noted that as Government of Lesotho traverses through a challenging economic and financial landscape, it is very useful that the public is made aware and also that the same public is kept to speed with how government proposes to deal with the challenges. The on-going PFM reforms, supported by the various Development Partners, plan to address the current gaps in the systems and processes which will improve the PFM environment in the medium to long term. The other project, Public Sector Modernization (PSM), which has recently been conceived, will also make important value-addition to the PFM reforms.

This Budget and Fiscal Bulletin, like the previous ones, presents the major revenue and expenditure activities that took place in the second quarter of 2016/2017. It also highlights developments in the global and domestic economy in the second quarter of 2016/2017. It reports key revenue and expenditures data and how these have changed over the period of a year since the second quarter of 2015/16. The bulletin continues to support the efforts of good governance and the need for fiscal transparency.

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The bulletin is divided into three sections. Section one discusses the macroeconomic outlook and issues that correspond with the submission of the FY 2016/17 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 collection. Section three provides a summary of the Government's initiatives in the PFM improvements and reforms. Section 4 provides progress under the new World Bank funded Public Sector Modernisation Project.

Introduction

This bulletin continues to pursue the objective of reporting and informing various ministries and agencies, the public, development partners, and civil society about Government's revenues and expenditure performance. It reports revenue collections and expenditure outlays for the second quarter of FY 2016/17.

The 2016/17 fiscal year's total approved expenditure budget is M 17,190 million, of which the recurrent budget is M 12,396 million and the capital budget, is M 4,793 million. This compared with a total of M 16,719 million for fiscal year 2015/16 indicates an increase of about 3 percent. For the recurrent budget, the year-on-year growth is nearly 3 percent, largely reflecting the size of and the annual increase of 4 percent in the wage bill.

The revenue target for the current financial year is M 13,370.8 million which is a decrease of 7 percent over the 2015/16 approved target of M 14,402.2 million.

Section 1 – Macroeconomic Developments

As mentioned in the first quarter, that Lesotho's economic growth patterns remained slow paced witnessed by a mixed bag of economic factors not different from its member states. A combination of the declining GDP growth rate and the downward revision of tax buoyancy have reduced the in-year tax by M1, 214.5 million. The revenue estimate for this year is M14, 040 million despite the actual collections of M15, 254.7 million in 2015/16.

During the quarter under review, the total revenue collections recorded M3, 482.9 million, against the expected outturn of M3, 570.4 million. This reflects a reduction of around 10 percent in revenues collections as opposed to the same period of last year.

Table 1: Budgetary Operations – Q1:2016/2017

Budgetary Operations: July - September 2016	
Millions of Maloti	
Revenue	**3 482.9**
Expenditure	**3 218.3**
of Which:	
Recurrent	**2 700.2**
Capital	**518.1**
Budget Balance	**264.6**

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

The overall budget balance for the second quarter is estimated at M264.6 million.

Section 2 – Budget and Fiscal Developments

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

During this quarter under review, the total revenue collections recorded M3, 482.9 million, reflecting deterioration in revenues as opposed to the same period of last year. This is also an under performance in comparison to the revenue target of M3, 570.4 million. This short fall in revenue again is a result of the decline in SACU revenues and slight decline in Grants (see table 2). This is also evidenced by the similar behavior in the revenue contributions.

Figure 1: Revenue Shares (in Millions of Maloti)

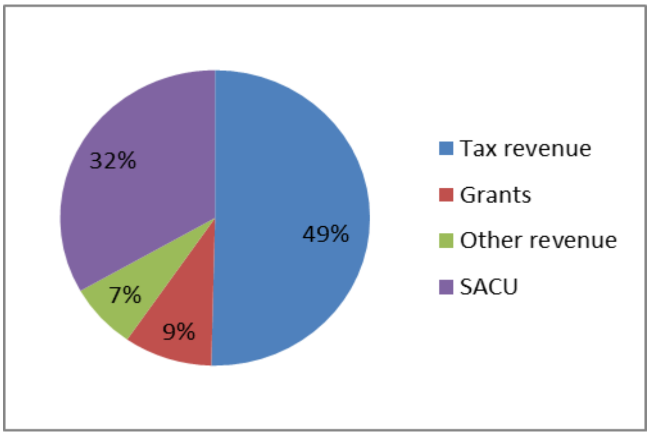


Figure 1 illustrates the total revenue shares for this quarter, revealing a shift in the revenue composition, where Tax revenue takes the lead, contributing around 49 percent of the total revenue followed by SACU with 32 percent, other revenue with 12 percent and Grants with 7 percent.

The reductions in revenue performance are brought mainly by a mix of growth in some items while some are declining. Tax revenue grew by 7.2 percent from the previous year and other revenue registered a growth of 19 percent compared to last year. While SACU revenues declined by 32 percent and Grants by 2.4 percent.

Table 2: Revenue Performance (in Millions of Maloti)

Revenue Items	2015/16 annual	2016/17 annual	Growth in percent
Tax Revenue	**1,599.0**	**1,713.7**	**7.2%**
Grants	**239.6**	**233**	**-2.4%**
Other Revenue	**342.6**	**406.5**	**18.7%**
SACU	**1,577.1**	**1,129.7**	**- 32.2%**
Total	**3,758.9**	**3,482.9**	**-9.5%**

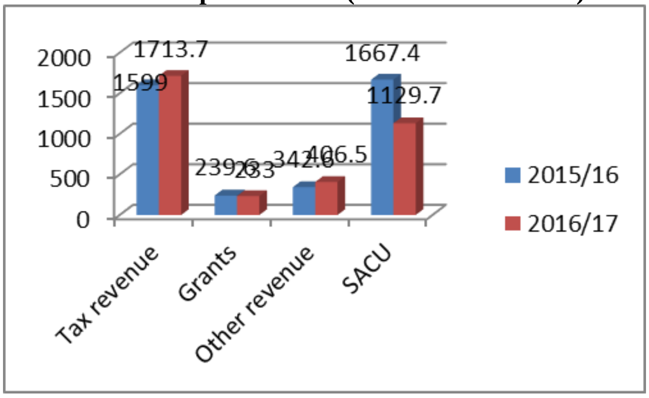
Tax Revenue

Even though Tax revenue presents a slight growth, it did not perform as expected recording M1, 713.7 million against the target of M1, 882.7 million. The shortfall in the collections was observed in *Company Income Tax (CIT)* recording M276.8 against the target of M634.6. This was attributable to the slow growth in mining, telecommunications and financial sectors. Also, poor sales in wholesale and retail sector in 2015/16 led to lower than anticipated revenue collections.

Personal income tax registered an increase of M25 million against the target of M475, 2 million realising a 5 percent growth. The positive growth was brought by improved levels of employment in the private sector, especially in non-manufacturing sector and the expansion of one of the mines- which is among high wage companies.

Wholesale and retail sales contribute around 60 percent of *VAT*. In this quarter, they grew by 7 percent such that total VAT recorded growth of 4.4 percent as opposed to last year's collections and also surpassed the quarterly target by 2.5 percent.

Table 3: Revenue performance (in Millions of Maloti)



Other Revenue

Other revenue is collected by ministries, while electricity and water royalties are collected by LEC and LHDA, respectively, and remitted to the responsible ministries. This component registered a total collection of M406.5 million which is 19 percent growth (see table 3) compared to the same period last year. This is 36 percent growth against the target. The two main drivers to the growth are dividends and 'Muela electricity.

SACU

SACU revenues remain unchanged as in the first quarter. It continues to register lower receipts compared to the previous year. During the second quarter, SACU recorded M 1,129.6 million, which is 29 percent lower that than M1, 599.5 million in 2015/16. This follows the declining economic developments in the South African economy affecting the size of the overall pool.

Section 2:2 – The Second Quarter's Recurrent Expenditures

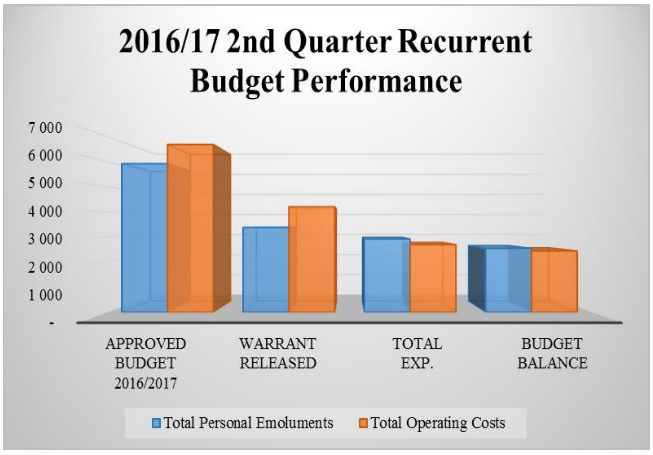
Table 4: 2016/17 Second Quarter Recurrent Budget Performance

2016/17 Second Quarter Recurrent Budget Performance						
Expenditure Category	Approved Budget 2016/2017	Warrant Released	Total Exp.	Budget Balance	Exp. as % of Warrant Released	Exp. as % of Approved Estimates
Total Personal Emoluments	5 950.0	3 379.8	2 917.1	2 543.1	86%	49%
Total Operating Costs	6 446.0	4 208.7	2 688.1	2 443.5	64%	42%
Total Recurrent Expenditure	**12 396.0**	**7 588.4**	**5 605.2**	**4 986.6**	**74%**	**45%**
Amounts in Millions of Maloti						

Source: Ministry of Finance; Budget Department

The total recurrent budget performance stood at M5, 605.2 million at the end of the second quarter which is a 45 percent of the 2016/2017 approved budget of M12, 396.4 million. This shows that recurrent budget performance is generally the same as compared to the same time in 2015/2016 (43 percent). Total Personal Emoluments and total Operating Costs are at 49 percent and 42 percent, respectively. Personal Emolument performance is generally in line with forecasts, while operating costs indicate a lower performance than anticipated. (See Table 4 above and figure 2 below).

Figure 2: 2016/17 Second Quarter Recurrent Budget Performance



It is worth mentioning that ministries of Home Affairs and of Small Business Development, Cooperatives and Marketing, Cooperatives and Marketing have performed beyond their expected quarterly warrants at 60 percent and 70 percent, respectively. The over performance of the Ministry of Small Business Development, Cooperatives and Marketing and Cooperatives is attributed to the food subsidy that was approved by Cabinet of about M162 million and of which M32.0 million has already been paid in order to curb the current drought impact in the country.

However, there are some exceptional ministries that have performed below the expected quarterly warrants. Independent Electoral Commission funds allocated to grants to extra budgetary units were not utilised due to the fact that local government elections have been postponed. The IEC budget has been revised downwards by M54 million which has been reallocated to Ministry of Finance to further cater for the shortfalls envisaged for the fleet management.

Other reasons for low performance include delays in warrant distribution and allocations, payments of suppliers and postponed activities by line ministries. In general, most ministries performed below expectation in the following line items:

1. Vehicle Maintenance - invoices for government vehicles short term hire are paid centrally by the Ministry of Finance. It is however important to note that Ministries of Foreign Affairs and International Relations and Defence and National Security's fleet invoices are being paid by themselves as they have their own fleets.
2. Minor Works – long procurement procedures
3. Water and Sewerage
4. Safety Nets and Public Assistance in Kind

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

Table 5: 2016/17 Second Quarter Capital Budget Performance

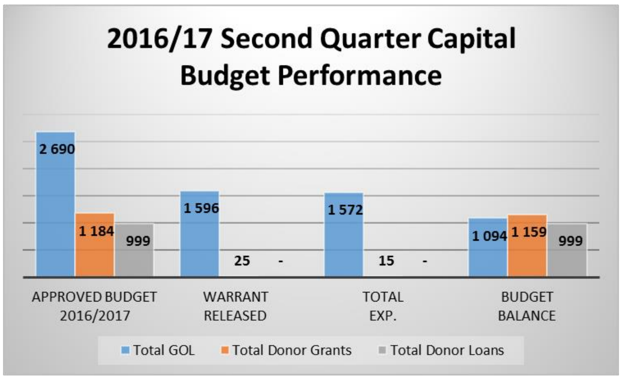
2016/17 Second Quarter Capital Budget Performance						
Expenditure Category	Approved Budget 2016/2017	Warrant Released	Total Exp.	Budget Balance	Exp. as % of Warrant Released	Exp. as % of Approved Estimates
Total GOL	2 690.1	1 596.2	1 572.1	1 093.9	98%	58%
Total Donor Grants	1 183.7	24.8	15.0	1 158.9	61%	1%
Total Donor Loans	998.5	-	-	998.5	0%	0%
Total Capital Expenditure	**4 872.3**	**1 621.0**	**1 587.1**	**3 251.3**	**98%**	**33%**
Amounts in Millions of Maloti						

Source: Ministry of Finance; Budget Department

The second quarter capital performance is M1, 587.1 million which is 33 percent of the total approved capital budget of M4, 872.3 million. This is due to a 58 percent incurred under GOL funding; while there was 1 percent expenditure under donor grants and no expenditure under the Loans funded projects. Capital Budget has performed exceptionally well compared to the same time in 2015/2016 budget. It is worth noting that Ministries of Development Planning, Home Affairs, His Majesty's Office, Local Government and Chieftainship, Gender, Youth and Sports, as well as Judiciary have performed extremely well in this quarter, they are above the expected 50 percent of the total approved capital budget.

This exceptional performance is attributed to a number of reasons: i) population census which has just ended; ii) fast tracking and improvements of certain activities like National Identity registration, contraction of Tśifa-li-Mali court, high altitude sports centre and Palace which was have been stuck for some time due to disputed which have now ended. (See table 5 above and figure 3 below).

Figure 3: 2016/17 Second Quarter Capital Budget Performance



However, despite this general satisfactory performance there are some ministries which have not requested any funds while others have not utilized their warranted funds.

It should also be noted that expenditure for Donor Grants and Loans continues not to be fully recorded in the system, hence the low performance. This is due to different systems that are used by the development partners and the fact that line ministries do not request funds for posting purposes.

Section 3 – PFM Reforms

Important progress is being made under the on-going Public Financial Management Reform Project (PFMRP). The progress during the reporting period covers capacity development of different reform components of the project as well as preparations for critical systems and processes for improving management of public resources.

Component 1 - Implementation of Modern Regulatory Framework – The new Audit Act is now in place with the view to changing the architecture of external oversight of public finances in Lesotho and to eventually achieve the independence of the Office of the Auditor-General as enshrined in the country's constitution.

Component 2 - Assurance in the Transparency and Effectiveness of Policy Orientation of the Budget (Policy Based Budgeting) – The following activities were undertaken under the component: i) an expert has been engaged to help the Budget Department to make specifications for an Integrated Planning and Budget Tool which will serve as an instrument for Ministries, Departments and Agencies (MDA) for their annual planning and budgeting; ii) in view of continuing developments and changes in the overall structure of the government accounts and the need to establish consistent links between plans and the annual budgets for monitoring and reporting, government has start the process of reviewing the current Chart of Accounts (CoA). A Technical Working Group (TWG) has been established consisting stakeholders from various departments in the MOF and have started scoping the requirements; and iii) following engagement of a Short Term Expert (STE) to help the Budget Department to develop specifications for an Integrated Planning and Budget Tool which will serve as an instrument for Ministries, Departments and Agencies (MDA) for planning and budgeting, the department, through the facilitation of the STE, held a workshop which involved the Macroeconomic Policy and Management department and the Ministry of Development Planning, to agree on the nature of the tool.

Component 3 - Establishment of the Cash Management – The IMF technical mission visited Lesotho to assess and provide technical assistance to the ministry in the following areas; i) medium term macro-fiscal forecasting; ii) annual budget preparations; and pertinently iii) reforms in cash management and financial reporting. The mission has recommended that the Cash Management Unit (CMU) should urgently implement the Treasury Single Account (TNA) to be able to consolidate cash management and expedite periodic bank reconciliation. There has also been an agreement that CBL would collect regular (quarterly) reports from commercial banks on government accounts as part of assisting the Treasury for monthly bank reconciliation

Component 4 - Strengthening of Internal Controls for Operational Efficiency and Effectiveness – The following activities were undertaken under the component. i) consultancy started during July 2016 to help the Internal Audit Department (IAD) with the review of the PFMAA 2011 relating to its provision for the establishment of the IA function, restructuring of the cadre across government, appraising the existing IA charter (ascertain its compliance with IIA standards) developing a comprehensive IA manual and facilitate operationalization of the Audit Committee; ii) a training course was offered to thirty-four (34) internal auditors from across government on internal audit standards, internal audit policies and principles, and risk based methodology. The training also involved familiarizing the participants with the internal audit charter and the draft internal audit manual and guidelines, including providing practical instructions on how to use the IA manual in performing actual audits; and iii) as part of capacity development and for the Internal Audit Department (IAD) to learn lessons of successful implementation of the internal controls within a PFM setup, three (3) officers from the IAD undertook a study tour to Rwanda.

Component 5 - Accounting and Fiscal Reporting Compliant with Regulatory Framework and Accounting Standards – A number of activities took place during the reporting period under this component: i) the Project Risk and Quality Assurance advisor was engaged to assist the Project Manager during the implementation and for a period after go-live of the upgraded Epicor system, with the specific purpose of project risk management and quality assurance; ii) Epicor 10 training and testing for the task teams to be able to use the software for testing and the actual testing of the software to ensure that it meets the requirements of the Government of Lesotho. The task teams were divided into two groups, with the first group looking at the accounting and procurement modules, and the second group looking at the budget module; iii) through the assistance of the Resident Advisor in the Treasury, reconciliation and preparation of the 2015/16 financial statements have been completed following the International Public Sector Accounting Standards (IPSAS). Spending units have for the first time since the introduction of IFMIS prepared their own annual reports although with a number of quality issues which are hoped to be addressed over time given that there have been substantial gaps in annual reporting in the past years; and iv) through the assistance of the Change Management and Capacity Development advisor, the component was assisted in the following areas in an attempt to professionalize the accounting cadre: a) status of the structure of the Treasury; b) implementation of the new structure; c) preliminary analysis of old structure and 'new' structure and identification of further data requirements; d) identification of data requirements for workforce planning and development planning for the cadre, Training Needs Assessment (TNA), skills and gap analysis; and e) strategy going forward.

Component 6 - Alignment of Public Procurement with International Best Practice – Various activities took place under the component during the reporting period: i) through the facilitation of the consultants assisting with the development of the public procurement policy and regulatory framework as well as the standard bidding documents, Public Procurement and Advisory Department (PPAD) held two (2) national procurement stakeholder forums with the objective of soliciting inputs and comments into the draft documents and to ensure that the documents incorporate the broader views of the stakeholders and that the process was indeed participatory; ii) three (3) members of the Procurement Tribunal undertook a study tour to be exposed in a practical manner on how the more experienced and efficient Ghanaian procurement dispute resolution system operates with a view to benchmarking and improving on the Lesotho system; iii) as part of the capacity development of the Directorate on Corruption and Economic Offences (DCEO) for learning from countries that are succeeding in fighting corruption, three (3) officers of the directorate have undertaken a study tour to Rwanda.; and iv) Workshops in all ten (10) districts of the country were held under the umbrella of the DCEO as a continuation of sensitizing the general public (including the business community) on procurement related corruption. The workshops involved training on how corruption can be fought and this is being facilitated by the trainers who were trained (training for trainers) earlier in January 2016.

Component 7 - External Audit and Oversight Compliant with INTOSAI Standards (ISSAI) **–** Various activities took place under this component during the reporting period: i) training of twenty (20) officers of the OAG on performance audits, underpinning compliance with the standards of the Supreme Audit Institutions (SAI). The training was actually provided by some officers in the Office of the Auditor-General (OAG) who have been trained as resource persons. This is a very useful arrangement as it has achieved internal capacity development; and ii) a consultant was been engaged to review the work of the Parliamentary Public Accounts Committee (PAC) and strengthen its involvement in the PFM system and help the committee align its work to the best international practices, and to specifically look into three (3) critical areas: a) to provide practical technical know-how on how the PAC oversight function could be strengthened to contribute to the efficiency of the PFM system; b) to assess competences and skills of the PAC members and support staff and identify such areas where capacity is needed; and c) to define capacity building interventions in mitigating the gaps identified on the PAC members and support staff competence and skills.

Component 8 - Governance and Institutional Management of PFM Reforms Improved to Facilitate Ownership, Monitoring and Evaluation of Progress – The mandate of this component is to provide and manage resources for technical implementation in the other seven (7) components. During the quarter, the following activities were undertaken to facilitate implementation in the seven (7) components: i) a short term expert was engaged to do the Public Expenditure and Financial Accountability (PEFA) training for the Ministry of Finance (MoF) and the PEFA Technical Working Group, which compromises officers from different ministries. The training was based on the new **PEFA 2016** methodology and to help with an understanding of the details and expectations of the external PEFA assessment that would take place later in the year. A presentation was also done for the management of the MoF as custodians of the PFM system for their appreciation of the new methodology; ii) through the guidance of the Change Management and Capacity Development advisor two (2) workshops on job analysis, writing job descriptions and person specifications aligned with the achievement of objectives including action learning and guidance on applying this to identified posts in MoF were designed and delivered to the MoF HR. This is an important element of change to help new approaches to performance as reforms unfold. The plan is to roll out the workshops to other ministries of government; iii) through the guidance of the Change Management and Capacity Development advisor to roll out institutionalization of the reforms, components 2, 4 and 7 were couched on how to conduct post training evaluations. The objective was to capacitate the components in understanding the linkage between capacity development and strategic objectives in preparation for evaluation of PFM funded training to their staff and for future capacity development beyond the PFM reform project. The training involved a series of relevant questions that institutions have to ask themselves when doing their training plans including after training. Further sessions will be conducted for the rest of the components; and iv) the 2015/16 PFM Reform Project annual financial statements have been audited and have been confirmed to comply with the best international practices.

Activities during the quarter continue to confirm that considerable progress is being made in the implementation of the PFM reform project and require that the departments earnestly integrate the activities into their operations to start making visible and sustainable improvements.

Section 4 – New Public Sector Modernisation Project (PSMP)

The newly conceived PSMP which has overlaps and synergies with the PFMR has also started making important progress. The project has three (3) main components and an implementation support component: *1) Strategic Planning and Fiscal Management; 2) Strengthening Human Resource Management; 3) Improving Statistical Capacity; and 4) Strategic Implementation Support.* Work has started in the first two (2) components.

Component 1 – Strategic Planning and Fiscal Management – Two (2) activities took place during the reporting period under this component: i) a World Bank mission visited Lesotho to help government make preparations for a Public Expenditure Review (PER) exercise whose overarching objective is support government identify inefficiencies in public spending and revenue collection for creating fiscal space in the context of the fiscal crunch Lesotho is facing resulting from declines in the SACU revenues, analyzing performance of critical areas and/or sectors and improving fiscal planning and management for better service delivery. The exercise uses a BOOST tool that helps with analyzing budget execution over a specified period. Given that the plan is to institutionalize PER in government by building local capacity, the long-term objective is to increase the efficiency and effectiveness of public spending to promote sustained growth and reduce poverty. The first PER report is expected around mid-2017 and to be an input in the 2018/19 budget as well as the new NSDP. A government team consisting different ministries and led by the Budget Department has been formed to work with the World Bank; and ii) two (2) consultants to help with the review of the National Strategic Development Plan (NSDP) started the assignment and an inception report has been produced and presented to the committee of Principal Secretaries. The assignment involves the review of the implementation of the current NSDP (2012/13 – 2016/17) and scoping of the NSDP2 (2017/18 – 2021/22). The lessons from the implementation of the NSDP1 will be used to make improvements in preparing for the next NSDP, including full costing of the plan which was not done for the current plan.

Component 2 – Strengthening Human Resource Management – i) thirteen (13) members of the component undertook a study tour to Swaziland and South Africa to learn; a) the approach and methodology used to conduct the biometric census; b) to share the findings of the biometric census; c) handling of change management issues; d) leadership role in the implementation human resource reforms; v) to get feedback from civil servants; e) status of Payroll and HR records pre and post the census; vii) post census monitoring criteria; and f) human resource processes and controls implemented after the census; and ii) a consultant has been engaged to make preparations for the envisaged biometric census for all public officers including the methodology, periodic audits, communication strategy, and costing. The consultant will be helping the Ministry of Public Service to: a) to prepare the groundwork through providing advisory service to the technical committee within the government charged with overseeing the implementation of the biometric census; b) to finalize with the government an agreed implementation strategy, methodology and implementation plan for the biometric census and physical verification; and c) to scope the payroll verification during the process. An inception report has been produced and approved by the Ministry of Public Service.

This Newsletter is published under the authority of the Minister of Finance.
Editor-in-Chief: Principal Secretary, Ministry of Finance
Co-Editor-in-Chief: Principal Secretary, Ministry of Development Planning.
For more information contact Ms. Maleshoane Lekomola (maleshoane.lekomola@gov.ls) or Ms. Nthabiseng Sello (nthabiseng.sello@gov.ls) or Mrs. Marethabile Tsoeu (marethabile.tsoeu@gov.ls).
Tel: 22311101/22311100

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