GOVERNMENT OF LESOTHO

FIRST QUARTER PERFORMANCE

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Foreword from Principal Secretary of the Ministry of Finance

I am pleased to release volume 5, Issue 1 of the first quarter of the Budget and Fiscal Bulletin 2019/20. It is the responsibility and commitment of the Ministry of Finance to ensure that public funds are utilised transparently and communicated back to the public.

The bulletin intends to support our efforts in the area of fiscal transparency. It summarises the fiscal performance of the first quarter covering performance of revenues and expenditure, within the context of quarterly projections. Emphasis is put on the effectiveness of government revenues and expenditures as a measure to determine the extent to which government can collect and spend planned revenues and expenditures respectively. To measure effectiveness is the extent to which both revenues and expenditures have reached the quarterly mark of the annual budget estimates.

The bulletin is divided into three sections. Section one discusses the macroeconomic outlook and issues that correspond with the submission of the FY 2019/20 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 analysis. Section three provides a summary of the Government's initiatives in the PFM reform arena.

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Introduction

The 2019/20 budget was faced with fiscal challenges emanating from high public spending and heavy dependence on the volatile and declining SACU revenues. This is noticeable by fiscal risks that have threatened the macroeconomic stability of the country. Amongst others is the continuing budget deficit, which is brought by declining revenues and rising expenditures. This is mainly because SACU revenues is performing below historical averages coupled with rising recurrent expenditures mainly wages and salaries.

High recurrent expenditures with low government deposits, lead to a draw down in government reserves which in-turn created liquidity crisis. The shortfall in cash lead to delays in payments leading to the buildup in arrears. Despite mounting arrears government expenditure continued to rise immensely while investment spending remained on the low side.

In order to preserve the fiscal and external sustainability, there is need for both short and medium-term fiscal policy measures. This calls for major downsizing and reorientation of public spending and complete overhauling of tax policy especially the administration and governance with regards to non-tax revenues.

The approved annual budget for this fiscal year is M19,012.5 million of which recurrent expenditure constitutes M M13,844.0 million, whilst the capital budget is M5,168.5 million. The revenue estimates are at M17,114.4 million.

Section 1 – Macroeconomic Developments

The economy shows signs of recovery in 2019/20. Real GDP growth is expected to recover and register 1.9 percent, after it contracted by 0.4 percent in 2018. This growth is largely driven by strong construction activity underway as well as increased diamond exports. Governments structural reforms under agricultural sector is another area expected to boost growth.

The fiscal deficit remained high and is expected to be at 2.1 percent, as the country continues to face revenue shortages arising from declining SACU and slow economic growth. To bolster domestic resources the 2019/20 budget was constructed based on expected expansionary fiscal policy stance in 2018/19. Notably, realignment of VAT to that of South Africa. However, this projection was revised upwards following some unbudgeted expenditures which had to be catered from the previous year.

Total public debt increased significantly, up to 44 percent of GDP.

Table 1: Budgetary Operations – Q1:2019/20

Budgetary Operations: April - June 2019 Millions of Maloti	
Revenues	**4 044.3**
Expenditures	**2 921.6**
of which	
Recurrent	2 676.6
Capital	245.0
Total Balance	**1 122.7**

Source: Ministry of Finance; MPM Department

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

The overall fiscal balance for this quarter is estimated at a surplus of M1,122.7 million owing to lower than anticipated expenditure especially with regard to the Capital budget due errors emanating from the implementation of the new Epicor 10.

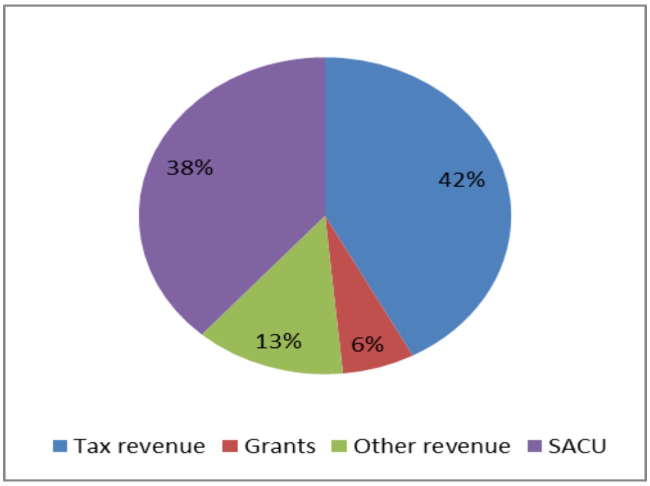
Section 2 – Budget and Fiscal Developments

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

The revenue structure has been shifting over time. The share of domestic taxes to total taxes has increased over the past five years. Figure 1 illustrates the total revenue shares for this quarter, revealing Tax revenue being the main contributor with 42 percent of the total revenue followed by SACU with 38 percent. Other revenue has stagnated at around 13 percent and Grants with the least of 6 percent.

Total revenues continue to stagnate and reached M4, 044.0 million in the first quarter against the target of M4, 532.1 million, of which, M1,706.4 million is from tax revenue and M527.5 million is from non-tax revenue, M253.8 million is from Grants and M1, 556.6 million is from SACU.

Figure 1: Revenue Shares 2019/20 (in Millions of Maloti)



Source: Ministry of Finance; MPM Department

Table 2: Revenue Performance (in Millions of Maloti)

Revenue Item	2018/19 Quarter 1	2019/20 Quarter 1	Growth in percent
Tax Revenue	1 795.70	1 706.40	-5%
Grants	253.8	253.8	0%
Other Revenue	615.5	527.5	-14%
SACU	1 385.00	1 556.60	12%
TOTAL	**4 050.00**	**4 044.30**	**0%**

Source: Ministry of Finance; MPM Department

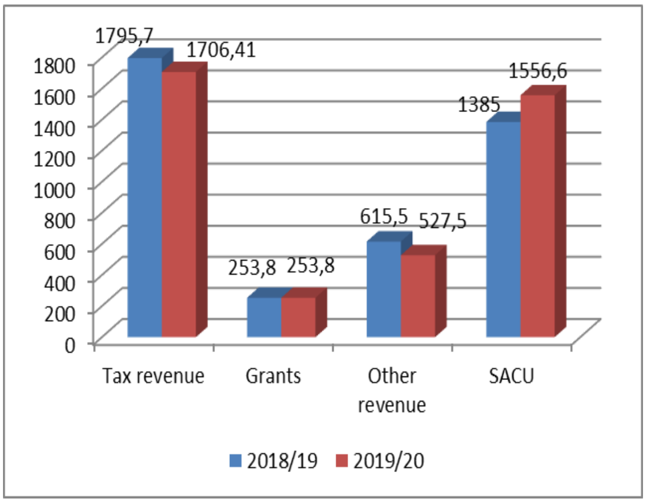
Tax Revenue

Personal income tax recorded a dent of 5 percent compared to the same period of the previous year as well as missing the target by 13 percent. This was attributed to the reduction in employment levels by the large taxpayers (private sector).

Corporate Income tax (CIT) also registered 34 percent growth against last year and exceeded the target by 4 percent; this was mainly influenced by higher than expected growth in the revenue collections from mining sector, financial and insurance and telecommunications sectors.

VAT collections declined by 30 percent against the target and deteriorated by 4 percent against the same period of last year. This was mainly brought by slow economic growth which led to a slowdown in consumption of wholesale and retail products, non-textile manufacturing as well as electricity, which are traditionally the major contributors of VAT. Moreover, the persistence VAT refunds over the years, indicates that the administration of VAT is still not working adequately. This will require strengthening the compliance and administration verifying information within.

Table 3: Revenue Performance (in millions of Maloti)



Source: Ministry of Finance; MPM Department

Other Revenue

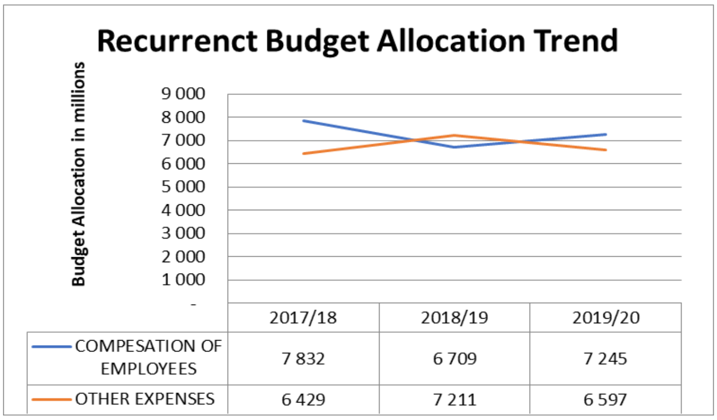
This are taxes collected by line ministries, while electricity and water royalties are collected by LEC and LHDA respectively then remitted to government. It is the least performing revenue item with irregularities due to the fact that ministries do not monitor and administer these revenues effectively. The revenue collections in these quarter registered M527.5 million against the target of M752.3 million. This is attributed to the poor administration and monitoring of the taxes such as dividends from the institutions where government has shareholding; such that there are delays in payments or no payments at all.

SACU

Government revenue has been depending largely on SACU receipts which are influenced by global economic environment, but this is becoming a different turn where SACU receipts are becoming risky due to their volatility posing a fiscal risk to the government budget. During the first quarter, SACU receipts recorded M 1,556.6 million, from M1,385 million in 2018/19. This present a slight improvement in the collection owing to economic developments in the South African economy affecting the pool's scope and size.

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

Table 4: Recurrent Budget Allocation Trend



Compensation of Employees has been higher than the operating costs except in 2018/19 whereby it constituted 48 percent of the approved budget. The growing wage bill has been a problem for many years and the government is currently working on ways of reducing wage bill, such as conducting the civil servants census. This move will allow government to have idea of how many employees are there and be able to identify ghost employees and take appropriate action.

Table 5: 2019/20 First Quarter Recurrent Budget Performance

FIRST QUARTER RECURRENT BUDGET EXPENDITURE AS AT 31 JULY 2019						
Expenditure Categogy	Approved Budget	Revised Budget	Warrant Released	Total	Exp as % of WR	Exp as% of RB
Compensation of Employees	7 245.90	7 234.50	2 280.80	1 499.30	66%	21%
Travel and Transport	489.7	492.1	166.8	59.7	36%	12%
Operating Costs	2 218.00	2 255.60	613.1	408.8	67%	18%
Interest	393.6	317.3	28.3	15.1	53%	5%
Transfers	1 984.30	1 966.40	565	479.5	85%	24%
Other Expense	631.9	655.3	320.1	148	46%	23%
Acquisition of Financial Assets	29.4	4.4	-	-	0%	0%
Acquisition of Monetary Gold and Special Drawing Rights	2.5	2.5	-	-	0%	0%
Contingency Fund	100	62.3	-	-	0%	0%
Non-Financial Assets	35.7	39.2	37	1.4	4%	4%
Domestic Liabilities	279.4	279.4	77.2	0.6	1%	0%
Foreign Liabilities	457.6	533.9	241.7	63.8	26%	12%
Grand Total	13 843.50	13 843.50	4 330.40	2 676.60	62%	19%

Source: Ministry of Finance; Budget Department

On aggregate, the approved Recurrent Budget for the year 2019/20 was around M13,843 million of which M7,246 million was attributable to Personal Emoluments while M6,598 million was budgeted for other recurring expenditure. M4,330 million was the total amount released by the end of the quarter, while the expenditure sat at M2,677 million which translates into 19 percent and 62 percent of the revised budget and warrants released, respectively. This is a reduction of 4 percent as compared to the same time last financial year.

The expenditure was expected to be at 25 percent at the end of first quarter however, the recorded 19 percent in table 5 above, depicts under expenditure. The low execution was delayed due to the commencement of a new Epicor 10. Most Ministries encountered problems when processing payments, hence the released funds for this quarter were not utilized as had been expected.

The transition from Epicor 7.3 to Epicor 10 also resulted in accumulation of arrears on payments done towards the end of March 2018/19. Ministries were therefore forced to focus their attention mainly on trying to clear arrears since they are commitment that takes priority before undertaking new planned activities for the current financial year. Thus, the recurrent expenditure for this quarter does not necessarily reflect progress towards achieving the set goals for the 2019/20 but rather a reprioritization of funds towards commitments that took precedence.

In an attempt to concurrently clear arrears while facilitating this year's activities, some ministries faced a shortfall and requested advance release of funds while some requested additional funding which was withdrawn from the Contingency fund and the Centralized items heads.

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

Table 6: 2018/19First Quarter Capital Budget Performance

EXPENDITUR E TYPE	APPROVED ESTIMATES	REVISED BUDGET	WARRANT RELEASED	TOTAL EXPENDITUR	Exp as percentage of	Expenditure as a percentage of
GoL Total	2,831	2,831	722	245	34%	9%
Partner Grants T	1,015	1,015	-	-	0%	0%
Partner Loan Tot	1,322	1,322	-	-	0%	0%
Total	5,169	5,169	722	245	34%	5%

Source: Ministry of Finance; Budget Department

The approved Capital Budget for the year 2019/20 is M5,168 million. The Government of Lesotho (GOL), Donor Grants and Donor Loans are the sources of funding with contributions of M2,831.0 million, M1,015.0 million and M1,322.0 million respectively. The current investment portfolio has a total of 115 projects being implemented towards achieving the country's developmental goals.

The total Capital Expenditure to date represent 5 percent and 34 percent of M5,169 million for revised budget and warrant released respectively. The capital performance is usually low during this quarter since it is the preparatory stage for most projects, therefore more spending is expected in the following quarters.

Section 3 – Public Financial Management Re-forms

The Government went live on an upgraded Integrated Financial Management Information Sys-term (IFMIS) on April 4, 2019. This marked a significant feat in the efforts towards strengthening financial management control environment and improving efficiencies through implementation of re-engineered business processes. Notable achievements include preparation of this fiscal year's budget using the IFMIS, regular processing of payroll and payments, and improved capacity and competence in providing technical support by the in-house IFMIS Applications team and the system vendor alike. As expected, there are technical challenges associated with inception stages of the upgraded IFMIS (currently addressed through workaround methods) and these are being tracked through an issue-log platform and pursued to ensure system stability remains un-questionable.

Further to the above, a number of other key activities have been carried out in this period and are outlined below:

1. Procurement Compliance Report. A pioneer Procurement Compliance Report was produced and validated by the Procurement Policy and Advisory Department. The report sheds light on the extent of compliance with procurement processes, regulatory framework and openness.
2. Development of IT Manual. The development of an IT Audit Manual is complete. A pilot audit of the Resource Link Payroll system using the manual has also been concluded and a final report produced. The assignment has confirmed the need for more capacity building of Internal Auditors and in-depth audits such as Applications audit, network and database audits, etc.
3. NSDP II Finalisation. The main National Strategic Development Plan (NSDP) II document is complete. Progress is under-way to conclude formulation of subsidiary documents of the NSDP to pave way for implementation, these are (i) Financing Strategy, (ii) Public Sector Investment Plan, (iii) Monitoring and Evaluation Framework, and (iv) Implementation Plan.
4. Biometric and Payroll Census. Enumeration of the civil servants ended in the re-porting quarter and preparations for validation of findings are underway. Three hundred and fourteen (314) Human Re-source staff were trained on procedures for validation of enumeration results. The validation process is expected to assist in disaggregating findings and determining cases of exceptions and those to be further pursued.
5. Development of a Procurement Portal. A new procurement portal has been fully developed – www.ppadls.org. The portal lays platform for improving transparency in procurement processes and reporting. PPAD is tasked with populating the portal with relevant documentation to ensure it is a useful tool for procurement reform.
6. Development of Corporate Governance Code. A multi-stakeholder task force built of representatives of regulators, business associations, industry associations, professional bodies and NGOs developed the Corporate Code of Governance. The Lesotho Corporate Governance Code is aimed at helping organisations to achieve the following three outcomes; Peace, Productivity, and Intergenerational Value.

7. SOE Annual Report 2016/17. This report provides an overview and analysis of the results of the performance of Government of Lesotho State Owned Enterprises (SOEs) for the fiscal year ending March 2017. The report is produced and will be published on Ministry of Finance Website.

This Newsletter is published under the authority of the Minister of Finance.

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