GOVERNMENT OF LESOTHO

THIRD QUARTER PERFORMANCE

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Foreword from PS Finance

Quarterly budget and fiscal bulletins are now an institutionalized arrangement and is in its second year since 2015/16 under the ongoing Public Financial Management (PFM) Reforms. The bulletins are part of Government's responsibility and obligation for accountability and transparency in the use of public resources. The bulletins recognise the need for government to report to the taxpayers and communicate to the international community and non-government organisations on the periodic budget and fiscal developments, and in particular, to Lesotho's Development Partners, who continue to contribute pivotally to Lesotho's development agenda.

As Government of Lesotho continues to implement public policy under very challenging economic and financial conditions, it is important that the public is informed of how government continue to deal with the challenges that face the nation, including measures to improve the livelihoods of the citizens. 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 important project is the Public Sector Modernisation (PSM), which transcends PFM reforms and also into improving the broader public service delivery.

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

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 2 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 3 provides a summary of the Government's initiatives in the PFM improvements and reforms, while Section 4 provides progress under the new World Bank funded Public Sector Modernisation Project.

Introduction

This bulletin continues to follow 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 third 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 and second quarters, that Lesotho's economic growth remained slow paced as witnessed by mixed 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, 322.4 million, against the expected outturn of M3, 570.4 million. This reflects a reduction of around 16 percent in revenues collections as opposed to the same period of last year.

Table 1: 2016/2017 Quarter Three Budgetary Operations

Revenues	3 322.50
Expenditures	5 026.40
of which	
Recurrent	4 393.50
Capital	632.90
Budget Balance	-1 703.90

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

The overall budget balance for the third quarter is estimated at M-1,703.9 million.

Section 2 – Budget and Fiscal Developments

Section 2:1 – The Third 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)

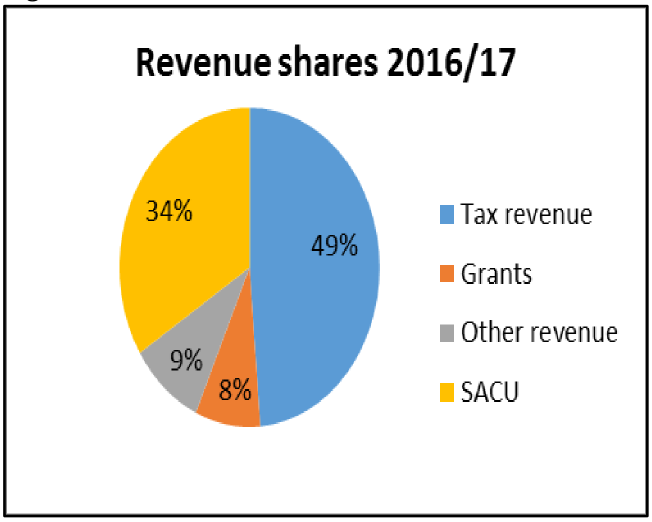


Figure 1 illustrates the total revenue shares for this quarter, revealing a shift in the revenue composition, where Tax revenue takes the lead, contributing around 49 percent of the total revenue followed by SACU with 32 percent, other revenue with 12 percent and Grants with 7 percent.

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)

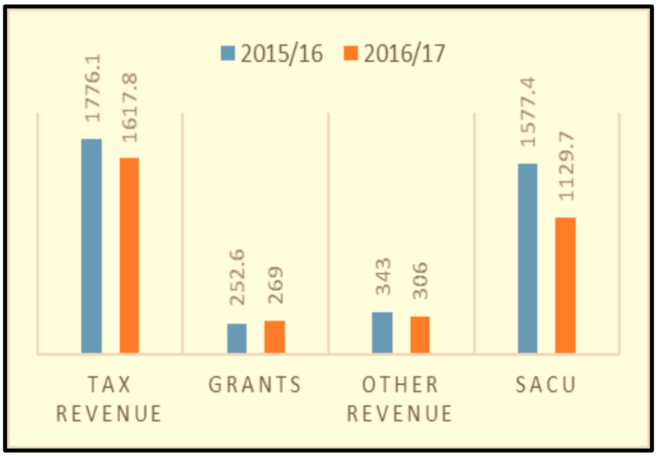
Revenue Items	2015/16 Q3	2016/17 Q3	Growth in percent
Tax Revenue	1 776.10	1 617.80	-9%
Grants	252.60	269.00	7%
Other Revenue	343.00	306.00	-11%
SACU	1 577.40	1 129.70	-28%
Total	**3 949.10**	**3 322.50**	**-16%**

Tax Revenue

Table 2 summarise the main revenue items indicating decline in overall revenues. Tax revenue fell below quarterly target, mainly owing to the underperformance in PAYE, attributed to the reduction in employment levels by the large tax payers in the private sector.
Corporate Income tax (CIT) registered a de-crease of 23 percent against last year and 2.3 percent against the target; this was mainly influenced by a deep dent in the revenue collections from mining sector.

VAT collections plummeted to 4.3 percent as opposed to last year's collections and also missed the quarterly target by 2.7 percent. This was attributed to decline in retail sector and the financial services sector.

Table 3: Revenue performance (in Millions of Maloti)



Other Revenue

Among the revenue components, other revenue is the least performing revenue with irregularities due to the fact that ministries do not monitor and administer these revenues effectively. A lot of effort is required to correct this situation.

The revenue collections for these quarter registered M306.5 million against the target of M270 million. Although these presents growth of 13 percent as compared to target, it registered underperformance of 10.8 percent against last year's performance. This is attributed to the poor administration of the taxes such as dividends from the institutions where government has shareholding where there are delays in payments or no payments at all. There is also the issue of line ministries not capturing the revenue items accordingly.

SACU

As depicted in Table 3, SACU revenue for this quarter continues to register lower receipts as compared to the previous year. In this quarter, SACU recorded M 1,129.6 million, which is 28 percent lower that than M1, 667.4 million in 2015/16. This follows the declining economic developments in the South African economy affecting the size of the pool.

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

Table 4: 2016/17 Third Quarter Recurrent Budget Performance

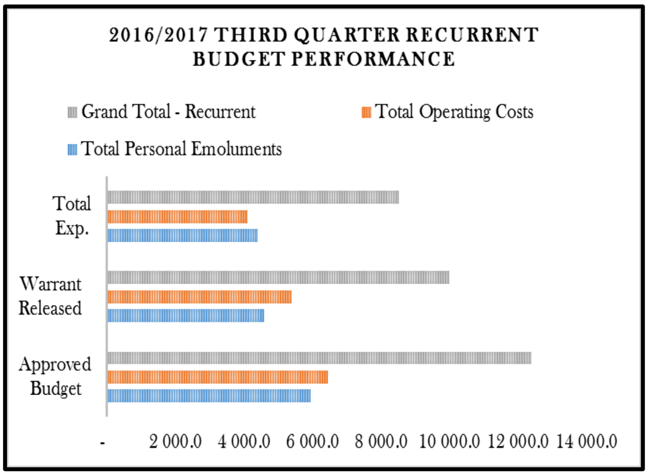
Expenditure Category	Approved Budget	Revised Budget	Warrant Released	Total Exp.	Budget Balance	Exp as % of Approved Estimates
Total Personal Emoluments	5 950.0	5 797.0	4 595.4	4 416.2	1 201.6	74%
Total Operating Costs	6 446.0	6 350.2	5 403.3	4 099.9	936.8	64%
Grand Total - Recurrent	12 396.0	12 147.2	9 998.7	8 516.1	2 138.4	69%

Source: Ministry of Finance; Budget Department

The total recurrent budget performance reflects an expenditure of M9, 998.7 million at the end of the third quarter which is 69 percent of the approved budget of M12, 396.0 million. The revised recurrent budget fell to M12 147.2 million due to movement of funds from and within the recurrent budget to finance the extra budgetary requirements as per the cabinet decision of 29 November 2017.

Personal Emoluments and Operating Costs are at 74 percent and 64 percent of the approved budget respectively. Personal Emolument performance is generally satisfactory while operating costs performance indicates a slightly low performance than anticipated. This is due to heads (Principal Repayments, Interest Charges, and Subscriptions to International Org) which spend outside the IFMIS because of technical problems. (See Table 4 above and figure 2 below). The recurrent expenditure excluding the above-mentioned heads is 77%.

Figure 2: 2016/17 Third Quarter Recurrent Budget Performance



Source: Ministry of Finance; Budget Department

After the movement of funds within and outside the recurrent budget, However, there are some exceptional ministries that have performed below the expected quarterly warrants on Personnel Emoluments and Operating Costs.

On the other hand, it is worth mentioning that ministries of Finance and of Small Business Development, Cooperatives and Marketing, have high expenditures which is caused by various reasons:

- Ministry of Finance over expenditure is attributed to the payments of short-term hire directed to Bidvest Bank Limited for providing fleet management service to the Government and subvention to Lesotho Revenue Authority which was caused by some improvements that the authority is currently engaging in so as to improve the revenue collections.
- Ministry of Small Business Development, Cooperatives and Marketing continues to finance the food subsidy on maize meal and some selected grains, that was approved by Cabinet of about M162 million and of which M85.0 million has already been paid.

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

Table 5: 2016/17 Third Quarter Capital Budget Performance

Expenditure Category	Approved Budget 2016/2017	Revised Budget 2016/2017	Warrant Released	Total Exp.	Budget Balance	Exp as % of Warrant Released	Exp as % of Approved Estimates
GOL Total	2 690.1	2 690.1	2 196.7	2 179.4	1 433.4	99%	81%
Donor Grants Total	1 183.7	1 183.7	55.4	40.6	1 113.2	73%	3%
Donor Loans Total	998.5	998.5	3.6	0	1 059.9	0%	0%
TOTAL	4 872.3	4 872.3	2 255.7	2 220.0	3 606.5	98%	46%

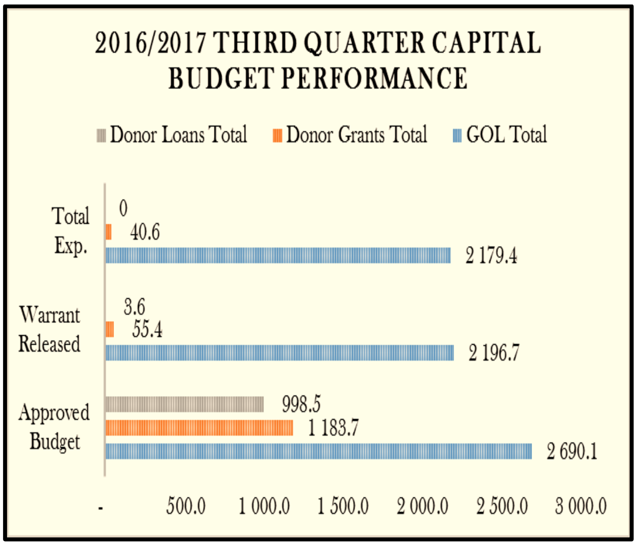
Source: Ministry of Finance; Budget Department

The third quarter overall capital performance is M2, 230.0 million which is 46 percent of the total approved capital budget of M4, 872.3 million. It constitutes 81 percent reflected under GOL funding, 3 percent expenditure under donor grants and zero expenditure under the loan funded projects. The low performance is instigated by donor funded projects that are being expended outside the IFMIS system.

Ministries which performed well above the expected 75 percent under GOL are i) Ministry of Development Planning; ii) Ministry of Home Affairs iii) Ministry of Public Works and Transport; iv) Ministry of Forestry and Land Reclamation; v) Ministry of Energy and Meteorology; vi) Ministry of Tourism; vii) Ministry of Local Government and Chieftainship Affairs and viii) Judiciary. This outstanding performance is attributed to a number of reasons such as i) population census which has just ended; ii) fast tracking and improvements of certain activities like National Identity registration, electricity installation, construction of National, urban, rural roads and national museum and iii) ending of the construction of Tŝifa-li-Mali court.

Ministry of Finance was given additional funds to finance Lesotho Millennium Development Authority for payments of contracts geared towards the maintenance health centres across the country. His Majesty's Office was also allocated addition funds to finance the continuation of construction of the Royal Palace after the disputes had been resolved. The rest of the Ministries performed under 75 percent. The low performance in some ministries is due to many factors such as delays in procurement, and budgeting for projects that are not ready for implementation (See table 5 above and figure 3 below).

Figure 3: 2016/17 Third Quarter Capital Budget Performance



However, despite this general satisfactory performance there are some ministries which have not requested any funds while others have not utilised 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

Government continues to make important progress under the on-going Public Financial Management Reform Project (PFMRP). As noted in the previous quarter, progress during the reporting period continues to focus on capacity development of different departments as well as preparations for critical systems and processes for improving management of public resources.

Component 1 - Implementation of Modern Regulatory Framework **–** To continue to build the capacity in the Ministry of Finance for compliance management of the PFM regulatory framework, one of the legal officers has enrolled in a compliance management course offered by the University of Cape Town. This is the fourth officer pursuing this course under the EU funding. The plan is to spread capacity across government.

Component 2 - Assurance in the Transparency and Effectiveness of Policy Orientation of the Budget (Policy Based Budgeting) **–** The following activities were undertaken during the reporting period; i) under the leadership of the Ministry of Development Planning government is developing a Public-Sector Investment Database (PSID) with the objective of achieving a comprehensive coverage and mapping of public investment, accountability, analysis and planning. An update presentation was done to solicit further inputs from the relevant departments in the Ministries of Finance and of Development Planning. The presentation noted the criticality of cooperation between the departments to ensure that public investment (capital expenditure) is effectively managed to support government's development agenda; ii) four officers of the Private Sector Development Department (PSDD) undertook a study tour to Botswana during the quarter with the objectives of learning from Botswana how it monitors and manages the State Owned Enterprises (SOEs), including equity portfolio management and to establish measures employed to ensure functionality of Botswana's Public Enterprise, Evaluation and Privatization Agency, its challenges and risks and possible solutions for sustaining the institution; iii) 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 is reviewing the current Chart of Accounts (CoA). Due to the technical nature of designing a comprehensive multi-dimensional CoA, an expert has been engaged to assist with the design of a workable CoA and provide support to the Technical Working Group (TWG) which was established earlier consisting stakeholders from various departments in the MOF and had already started scoping the requirements. The plan is to have the CoA implemented during the 2018/19 budget year under the upgraded IFMIS. A workshop was organized which involved selected Ministries Departments and Agencies (MDAs) to familiarise participants with the concept of CoA as well as to obtain their inputs into the shortcomings of the existing CoA and to get their requirements and views to improving it. Topics covered were: a) Budget Classification; b) Chart of Accounts – conceptual and technical issues; and c) Use of Chart of Accounts in payments and accounting; and iv) the Public Debt Department held a two-week workshop on Debt Sustainability Analysis (DSA) facilitated by Macroeconomic and Financial Management Institute of East and Southern Africa (MEFMI). A presentation on the preliminary findings of the analysis was done to management and there is already an indication of an unsustainable trajectory if nothing is not quickly done to manage the situation.

***Component 4 - Strengthening of Internal Controls for Operational Efficiency and Effectiveness* –** To involve and engage the wider stakeholding across government, the Internal Audit Department (IAD), through the facilitation of the consultant who is assisting with the internal audit reforms, held a one-day stakeholder workshop to acquaint the participants with the nature of the reforms and solicit their support. This was important to ensure that the participants understood their role in internal audit as a management tool in improving and strengthening internal controls and their effectiveness in the use of public resources.

***Component 5 - Accounting and Fiscal Reporting Compliant with Regulatory Framework and Accounting Standards* –** The IFMIS Upgrade draft contract was updated to reflect the specifications of the envisaged Integrated Planning and Budgeting System (IPBS) developed by a consultant who was engaged during August to ensure that it has incorporated all the critical elements

***Component 6 - Alignment of Public Procurement with International Best Practice* –** The following activities were undertaken during the reporting period; i) consultancy on the consolidation of scheme of service for public procurement function whose objective is to provide advice on the reorganization of the procurement function in government and assist to develop a procurement professional career path for public sector and private sector practitioners, comprising training and mentoring; and ii) following the need for professional training of both PPAD and procurement units' staff across MDAs, a concept note for training of a total of ninety-two (92) officers on Chartered Institute for Purchasing and Supply (CIPS) was prepared and submitted to the African Development Bank (AfDB) for approval and funding. The Institute for Development Management (IDM) in Lesotho has been identified as the service provider for the training. The training is critical for the public procurement reforms whose continuity and sustainability will require highly skilled personnel.

Component 7 - External Audit and Oversight Compliant with INTOSAI Standards (ISSAI) – The following activities took place during the reporting period; i) following the enactment of the Audit Act, a consultant has been engaged under the AfDB funding to assist the Office of the Auditor General to develop the audit regulations; and ii) the consultant assisting the Parliamentary Public Accounts Committee (PAC) has developed the guide for oversight responsibility of the PAC. The guide has been prepared to help parliamentarians better understand their oversight role in public financial management. The guide seeks to help the parliamentarians to make an instructive interpretation of audit reports and the associated public financial reports with the view to holding the executive accountable and instigating improvements in the use of public resources.

Component 8 - Governance and Institutional Management of PFM Reforms Improved to Facilitate Ownership, Monitoring and Evaluation of Progress – Following training of the Technical Working Group (TWG) and presentations to management on the new 2016 PEFA methodology in July 2016, the consultants undertook a PEFA assessment on the PFM health in Lesotho during the quarter. The consultants worked under the general supervision of the Planning Unit of the ministry as their direct counterpart. Subsequently, a workshop was held during December 2016 for the consultants to present their findings to different PFM stakeholders as a platform for receiving feedback and comments with the view to producing a draft final report for submission to government during the first half of January 2017. The workshop was also attended by the Development Partners supporting the PFM Reforms, except the African Development Bank. The final report for publication is expected during the fourth quarter (January-March 2017).

Section 4 – New Public Sector Modernisation Project (PSMP)

The PSMP 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.*

Component 1 – Strategic Planning and Fiscal Management – The following activities took place during the reporting period: i) capacity development on monitoring and evaluation under the leadership of the Ministry of Development Planning. The main objective of the assignment was to review the vision 2020. The expert provided monitoring and evaluation, and technical support and capacity building for the Ministry of Development Planning's (MoDP) M&E Department and relevant stakeholders to establish systems that will enable effective implementation of national development initiatives for better results. The expert also provided support for establishing/strengthening of an integrated M&E system across different sectors. The proposed system should track performance of core national indicators as provided in the NSDP M&E framework, other national and international commitments and agreements; ii) the International Monetary Fund (IMF) technical mission undertook an assessment of the Wage Bill Management in Lesotho. Although this mission was not directly commissioned under the PFM or the PSMP, it has implications for the ongoing work under both projects. The mission, therefore, worked with both the Budget Department and the Ministry of Public Service in appreciating the ongoing reforms in the projects, especially regarding the PSMP; and iii) under the custodianship of the Ministry of Development

Planning, a workshop to was held to validate the reports of the National Strategic Development Plan (NSDP) review and scoping. The workshop was attended by all ministries, including the government agencies and Development Partners with the view to receiving their inputs and responses on the reports. Following validation of the NSDP review and scoping, a presentation of the draft final report was made to the committee of Principal Secretaries during its retreat providing an overview of the assignment and what would be required from the committee and individual ministries, including receiving their inputs, for government to be able to develop a useful and meaningful NSDP 2.

Component 2 – Strengthening Human Resource Management – The Ministry of Public Service held a one-day meeting for all government Human Resources Officers and Public Relations/Information Officers to sensitize them about the ongoing human resource management reforms. The purpose of the meeting was to provide information to the officers with the view to facilitating publicity of the reforms to the rest of government. In particular, the meeting provided an overview of the biometric census planned to take place during the first half of 2017, including apprising the participants on the new payroll resource link, the associated recruitment processes, performance management and training. All civil servants without national IDs have been asked to obtain them by end of January 2017 as basis for conducting the biometric headcount.

Component 4 – Strategic Implementation Support – A concept note making a case for establishment of the Public Sector Performance Oversight Unit (PSPOU) in the Office of the Prime Minister (OPM) has been draft and submitted to the World Bank under the PSMP. The objective of the unit will be to facilitate and oversee public sector performance with the view to improving the effectiveness of public service delivery and the socio-economic situation in Lesotho.

Although both the PFM and PSM projects have recently started, they are gaining momentum, and it is expected that the will have demonstrable impact in the medium to long term.

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