# GOVERNMENT OF LESOTHO

### FIRST QUARTER PERFORMANCE

# BUDGET AND FISCAL BULLETIN

## MINISTRY OF FINANCE

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Ministry of Finance
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## *FOREWORD FROM PRINCIPAL SECRETARY OF THE MINISTRY OF FINANCE*

It is an honor to present the first quarter issue of the Budget and Fiscal Bulletin 2020/21, pursuant to our obligation, as a Ministry, of ensuring transparency and accountability on the use of public funds.

The Government has been leading an effort to restructure and rebuild the economy amid challenging economic and fiscal conditions characterized by; consistent cash flow challenges, pressure on international reserves, slow structural growth, a strong recurrent expenditure growth stretching the budget deficit and the depreciation of South African rand against major world currencies resulting in a negative impact on our external debt stock.

The 2020/21 fiscal year commencement coincided with a global social and economic meltdown due to the COVID 19 pandemic. As a result, the Government was forced to do a downward revision of the 2020/21 Revenue Estimates, at the same time, being in dire need of financial resources to implement the prevention, treatment and mitigation measure of the pandemic; as well as other Government obligations.

Even though the pandemic has negatively affected the fiscus, Government is committed to directing its modest spending power towards improving Basotho's livelihoods as it pursues its goal of attaining an inclusive and sustainable economic growth, coupled with private sector led job creation.

The presented bulletin summarizes 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 rather than efficiency of government revenues and expenditures as a measure to determine the extent to which government can collect and spend planned revenues and expenditures, respectively.

The bulletin is divided into three sections. Section one discusses the macroeconomic outlook and issues that correspond with the submission of the 2020/21 budget to Parliament. Section two presents the budget and fiscal developments and is divided into the following sub-sections; the revenue analysis, execution of the Government's budgetary transactions (recurrent and capital expenditures) and the status of public debt. Section three provides a summary of the Government's initiatives in the Public Financial Management (PFM) reform arena.

## INTRODUCTION

The 2020/21 budget continues to follow an undesirable trend of a consumption spending economy as opposed to an immensely aspired drift towards being an investment spending one. The recurrent budget accounts for 82 percent of the total budget funded by government, which is an increase of approximately 32 percent from last year's recurrent budget. On the other hand, capital budget dropped by 5 percent. This goes against our set budgeting principle of consistently constraining the government's recurrent expenditure not to grow more than the development expenditure.

The approved annual budget for this fiscal year is M23,789.5 million of which recurrent expenditure constitutes M18,084.8 million, whilst the capital budget is M5,604.8million. Capital budget consists of Government funding, Grants and Loans of M2, 689.7 million, M858.2 million and M 2,056.8 million, respectively. The revenue estimates are at M17,102.6 million resulting in an expected overall fiscal balance of M982.2 million. The major sources being Tax Revenues and SACU.

## SECTION 1 – MACROECONOMIC DEVELOPMENTS

The economic environment remains challenging over the past two years. Stagnant to weak economic performance, coupled with fuzzy political landscape, contributed to declines in economic growth which has a similar impact on tax revenues. The economic outlook has been revised down with GDP growth from -1.3 percent in 2019/20 worsening to -3.3 percent in 2020/21. This is largely ascribed to the expected negative impact of COVID-19 pandemic. However, the sluggish growth is attributed to poor performance in economy driven sectors. In particular, textiles contracted due to decline in orders from AGOA and South Africa. Conditions also remain less encouraging for diamond exports following the growth of synthetic diamonds.

The government plays a major role in the economic activities as reflected in its public spending estimated at around 65 percent of GDP. In the last decade, investment spending and government consumption have proven to play a bigger impact in economic activity. However, the spending has drastically moved from investment spending to consumption-oriented spending.

**Table 1: Budgetary Operations – Q1:2020/2021**

| Budgetary Operations: April-June 2020 | Millions of Maloti |
|---|---|
| **Revenues** | **4 412.7** |
| **Expenditures** | |
| of which | |
| **Recurrent** | **3 397.6** |
| **Capital** | **475.0** |
| **Budget Balance** | **540.1** |

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

The overall budget balance for this quarter is estimated at a surplus of M540.1 million owing to the government policy of rationing expenditure while awaiting Budget approval by parliament.

## SECTION 2 – BUDGET AND FISCAL DEVELOPMENTS

### SECTION 2:1 – THE FIRST QUARTER'S REVENUE COLLECTION

Projected revenue for 2020/21 is now approximately around M71.3 million lower than the estimate at the time of the 2020/21 Budget. The shortfall is a consequence of the weakening economic growth brought by the global COVID-19 pandemic and largely matches the reduced GDP growth forecast.

Therefore, revenue performance for this quarter and the following quarters is linked to the previous year other than the projections. The reason being that due to the pandemic response government had to take a decisive action to contain and mitigate the spread of the virus and limit the adverse impacts on its citizens and its economy. As a result, a downward revision of budget was done, based on the projected decline in growth prospects.

The total revenue collections for the quarter grew by 3 percent and reached M4, 412.7 million in the first quarter against the same period of the previous year. These growth in revenue was solely from increase in SACU revenues which recorded a 44 percent growth against last year. While on the other hand other tax items missed their targets and declined against the previous year as shown on Table 2.

**Figure 1: Revenue Shares 2020/19 (in Millions of Maloti)**

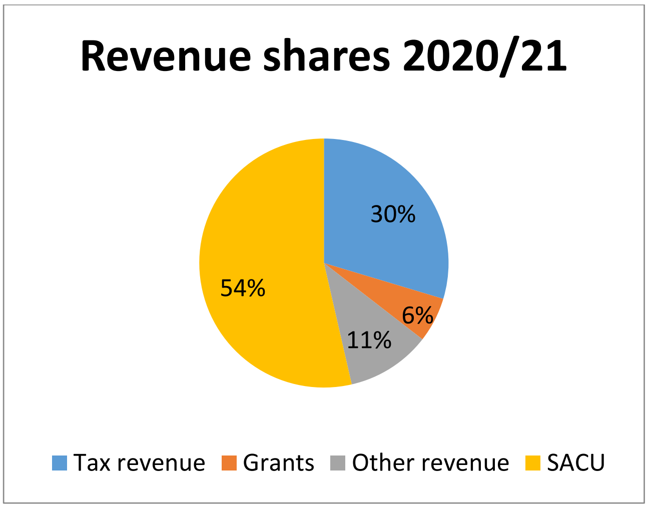



Figure 1 presents the revenue contributions against the total where SACU revenue form the largest share of the total revenues. This revenue is largely dependent on the global and regional economic performance which poses a risk to the country's fiscus due to its volatility and the implications given its contributions to the total revenues. It constituted 53 percent of the government's total revenue. While Tax revenue recorded 30 percent followed by Other revenue and grants which have stagnated at 11 percent and 6 percent respectively in the past three years.

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

| Revenue Items | 2019/20 Q1 | 2020/21 Q1 | Growth in percent |
|---|---|---|---|
| Tax Revenue | 1,737.1 | 1,242.1 | -28.5 % |
| Grants | 254.6 | 255.4 | 0,3 % |
| Other Revenue | 528.4 | 457.8 | -13.4 % |
| SACU | 1,556.6 | 2,245.1 | 12.4 % |
| Total | 4,076.7 | 4,412.7 | 1.1 % |

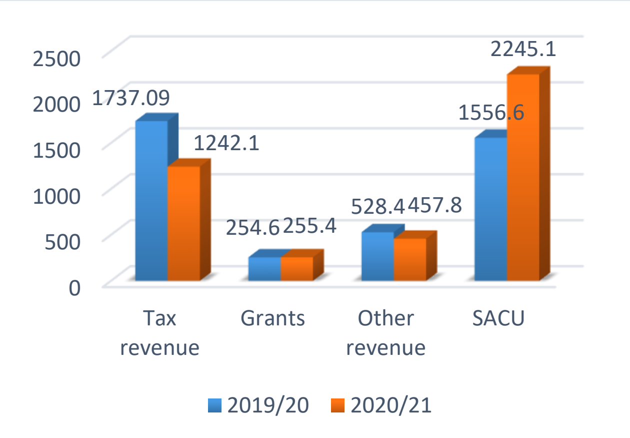
**Tax Revenue**

As earlier mentioned, Tax revenue responds automatically to changes in economic cycle. Weak economic conditions have had an impact on revenue collections. Table 1 shows the analysis of the main tax components where tax revenue shows a decline of 29 percent against the same period of last year. This decline is in-line with the growth prospects of -3.3 percent. Personal income tax quarter-on-quarter declined by 46 percent, reflecting weak economic conditions which led to a reduction in employment levels. Also, through relief measures in helping businesses to stay afloat it was expected that this revenue would decline in line with the mitigation tax measures.

Corporate Income tax (CIT) also registered a steep fall of 22.4 percent against the same quarter of last year. Major sectors were mainly influenced by the adverse effects of COVID -19 pandemic that disrupted international trade and markets of these sectors. These are the likes of mining sector and banking sector. In addition, a major mine which contributes to Company Income Tax, is currently recapitalising hence a loss in CIT.

Similarly, domestic VAT collections and trade related taxes are in line with expected outcomes for consumption and imports. recorded a massive drop of 35 percent compared to the same period of last year. The steep fall was majorly impacted by the global and country wide lockdown due to COVID-19 pandemic, which resulted in a halt in overall consumption rate as well as slowdown in economic activity. Another factor for the under collection, is the deferment for tax filing and payment of VAT returns as one of the relief measures.

**Table 3: Revenue Performance (in millions of Maloti)**




**Other Revenue**

Non-tax revenue collections by ministries, recorded a decline of 13.4 percent compared to last year and contributed 11 percent of the total revenue share. These are fees and charges 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 which is exposed to corruption and fraud. Irregularities are observed despite the upward revisions of the revenue items and to the fact that ministries do not monitor and administer these revenues effectively.

**SACU**

Government revenue has been depending largely on SACU receipts which are influenced by global economic environment. Due to its erratic behaviour, SACU poses a fiscal risk to the government budget.

**BOX 1 SACU**: The SACU revenue pool in December is based on forecasts for the collections, with adjustments made for over/under estimation of the previous fiscal year. Member states share these projected revenues.

SACU revenues were projected to recover and record 44 percent growth relative to the corresponding period of the previous year. This increased its contribution of the total revenue share to 53 percent of the total revenue. It is worth mentioning that SACU revenues are shared on the projections rather than the actual collection (see box 1). Therefore, these receipts were pre-COVID-19 share of SACU revenues which was estimated to a total of M8.9 million. It was later revised downwards due to the advent economic result of COVID-19, which means member-state will have to pay a negative adjustment at t+2 year.

## SECTION 2:2 FIRST QUARTER RECURRENT BUDGET PERFORMANCE

### Table 4: 2020/21 First Quarter Recurrent Budget Expenditure

| MINISTRY/HEAD | APPROVED BUDGET | REVISED BUDGET | WARRANT RELEASED | FIRST QUARTER EXP | BUDGET BALANCE | EXP AS % OF WR | EXP AS % OF RB |
|---|---|---|---|---|---|---|---|
| 41- Compensation of Employees | 7,768.3 | 7,777.1 | 1,924.3 | 1,514.1 | 5,852.9 | **79%** | **19%** |
| 42- Travel and Transport | 543.6 | 542.7 | 67.6 | 36.2 | 475.1 | **54%** | **7%** |
| 43- Operating Costs | 2,027.2 | 2,028.4 | 919.4 | 257.9 | 1,109.0 | **28%** | **13%** |
| 46- Interests | 504.8 | 504.8 | 119.9 | 119.9 | 384.9 | **100%** | **24%** |
| 47- Transfers | 3,329.2 | 3,390.2 | 681.7 | 552.1 | 2,708.6 | **81%** | **16%** |
| 48- Other Expense | 952.3 | 952.3 | 233.7 | 230.3 | 718.6 | **99%** | **24%** |
| 49- Losses | 100.0 | 100.0 | 2.0 | - | 98.0 | **0%** | **0%** |
| 51- Acquisition of Financial Assets | 4.5 | 4.5 | - | - | 4.5 | **0%** | **0%** |
| 52- Acquisition of Monetary Gold | 2.8 | 2.8 | - | - | 2.8 | **0%** | **0%** |
| 53- Acquisition of Non Financial A | 25.4 | 27.1 | 23.9 | - | 24.8 | **0%** | **0%** |
| 61 Redemption of Bonds | 907.0 | 907.0 | 267.0 | 199.8 | 907.0 | **75%** | **22%** |
| 62- Repayments Total | 761.3 | 761.3 | 487.3 | 487.3 | 274.0 | **100%** | **64%** |
| **Grand Total** | **16,926.4** | **16,998.2** | **4,726.8** | **3,397.6** | **12,560.2** | **72%** | **20%** |

*Source: Ministry of Finance; Budget Department*

On aggregate, the approved Recurrent Budget for the year 2020/21 was around M18,084.8million which is inclusive of the head, centralized items, that is not reflected on the table above. The expenditure of funds in this head is incurred under various ministries hence it is not recorded as a stand-alone expenditure.

The above table depicts the approved budget of M16,926.4 million which excludes the said centralized items head. It was revised to M16,998.2 million to cater mainly for salaries subsidy of the industrial /factory workers and food packages for the vulnerable people during lockdown as per the Right Hon. The Prime Minister's statement.

During this quarter as illustrated on the above table, priority was given to obligations including compensation of employees, debt service, transfers to social protection, LRA, Education and Health sectors. The warrants released stood at M4,726.8 million and the total expenditure at M3,397.6 translating into 72 percent of the released warrants and 20 percent of the revised budget, respectively.

The recorded expenditure reflects an increase of 27 percent compared to last year's expenditure on the same period. Nonetheless, the performance under most categories is low. The low expenditure is not a reflection of poor performance by ministries, department, and agencies but rather, a result of shortage in cash hence minimal and prioritised release of warrants.

Plunging into performance per expenditure categories, **compensation of employees'** budget increased from M7,245.9 million in 2019/20 to M7,768.3 million in 2020/21. The 2020/21 first quarter expenditure recorded M1,514.1 million which translates into 19 percent of the revised budget. The below expected performance is mainly due to low expenditure on civil pensions and ministries which spent outside the system.

**Travel and transport** recorded the expenditure of M36.2 million which translates into 7 percent of the revised budget. This resulted from restricted movement and interaction, both domestically and internationally, due to COVID 19.

The warrants under **operating costs** are close to 50 percent of the revised budget. A large chunk catered for agricultural subsidies, health related issues in response to COVID 19, social development when assisting the vulnerable and payment of membership subscriptions which is an obligation.

The **transfers** claim the second largest chunk of the budget accounting for M3,329.2 million. Its expenditure recorded M552.1 million translating into 16 percent of the revised budget. This expenditure was undertaken mainly under the ministry of Health for transfers to Queen Mamohato Memorial Hospital, CHAL and other health institutions, Ministry of Education for grants to institutions of higher learning, Ministry of Finance for grants to LRA and to Pensions.

**Public Debt**

The outstanding total public debt, including publicly guaranteed debt, was M18,346.0 million (excluding M881.3 million monetary T-bills) as at the end of first quarter. External debt accounted for M15,398.3 million, domestic debt was M2,812.6 million and guarantees were M135.1 million. Domestic debt and guarantees remained the same as the previous quarter while external debt declined by M358.4 million due to exchange rate recovery after huge losses suffered at the beginning of the financial year. Disbursements during the quarter amounted to M319.0 million, all disbursed by multilateral creditors excluding M68.5 million which came from EXIM Bank China.

Debt service during the first quarter amounted to M687.2 million. Debt service was made up of external principal repayments of M287.5 million, Redemption of Bonds amounting to M199.8 and interest payments of M119.9 million.

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

**Table 6:2020/21 First Quarter Capital Budget Performance**

| | APPROVED BUDGET | REVISED BUDGET | WARRANT RELEASED | TOTAL EXP. | BUDGET BALANCE | EXP AS % OF WR | EXP AS % OF RB |
|---|---|---|---|---|---|---|---|
| 1. GOL Funding | 2 689,7 | 2 696,2 | 175,5 | 156,4 | 2 520,7 | **89%** | **6%** |
| 2. Dev.Partner Grants | 858,2 | 858,2 | - | - | 858,2 | **0%** | **0%** |
| 3. Dev. Partner Loan | 2 056,8 | 2 056,8 | 318,6 | 318,6 | 2 056,8 | **100%** | **15%** |
| **GRANT TOTAL** | **5 604,7** | **5 611,2** | **494,1** | **475,0** | **5 435,7** | **96%** | **8%** |

*Source: Ministry of Finance; Budget Department*

The approved Capital Budget for the year 2020/21 is M5,604.7 million. The Government of Lesotho (GOL), Donor Grants and Donor Loans are the sources of funding with contributions of M2,689.7 million, M858 million and M2,056.8 million, respectively. The current investment portfolio has a total of 116 projects being implemented towards achieving the country's developmental goals.

The total Capital Expenditure for the first quarter represent 8 percent and 96 percent of M5,169 million for revised budget and warrant released, respectively. The low performance is a reflection on restricted release of Requisition to incur expenditure (RIE) while awaiting budget approval.

# SECTION 3 – PUBLIC FINANCIAL MANAGEMENT REFORMS

This quarter has seen sluggish progress on general PFM issues due to the country lockdown, and the remote working arrangements were generally difficult under the circumstances. Below is a summary of main activities that took place despite the major halt of operations during this period.

**Procurement of Human Resource Management Information System (HRMIS):**

a. Preparation of a procurement strategy and plan for vendor selection taking into consideration the World Bank procurement requirements.
b. Preparation of the HRMIS Request for Proposal document based on the World Bank single stage bidding document for information systems. The Request for Proposals (RFP) includes the Technical Requirements based on the HRMIS specifications and all the necessary bidding forms.
c. Preparation of the Evaluation Criteria for incorporation in the RFP for evaluation of bid responses.
d. Completion of a bid evaluation process and subsequent steps for opening of bids, selection of preferred bidder with adherence to the procurement requirements and specifications for the selection of the best evaluated bidder.
e. Responded and issued the five sets of clarifications to bidders.
f. Conducted a virtual bid opening preparatory meeting.
g. Facilitated process for virtual opening of received bids.
h. Completed HRMIS Evaluation Report and submitted to review and to the World Bank for review and approval.

**HRMIS Strategy**

a. Reviewed and issued the draft HRMIS strategy; and
b. Reviewed and issued the draft HRMIS Governance Structures.

**Data cleaning and Readiness Support**

c. Continued analysis of the Resource Link data
d. Continued identification of exceptions in payroll data and addressing those that Ministries have responded on with correct data details.

The Government went live on an upgraded Integrated Financial Management Information System (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 unquestionable.

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 underway 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 reporting quarter and preparations for validation of findings are underway. Three hundred and fourteen (314) Human Resource 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 multistakeholder 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.

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