GOVERNMENT OF LESOTHO

2019/2020 SECOND QUARTER PERFORMANCE

BUDGET AND FISCAL BULLETIN

MINISTRY OF FINANCE

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Kingdom of Lesotho's Public Finances: Serving the Nation

Ministry of Finance
Government of Lesotho

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Foreword from PS Finance

I am pleased to present the second quater "Budget and Fiscal Bulletin" on its 5th year of development and publication. This positive move has been taken in an effort to improve on budget transparency by discussing and sharing budget ideas and experiences. Through these bulletins, accomplishments and impediments on budget implementation together with fiscal developments have continuously been shared with the public, the international community as well as Lesotho's Development Partners, who have been providing indispensible support under arduous economic challenges.

It is worth mentionng that, amplified fiscal transparency remains a cornerstone of our PFM reforms. A number of empirical studies suggest that fiscal transparency can contribute to improve the efficiency on public expenditure, lead to lower borrowing costs, and help to reduce fiscal risks. A significant number of fiscal transparency assessments and indicators is proof of its growing global prominence.

Major international institutions are promoting fiscal transparency as good practice, and there is a mounting acceptance that actively engaging citizens, civil society, and the media in budget processes is a virtuous move. A transparent and inclusive budget process is now seen as essential to facilitating investment, ensuring efficient outcomes, and holding government accountable for managing public resources.

Lesotho was assessed for the first time on the open budget survey of 2017 and the results showed zero rating on the budget transparency, zero rating on public participation and 30 percent on the budget oversight (by Legislature and audit).

In response to the substantial need for improvement, the following developments have been undertaken:

Online publicaton of:

- the Executive's Budget Proposal including detailed estimates;
- the Budget Strategy Paper (Pre-Budget Statement); and
- an Enacted Budget

Areas of improvement are:

- online publication of Audit Reports
- Consistent publication of In-Year reports
- Development and Publication of mid-year reviews.

The quality of information shared and it's timeliness is of atmost importance for it to be beneficial to the end users and for relevent feedback that can be utilised for future developments.

As we continue to improve, the current Budget and Fiscal Bulletin, present the major revenue and expenditure activities undertaken in the second quarter of 2019/2020. It also highlights developments in the global and domestic economy. It illustrates major revenue and expenditure data as at 31 September 2019.

Introduction

This paper serves as an avenue to share informaton on how government raises revenue and allocates resources. It gives a quaterly overview of revenue collections and expenditure performance. It unpacks challenges therefore and achievements as implementation rolls, , it allows for quick responses where there are signs of moving astray.

The Macroeconomic developments, together with Budget and Fiscal developments, are expounded in this paper as one of the transparancy measures. The intention being to review, and share information on whether the government's budgetary objectives and policy intentions are being met or at the least, in progress.

The 2019/20 fiscal year's total Approved Budget is M19,012.5 million, of which the Recurrent Budget accounts for M13,844.0 million and the Capital Budget, for M5,168.5 million. This compared with a total of M17,114.4 million for fiscal year 2018/19.

The bulletin is divided into two sections. Section one discusses the macroeconomic outlook. 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 1 – Macroeconomic Developments

The economic environment remains challenging. However the growth for 2019/20 is projected to recover to 1.9 percent. This is mainly driven by enhanced mining production together with growth in the government sector and financial intermediation.

Table 1: Budgetary Operations – Q2:2019/2020

Budgetary Operations July - September 2019	
Millions of Maloti	
Revenues	**4 223.70**
Expenditure	**3 805.50**
of which	
Recurrent	2 743.10
Capital	1 062.40
Budget Balance	**418.2**

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

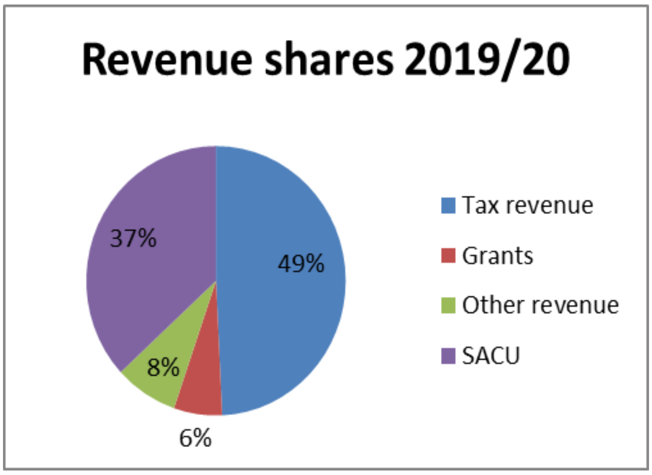
The overall fiscal balance for this quarter is estimated at a surplus of M418.2 million owing to lower than anticipated expenditure especially with regard to the Capital budget.

Section 2 – Budget and Fiscal Developments

Section 2:1 – The Second Quarter Revenue Performance

During the second quarter, total revenue collections continue to grow and reached to 10 percent and recoded M4,223.7 million compared to the same period of the previous year. This present a significant growth in collections which is mainly observed in increases in personal income tax and Value added tax. However, it declined by 6 percent against the quarterly target of M4,532 million. This could be due to other negative factors but amongst others is the slower economic activity than it was projected.

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



In terms of the proportions by tax type, Tax revenue forms the largest share of the total revenues at about 49 percent of the total revenue. This is followed by SACU receipts at 37 percent while Other Revenue and Grants contributes 8 and 6 percent respectively (Figure 1).

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

Revenue Items	2018/19 Quarterly	2019/20 Quarterly	Growth in Percent
Tax Revenue	1 840.2	2 079.5	13%
Grants	285.3	253.8	-11%
Other Revenue	341.3	333.1	-2%
SACU	1 385.0	1 556.6	12%
Total	**3 851.8**	**4 223.0**	**10%**

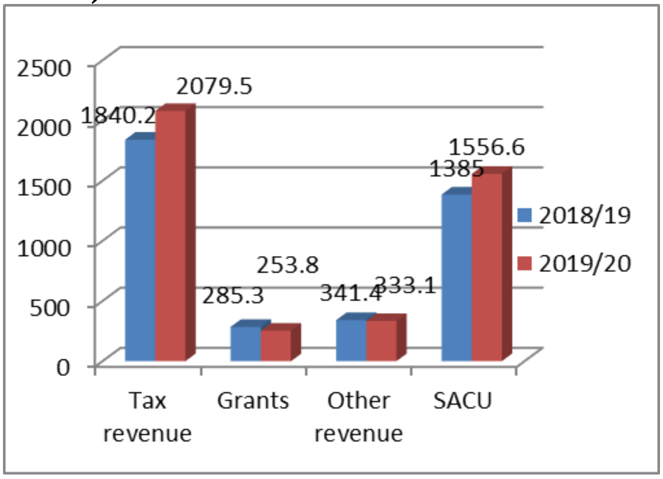
Tax Revenue

Under tax revenue the main drivers are personal income tax and consumption tax. Personal income tax comprises of pay- as - you earn and corporate tax. Personal income tax recorded a significant growth of 12 percent compared to last year and 11 percent growth against the target. It constitutes 57 percent of the tax revenue and 28 percent of the total tax. This growth signifies an increase in employment levels and growth in remunerations.

Corporate Income tax (CIT) also registered a 3 percent growth against the same period of last year and exceeded the target by 20 percent; this was mainly influenced by higher than expected growth in the mining sector, financial and insurance (23 percent) and telecommunication (9 percent) sectors.

VAT collections for the quarter recorded growth of 20 percent against the same period of last year. This collections contributes 42 percent of the tax revenue and shares 21 percent of total revenue. This was mainly brought by increase in disposable income which increased consumption of wholesale and retail, non-textile manufacturing as well as electricity.

Table 3: Revenue Performance (in millions Maloti)



Other Revenue

Despite rapid growth of expenditures or budget allocations to the line ministries, this has not translated into improved service delivery. There has never been a culture of improvement in efficiency, effectiveness and transparency in public funds. Table 2 depicts a decline in collections for this quarter at around M333 million against the M241.3 million of 2018/19. It has also missed the quarterly target of M502 million.

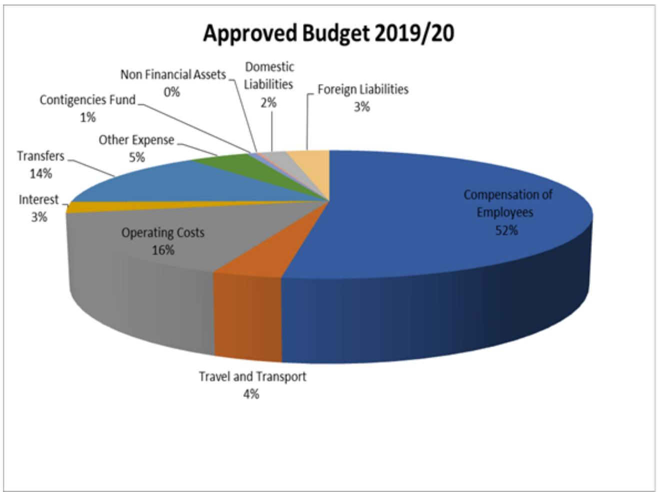
Ministries are allowed to raise certain taxes, levies and duties but their ability to do so is limited. In the same quarter of 2018/19, other revenue made up only 9 per cent of total revenue and while this quarter it has declined to 8 per cent. This can be attributed to lack of effective monitoring and management of non-tax revenues by the ministry of Finance. Also that ministries get their allocated budgets regardless of their revenue performance.

SACU

It is worth mentioning that SACU revenue is divided into quarters which is four equal amounts of the fiscal year. Therefore, the second quarter, SACU receipts recorded M 1,556.6 million. This present a slight improvement in the collection owing to economic developments in the South African economy affecting the pool's scope and size.

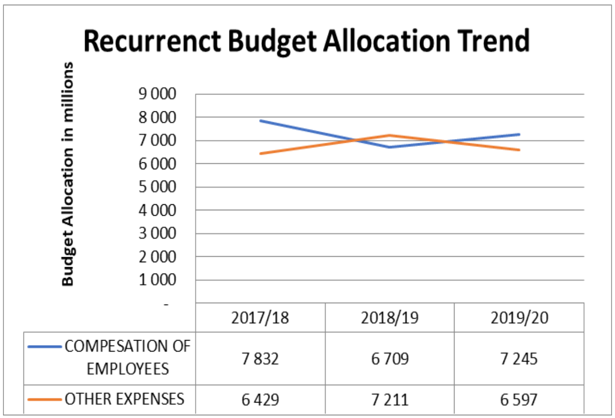
Section 2:2 – The Second Quarter Recurrent Expenditures

Figure 2: Major Reccurrent Budget Allocations



The Recurrent Budget allocations constitute Compensation of Employees at 52percent, Operating Costs at 16percent, Transfers at 14percent, Travel and Transport at 4percent and the remaining 14percent shared amongst the Contingecy Fund, Other Expenses, Interest Repayments, Domestic and Foreign Liabilities Repayments.

Table 5: Recurrent Budget Allocation Trend



Compensation of Employees has been above the operating costs except in 2018/19 whereby it constituted 48 percent of the approved budget. For many years the growing wage bill has been a problem which Lesotho struggled to manage and keep at a sustainable level, however, no positive results have been attained.

Table 4: 2019/20 Second Quarter Recurrent Budget Performance

SECOND QUARTER RECURRENT EXPENDITURE AS AT 31 SEPT 2019/20								
Expenditure Category	Approved	Revised Budget	Warrant Released	Total Expenditure	Cash Balance	Budget Balance	Exp as % of WR	Exp as% of RB
Compensation of Employees	7 245.9	7 200.8	3 567.0	2 805.8	761.2	3 633.8	79%	39%
Travel and Transport	489.5	507.4	265.4	205.0	60.4	241.9	77%	40%
Operating Costs	2 218.2	2 258.4	1 116.5	949.7	166.8	1 141.9	85%	42%
Interest	393.6	319.3	33.3	17.1	16.1	286.0	51%	5%
Transfers	1984.3	2 018.7	1 080.9	899.0	181.8	937.8	83%	45%
Other Expense	631.9	655.3	637.3	442.6	194.7	18.0	69%	68%
Contigencies Fund	100.0	7.4	-	-	-	7.4	0%	0%
Non Financial Assets	35.7	42.9	42.2	30.2	11.9	0.7	72%	70%
Domestic Liabilities	279.4	277.4	77.2	0.6	76.5	200.1	1%	0%
Foreign Liabilities	457.6	533.9	241.7	69.3	172.3	292.2	29%	13%
GRAND TOTAL	13 843.5	13 829.1	7 061.9	5 419.7	1 642.1	6 767.2	77%	39%

Source: Ministry of Finance; Budget Department

The Recurrent Budget for 2019/20 FY recorded a Revised Budget of 13,829 million from 13,844 million by the 30th September 2019, as shown on Table 4 above. The decline in the Grand Total of the Approved Recurrent Budget is explained by reallocation of money from the Contingency Fund to the Capital Budget which is permitted by law, to cover unexpected incidentals for uninterrupted delivery of developmental activities.

The variation between Revised and Approved Budget columns is due to virements between sub-heads, which is also permitted by the Public Financial Management and Accountability Act, within 20 percent of the approved Budget. This provision is done to prevent rigid budgets which impede efficient implementation.

On aggregate, the approved Recurrent Budget for the year 2019/20 was around M13,843 million of which M7,245 million was attributable to Compensation of Employees while M6,598 million was budgeted for other recurring expenses.

During the second quarter, the expectation is that half of the approved budget should be released to facilitate implementation. As shown in **Table 4**, the Released Budget is slightly above half of the approved budget, at M7,062, resulting from advance warrants which were requested to finance the previous financial year arrears. The expenditure and commitments as at 30th September 2019 accounted for 39 percent of the Approved Budget.

The recorded aggregate expenditure indicates that the Recurrent Budget is expected to fall within what has been appropriated.

Focusing on the total expenditure and Budget Balance, Table 4 shows that expenditure is less than the remaining Budget balances under each expenditure category with the exeption of other expenses and acqusition of non financial assets. The picture shown above indicates that the Recurrent Budget is expected to fall within what has been appropriated.

Compensation of Employees takes the most chunk at 52percent of the Approved Budget, leaving 48 percent to be shared amongst the operating expenses and repayments of Foreign and Domestic liabilities. Expenditure under this category sat at M2,806 million, which is 39 percent of the Revised budget.

Under **Travel and Transport**, the revised budget indicates M507 million, which reflects M17 million difference from the approved budget of M490 million. This was financed through contingency of M10.1 million while the rest was reallocated from other items within each ministry. The aggregate expenditure under this category as at 30th September 2019 sat at M205 million. This performance is going against the proposed policies that were introduced in the 2019/20 Budget Speech which include cabbing of the international travel.

The total expenditure for **Operating Costs** amounted to M949.7 million which is attributable to 42 percent of the revised budget. The budget execution rates are low in other categories with an exception of **Transfers**, **Other Expense and non Financial Assets** where M899 million, M443 million and M30.2 millon have been spent, respectively. It should be noted that out of M318.9 million that had been released for the repayment of Domestic Debt and Foreign Liabilities, only M0.7 million was recorded for Repayment of Foreign Liabilities and M69.3 for Domestic Debt. The low recording is due to the fact that Debt servicing is done under the Common Wealth Secretariat Debt Recoriding system (CSDRMS) which is not linked to IFMIS.

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

Table 6: 2019/20 Second Quarter Capital Budget Performance

2019/2020 Second Quarter Capital Budget Performance						
	Approved	Revised Budget	Warrant Released	Total Expenditure	Exp as %of Warrants released	Exp as a % of Approved Budget
1- GoL	2 831.2	2 837.5	1 393.6	1 307.4	94%	46%
2- Dev Partner Grants	1 015.1	1 015.1	-	-	0%	0%
3- Dev Partner Loan	1 322.2	1 322.2	-	-	0%	0%
Grand Total	**5 168.5**	**5 174.8**	**1 393.6**	1 307.4	**94%**	**25%**

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 million, M1,015millon and M1,322 million respectively. The current investment portfolio has a total of 115 projects being implemented towards achieving the country's develomental goals.

The Capital Budget was revised to M2,837 from the Approved Budget of M2,831 as at 30th Septmber 2019. The revisions were done in the Ministry of Public Works and Transport under the project of Pavement Strengthening-Paved Roads to do spot improvement on the A2 road to Quthing in preparation of the king's birthday celebrations and in the Ministry of Finance under Public Financial Management project to facilitate payment of softech for IFMIS training report and manuals.

The GOL Capital performance is saticfactory at 46 percent of the Rivised Budget as opposed to last year's performance at the same period. The total expenditure funded by government is at 96 percent of the released budget mainly due to the fact that funds are realeased on request to pay for work done under every project. This control measure has been implemented as a cash management tool that prevends iddling cash balances at the ministries.

As a way of improving capital performance, during this period (30th September - October) each year, capital performance is reviewed and budget reallocations are done by Cabinet from low perfoming projects to those with high spending progress and / in need of additional funding. The detailed version of Table 6 helps Cabinet and all stakeholders to make informed decision on how to modify the Capital Budget for better results.

The overall capital performance is extremely low at 25percent of the approved budget as depicted by table 6. This is due to zero performance shown under Donor Grants and Donor Loans. The zero recordings are as a result of challenges with the new CBMS system in capturing expentiture under these segmants. Therefore they do not reflect a true picture of what is on the ground. This reporting challenge is being addressed.

Section 3 – Public Financial Management Reforms

The following are key actions under the PFM reform program:

1. **Public Investment Management.** Review of the PIM section in the draft PFMA Act (repeal version) is completed. Revision of the PSIC Appraisal Guidelines has been completed. The aim of this manual is to help the Government of Lesotho implement the use of international best practices of investment project appraisal while approving public sector investment proposals. The guideline/manual describes how public sector investments should be evaluated, from the idea stage to the implementation phase, in a successful manner.
2. **Publishing of the 2017/18 Poverty Trends and Profile Results**. The Honorable Minister of Development Planning officiated the publishing of the Poverty trends report on 4th July 2019. The report builds on earlier surveys undertaken and reports prepared by the Lesotho Bureau of Statistics (BOS). This report presents the methodology used to estimate official poverty and inequality levels in Lesotho and investigates the trend as well as the profile of the poor between 2002/2003 and 2017/2018 using the **Continuous Multipurpose Household Survey (CMS) and the Household Budget Survey (HBS) (CMS/HBS) data.** It adopts the money-metric approach, using consumption per adult equivalent as a welfare measure.
3. **Updating of Chart of Account in ResourceLink Payroll System.** Payroll office have confirmed that uploading of IFMIS new Chart of Account (COA) in ResourceLink payroll system is complete. All employees are on new COA; cost code tables are all loaded with new COA. General Ledger interface is also upgraded accordingly to cater for the new COA. July 2019 salary payments were completed successfully. It is expected that apart from personal emoluments budget anomalies, employee bank accounts data (old), payroll processing should not encounter any delays as experienced in the past months.
4. **The Development of the Corporate Governance Code**. The process for development of the code is complete; it has also been validated and launched through stakeholders workshop financed by the PFMR project on June 11 to 12, 2019.
5. **PFM Action Plan Development.** Further diagnostics work related to Internal Audit Control, Public Procurement and oversight institutions has been completed. Reform activity proposals arising from this diagnostics shall inform the final PFM reform Strategy to be adopted by Government beyond the 2018/19 fiscal year.

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