Kingdom of Lesotho's Public Finances: Serving the Nation

Ministry of Finance
Government of Lesotho

Budget & Fiscal Bulletin **Vol. 1, Issue 1**
First Quarter – 2015/16

Foreword from Principal Secretary of the Ministry of Finance

I am pleased to release the inaugural issue of the Fiscal Bulletin, which contains revenue and expenditure figures for the first quarter of 2015/16 fiscal year. This publication will allow Basotho citizens, the private sector, other interested stakeholders, and development partners to review and assess the nation's public finances. It paves the way to a new horizon of increased openness and transparency in the area of Public Finance Management (PFM).

Transparency in governance has become a central force around the world – both in developed and developing nations. Deepened democratic changes; move to a market my[1]and introduction of market forces[2]; the role of governments from an operator to a regulator; the move to decentralization; and increased voices of civil societies have changed the paradigm. These have led to a new concept of authority and brought sweeping reforms in the public sector. As these changes have taken shape, the international financial institutions (such as the African Development Bank - AfDB, the International Monetary Fund - IMF, the World Bank - WB etc.) and development partners have encouraged governments to make their financial data more transparent. At the Ministry of Finance (MoF), we believe that fiscal transparency is vital.

We are taking major steps in public finance reforms so that our scarce revenues and the valued resources from our citizens and the development partners are accountable, transparent, and equitable. The financial transactions should be flowing through the government's Treasury Single Account to avoid irregularities. The budget process should guide the nation's public spending. Revenue measures should be progressive. Financial reporting should be comprehensive and regular. The procurement process should be accessible in a fair manner. Services should be efficiently and effectively delivered by the Government of Lesotho for the benefit of the nation.

This bulletin will support our efforts in the area of fiscal transparency.

I would like to commend the various departments in the Ministry of Finance, Ministry of Development Planning and other agencies for their inputs and support.

I hope you find this publication useful. It will be available on the MoF's website. Your comments would be appreciated and would be useful to help us serve you better. For more information, please visit http://www.finance.gov.ls.

[1]Market economy is an economic decision and the pricing of goods and services are guided solely by the aggregate interactions of a country's citizens and businesses and there is little government intervention or central planning.
[2] Market forces refer to the economic factors affecting the price of, demand for, and availability of a commodity.

The bulletin is divided into three sections. Section One discusses the macroeconomic outlook and issues that correspond with the submission of the FY 2015/16 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 reform arena.

Introduction

This bulletin reports and informs various ministries and agencies, the public, donors, and civil society about Government's revenues and expenditures performance. It reports revenue collections and expenditure outlays for the first quarter of FY 2015/16. It should be noted that the elections and the formation of the new Government led to a late approval of the budget. This resulted into lower execution than usual.

The 2015/16 fiscal year's total approved budget is Maloti (M) 16,718. 8 million, of which the recurrent budget is M 11,992.5 million and the capital budget is M 4,726.3 million. This compares with a total of M 15,835.1 million for fiscal year 2014/15. For the recurrent budget, the year-over-year growth is nearly 17 percent, largely reflecting the size of and the annual increase of 6 percent in the wage bill.

The revenue target for the current financial year is M 15,321.4 million which is an increase of 5.1 percent over the 2014/15 outturn of M 14,575.3 million.

Section 1 – Macroeconomic Developments

In 2015/16, real GDP growth is expected to hover around 2.4 percent, compared to a marginally higher rate of 3.6 percent in 2014/15, underpinned by a projected deterioration in the secondary industries due to the expected worsening performance of the manufacturing and construction sectors. The textile and apparel sector is expected to register a negative growth of 5.2 percent in 2015/16 owing to uncertainties that surrounded renewal of the African Growth and Opportunities Act (AGOA) and eligibility of Lesotho.

The South African Customs Union (SACU) receipts are expected to decrease significantly in 2015/16 to about 25 percent of GDP from just above 30 percent in 2012/13 and remain low over the medium-term – reaching about 18 percent of GDP by 2018/19. With limited alternative revenue sources, the Government's fiscal space and expenditure are expected to shrink accordingly, and would require robust domestic revenue collection and improvements in the quality of-expenditure.

During the first quarter of 2015/16 (April-June), Total revenue recorded M 3,524.7 million, a growth of 4 percent compared to the same period in 2014/15. On a quarter-to-quarter basis, SACU receipts and other revenues fell by some 5 and 30 percent, respectively, while tax revenues and grants saw an increase of 15 percent and 94 percent respectively. The surge in grants could be attributed to a lower level recorded in the previous year.

As regards expenditures, total spending stood at M 2,539 million comprising M 2,269 million for recurrent spending, and M 270 million for capital projects, reflecting 19 percent and 6 percent of the respective approved budgets.

Table 1: Budgetary Operations – Q1:2015/16

Budgetary Transactions: April-June 2015	
Millions of Maloti	
Revenues	3,525
Expenditures	2,539
- of which	
Recurrent	2,269
Capital	270
Budget balance	986

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

The fiscal balance for the first quarter is estimated at a surplus of M986 million owing to lower than anticipated expenditure especially with regard to the Capital budget as a result of the late approval of the budget.

Section 2 – Budget and Fiscal Developments

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

This section discusses revenue performance during the first quarter of 2015/16. Total revenue comprises of tax revenue, grants, non-tax revenue as well as receipts from SACU. Total revenue collected in the first quarter was M 3,524.7 million (22.6 percent of total target of M 15,321.4 million), which reflects an underperformance relative to an estimated quarterly target of M 3,830.4 million. The shortfall in revenue emanated from low collections in both tax revenue and non-tax revenue, while SACU receipts on the other hand, exceeded the projected quarterly target of M 1,599.6 to around M 1,667.4 million.

Table 2: Revenue Performance (in Millions of Maloti)

Revenue Items	2014/15 Q1	2015/16 Q1	Growth in percent
Tax revenue	1,243.2	1,431.1	15%
Grants	123.6	239.4	94%
Other revenue	265.6	186.9	-30%
SACU	1,758.5	1,667.4	-5%
Total	3,390.9	3,524.8	4%

Tax Revenue

Tax revenue is comprised of various tax components including taxes on income, profits, and capital gains and taxes on property. However, the discussion will focus on three major components of tax revenue namely; personal income tax (PIT), Corporate Income Tax (CIT) and Value Added Tax (VAT).

In the quarter under review, tax revenue did not perform as envisaged. Tax revenue amounted to M 1,421.1 million against an estimated target of M 1,629.3 million. This performance is subsequent to low collections in both income tax and VAT.

Personal income tax which accounts for about 11 percent of total revenue posted a negative growth of 5.8 percent. This could be attributed to the downward revision of income tax rates instituted in 2014/15. Efficiency associated with low tax rates are yet to materialise.

In the quarter under review, VAT collections registered a decline of 10 percent owing to the slow growth in construction activities which contribute a major share in this category.

On the other hand, CIT slightly surpassed the quarterly target. CIT reached over 31 percent of the budget estimate and recorded a growth of nearly 190 percent, quarter-on-quarter. This is due to strong performance of the mining sector.

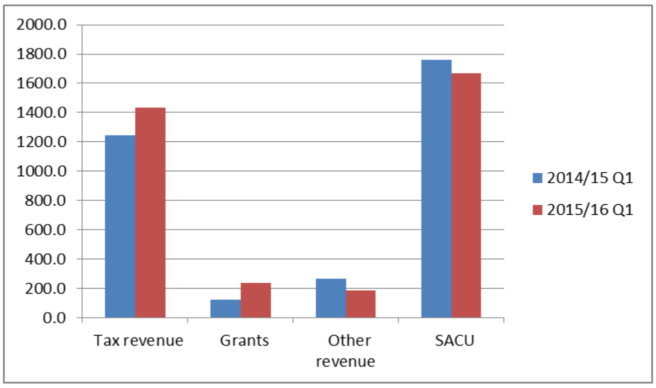
Other Revenue

This category consists of dividends, electricity from 'Muela and water royalties from Lesotho Highlands Development Authority. During the first quarter, non-tax revenue registered collections to the tune of M 186.9 million against quarterly estimate of M 362.5 million. This poor performance was due to a delay in dividends ensued from the fact that Government had not received any dividends as yet. Non-tax revenue thus missed its quarterly target by M 175.6 million.

SACU

In 2015/16, the Government's share in the SACU common revenue pool was forecast to decline by 9.0 percent relative to the previous year's share. This follows the developments in the South African economy affecting the pool's scope and size. However, given the amount received in the first quarter, SACU receipts are now projected to register a decline of 5.2 percent compared to 2014/2015 receipts. Consequently, SACU receipts surpassed quarterly target of M 1,599.6 million by M 67.8 million. Generally, this decline is of major concern to the economy, and the domestic revenue mobilization should be intensified.

Table 3: Revenue performance (in Millions Maloti)



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

Recurrent budget spending for the first quarter (Q1) is M 2,269 million (58% percent of 2015/16 Q1 warrant(s) released). When compared with warrant(s) released (M 3,922 million), this reflected slower expenditure than anticipated. This is shown in the Q1 figures as total recurrent expenditure for the quarter stood at 19 percent of the approved budget of M 11,992 million (see Table 4).

Table 4: Recurrent Budget Performance

Expenditure Type	Approved Budget 2015/2016	Warrant Released	Total Expenditure	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
TOTAL PERSONAL EMOLUMENTS	5,650	1,986	1,248	3,622	63%	22%
TOTAL OPERATING COSTS	6,343	1,936	1,021	4,303	53%	16%
TOTAL RECURRENT	11,992	3,922	2,269	8,070	58%	19%
Note: Amounts are in millions of maloti.						

For the first quarter, personnel emoluments and operating costs (principally goods and services) were 22 percent and 16 percent, respectively, of the approved budget appropriation for FY 2015/16. Low utilization of the budget was mainly due to the delay of the 2015/16 budget approval which led to late payment of civil servants' salary that saw an inflationary adjustment and other operations in general.

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

Table5: Capital Spending

Fund Source	Approved Estimates	Warrant Released (RIE'S)	Total Exp	Budget Balance	EXP as % of WR	EXP as % of AB
GOL Total	2,844	602	228	2,616	38%	8%
Donor Grants Total	952	27	4	948	14%	0%
Donor Loans Total	930	39	39	891	100%	4%
TOTAL	**4,726**	**668**	**270**	**4,456**	**41%**	**6%**
Note: Amounts are in millions of Maloti						

Capital spending for the quarter stood at M 270.4 million, which was 41 percent of requisition to incur expenditure (RIE i.e. warrants released) and 6 percent of the total approved budget. The releases on development budget are as per ministerial requests, not quarterly basis as is the case with the recurrent budget. The approved capital budget of M 4,726 million in FY 2015/16 comprises M 2,844 million from the Government, M 952 million from donor grants, and M 930 million from donor loans. For the 136 capital projects in FY 2015/16, 31 were new and 105 would be ongoing.

While all donor funded projects are regarded as capital, certain activities are recurrent in nature. Moreover, some of the ministries opt to implement recurrent activities using capital budget due to limited scope provided in the recurrent budget. Steps are being taken to address these anomalies.

Capital expenditure for the first quarter has been low due to a number of reasons including delays in release of the first quarter's warrants that affected the start-up of activities that were planned for the period but postponed to the second quarter; demerger of some of the ministries; delays in requests of funds by the ministries and agencies; delays in procurement procedures; and delays in disbursement of funds from development partners.

It should be noted that more than one-quarter of official flows for development projects are not captured within the budget due partly to resistance from agencies supported by such funding and discrepancies in financial management procedures practiced by some development partners and that of the Government. This, in turn, fosters parallel structures vis-à-vis finances, impedes capacity building within the Government, and voids the budget of its comprehensiveness – due to lack of the data.

The low execution rate of capital spending is due also to data challenges. These are being addressed.

Section 3 – PFM Reform Efforts

As the Government embarks on various reforms, it established the PFM Reform (PFMR) Secretariat. The Government and the participating development partners (AfDB, EU, and WB) reached an agreement for the establishment of a PFMR Secretariat that is staffed by national personnel to co-ordinate and manage implementation of the reforms over the project period covering 2014/15 – 2017/18. The first quarter of FY 2015-16 saw the full launch of reform efforts.

There are eight reform components - 1) regulatory framework (EU); 2) budget (EU); 3) cash management (EU via the IMF); 4) internal audit and control (AfDB); 5) accounting and fiscal reporting (WB); 6) public procurement/anti-corruption (AfDB); 7) oversight and external audit (AfDB); and 8) governance and institutional management (AfDB-EU).

The reforms are the responsibility of the respective departments across the Government. The Secretariat is tasked with providing implementation support and co-ordination, through overall project leadership, project management, and project planning and reporting. It is generally envisaged that having the Secretariat staffed by nationals will help Government maintain the reform momentum way beyond the project, with the outputs of the project having a lasting impact on the PFM system. A sound and well-functioning PFM system is an imperative for Lesotho, given the extensive role of the public sector in the national economy.

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

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