GOVERNMENT OF LESOTHO

FOURTH QUARTER PERFORMANCE

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Annual Report – 2015/2016

Foreword from Principal Secretary of the Ministry of Finance

I am pleased to release the end year issue of the Budget and Fiscal Bulletin 2015/2016. It continues to be our obligation and commitment as the Ministry of Finance to ensure that public funds matters are transparent and communicated to the public. We have published the first three issues. For availability and accessibility please visit: http://www.finance.gov.ls.

This bulletin continues to support our efforts in the area of fiscal transparency. This being the fourth issue of the bulletin in 2015/16, it now makes transparency and fiscal reporting an institutional part of the Ministry and Government. We are planning to continue making improvements to the bulletins in the coming year in a manner that makes them usable by the general public. We are also planning to introduce the annual Citizen's Budget Guide to facilitate accessibility and appreciation of the budget process to the general public.

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 year end of FY 2015/16.

The annual recurrent expenditure is at 95 percent of the approved budget of M11, 993 million, whilst the capital budget is at 64 percent of M5, 132 million.

The revenue collection for the fourth quarter was at M3, 926 million which was more by 2.5 percent against the target. While the overall revenue collections for FY 2015/16 recorded M15, 413.7 million, which exceeded the annual revenue target by M31.8 million (0.2 percent).

Section 1 – Macroeconomic Developments

In the recent past, Lesotho has managed to maintain fiscal discipline despite pressures from the external shocks. It continued to realise revenue growth as a percentage of GDP as well as a share of total revenue due to continued improvement in SACU receipts over the years with an exception of 2010/11 and 2011/12 where it declined and recorded 16 percent (55 percent) and 12 percent (53 percent) respectively. It continued to decline into 2014/15 and 2015/16 and registered 48 percent and 42 percent respectively as a share of total revenue as a result of reduction in SACU receipts.

During the fourth (January- March) and last quarter of the fiscal year 2015/16, total revenue recorded M 3, 926.5 million, reflecting decline in growth of 5 percent compared to the same period of 2014/15. This was attributed to poor performance in tax revenues recording -0.6 percent. Other revenue registered growth of 37 percent and donor grants amount to 95 percent respectively. SACU receipts continued to struggle, recording a decline of 5 percent.

Figure 1: Revenue Shares (in Millions of Maloti)

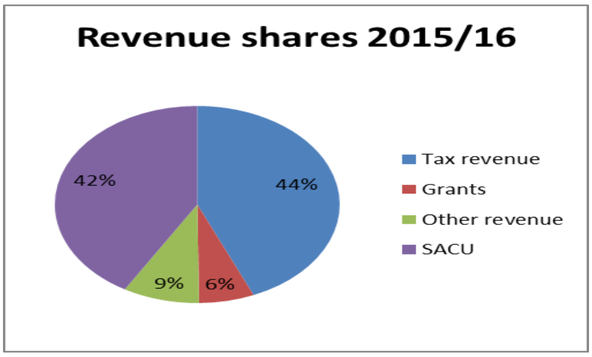


Figure 1 illustrates the total revenue shares revealing the Tax revenue being the largest contributor with a share of about 44 percent of the total revenue. This is followed by SACU receipts at 42 percent while Grants and Other Revenue contributes 9 percent and 6 percent respectively.

Table 1: Budgetary Operations – Q4:2015/2016

Budgetary Operations: January- March 2016	
	Millions of Maloti
Revenues	**15,413.7**
Expenditures	**14,437.0**
Of which	
Recurrent	**11,356.0**
Capital	**3,081.0**
Budget Balance	**976.7**

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

The overall fiscal balance for this fiscal year is estimated at a surplus of M976.7 million owing to lower than anticipated expenditure especially with regard to the Capital budget. It is important to note that a combination of higher than budgeted revenue collections and under-spending relative to appropriations have resulted in a surplus which are far higher than approved estimates by parliament. This affects delivery of programmes/policies and is counterproductive and undermines government's capacity to spend and to achieve national goals.

Section 2 – Budget and Fiscal Developments

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

The year 2015/16 realised a slow GDP growth, with the real GDP at around 2.4 percent. It is worth noting that even though the general performance has been poor, some revenue items performed well while others have not. The total revenue for the fiscal year recorded M15, 413.7 million against the budget of M15, 381.9 million, exceeding the target by M31.8 million. Despite the anticipated low GDP growth, this reflects a slight increase in performance of 0.2 percent relative to an estimated annual target. The good performance was brought by in Income tax and Grants.

Table 2: Revenue Performance (in Millions of Maloti)

Revenue Items	2014/15 Annual	2015/16 Annual	Growth in percent
Tax Revenue	**5,796.5**	**6,710.1**	**15.8%**
Grants	**495.7**	**966.1**	**94.9%**
Other Revenue	**1,267.3**	**1,338.9**	**5.6%**
SACU	**7,034.1**	**6,398.6**	**-9%**
Total	**14,593.6**	**15,413.7**	**5.6%**

Tax Revenue

Table 1 and Figure 1 set out the annual revenue performance for the year where tax revenue registered negative performance in some categories against the estimated target. However the net effect is positive. Tax revenue recorded M6, 710 million against the target of M6, 512 million, exceeding the quarterly target of M 198 million. This positive collection was brought by growth in corporate tax, withholding tax and fringe benefit tax, which offset the decline in these categories such as VAT and income tax. While the normal revenue drivers poorly performed.

Personal income tax recorded a slight dent of 1.7 percent compared to last year and 0.5 percent growth against the target. This was attributed to the reduction in employment levels by the large tax payers (private sector).

Corporate income tax (CIT) registered 28 percent growth against last year and exceeded the target by 20 percent; this was mainly influenced by higher than expected growth in the revenue collections from mining sector, financial and insurance (23 percent) and telecommunications (9 percent) sectors. In the face of declining diamond prices, mining sector also contributed significantly in CIT due to dollar appreciation in 2015/16. In addition, withholding taxes and fringe benefit tax (FBT) recorded a 50 percent increase against the target as a result of improved compliance initiatives.

VAT collections in this fiscal year recorded the lowest growth of 4.4 percent of the total revenue since 2005/06 and it has been volatile. It also registered a decline of 6.5 percent against the target of M2, 363 million. This was mainly brought by slow economic growth which led to a decline in consumption of wholesale and retail, non-textile manufacturing as well as electricity, which are traditionally the major contributors of VAT.

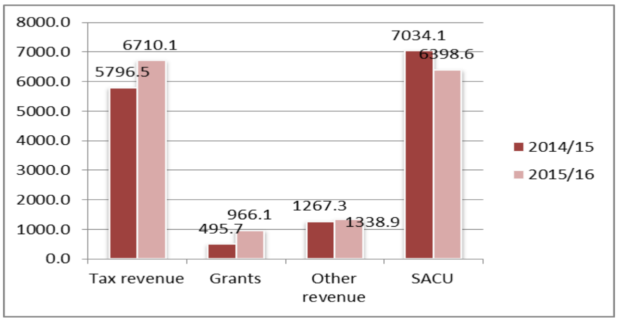
Other Revenue

This is a non- tax revenue which consists of administrative fees and charges, fines and forfeits and property income. Property income (mainly dividends) and electricity and water royalties are the major drivers of the revenue collections under this category. The revenue collections in these quarter registered M1, 338.9 million against the target of M1, 450.1 million. These declines were attributed to the poor administration of dividends from the institutions where government has shareholding such that there are delays in payments or no payments at all. This led to government missing its quarterly target by M111.2 million.

SACU

During the first quarter, SACU receipts recorded M, 1667.4 million, which comprised of M1, 577.1 million based on calculations made last year and M100million outstanding from the last year's adjustment payment. Nonetheless, the 2015/16 annual SACU receipts decreased by 10 percent compared to 2014/15 fiscal year. The revenue declined from M7, 034.1 million to M6, 398.6 million. This follows the declining economic developments in the South African economy affecting the pool's scope and size.

Table 3: Revenue performance (in Millions Maloti)



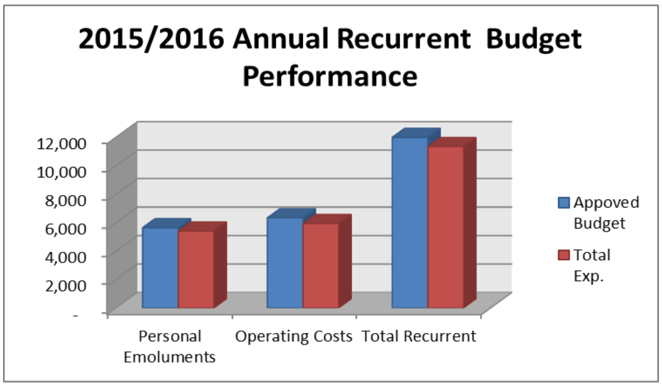
Section 2:2 – Annual Recurrent Expenditures

The recurrent expenditure for the year stood at M11, 356 million which is 95 percent of the 2015/2016 approved budget of M11, 993 million. Expenditures for Personal Emoluments and Operating Costs were 96 percent and 94 percent, respectively. Generally, recurrent performance is satisfactory. However there are few ministries which performed over their respective approved budgets. (See Table 4 below)

Table 4: Recurrent Budget Performance

Expenditure Type	Approved Budget 2015/2016	Warrant Released	Total Expenditure	Warrant Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
TOTAL PERSONAL EMOLUMENTS	5,650	5,653	5,414	239	96%	96%
TOTAL OPERATING COSTS	6,343	6,437	5,942	494	92%	94%
TOTAL RECURRENT	**11,993**	**12,089**	**11,356**	**733**	**94%**	**95%**

Note: Amounts are in millions of Maloti



At the end of the financial year, personnel emoluments and operating costs (principally goods and services) are at 96 and 94 percent, respectively, of the approved budget appropriation for FY 2015/16. This indicates a reasonable utilization of the budget as compared to the third quarter where which recorded 71 and 64 percent expenditure on personnel emoluments and operating costs, respectively. The higher warrants releases are attributed to the reasons stipulated below:

1. Payment of outgoing Principal Secretaries,
2. Payment of Bidvest Bank Limited Company and AON Insurance for Government fleet.
3. Introduction of salary spread under Lesotho Correctional Services which had a huge negative impact on the approved personal emoluments budget.
4. Address the drought (El Nino) challenge which the country experienced during the implementation year and was declared as an emergency.

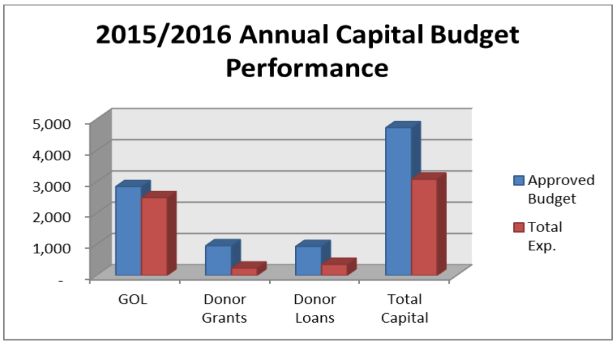
On the other hand, the underperformance on Personnel Emoluments, which when budgeted for properly, should come close to accuracy. However there are unspent balances that were noticed amounting to M239 million which is about 2 percent of the total approved budget. This could either mean there was over-budgeting or some people left government service in the middle of the year.

Section 2:3 – Annual Capital Expenditures

Table5: Capital Spending

Expenditure Type	Approved Estimates	Warrant Released (RIE'S)	Total Expenditure	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
GOL Total	2,844	2,594	2,489	430	96%	85%
Donor Grants Total	952	283	237	715	84%	25%
Donor Loans Total	930	261	354	669	136%	38%
TOTAL	**4,726**	**3,138**	**3,081**	**1,813**	**98%**	**64%**

Note: Amounts are in millions of Maloti



The overall capital performance is M3, 081 million which is 64 percent of the total approved budget of M4,726 million of which GOL component is at 85 percent and donor grants and Loans are 25 percent and 38 percent, respectively. The releases on development budget are as per ministerial requests, not quarterly basis as is the case with the recurrent budget. Total development budget performance indicates a huge improvement from 51 percent in the third quarter to 64 percent in the fourth quarter.

Capital expenditure has experienced low utilisation due to a number of reasons including late approval of the budget, delays in release of warrants that affected the start-up of activities during the earlier part of the year; 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 is worth mentioning that nearly 20 percent of official flows for development projects are not captured within the budget due partly to non-reporting from agencies supported by development partners and differences in financial management procedures practiced by some development partners and that of the Government.

Some of the reasons for an improved capital expenditure is due to funds being reallocated from slow spending projects to fast spending projects in respect of GOL funded projects and supplementary budget towards projects that needed extra funding, that contributed largely to improved performance of 64 percent.

However, all donor funded projects are regarded as capital, most of these projects and activities are recurrent in nature that means they have no element of development. 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.

Section 3 – PFM Reform Efforts

Component 2 of the PFM Reform project – *Transparency and Effectiveness of Policy Oriented Annual Budgets* –With the assistance of the short term experts the Budget Department started to develop the budget regulations and guidebook and the Project Cycle Management (PCM) the development of PCM manual and conducted training on cost benefit analysis. The Macroeconomic Policy and Management Department was assisted to develop a new econometric model.

Component 3 – *Cash Flow Forecast a Major Determinant of Domestic Debt and Financial Investment* – Following the placement of the IMF Resident Advisor in the Treasury, capacity building exercise for Cash Management Unit staff on International Public Sector Accounting Standards (IPSAS) has been completed. Training by a Short Term Expert to assist in capacity building of the Cash Management Unit (CMU) and selected line ministries (Mining, Public Works and Transport, Health and Ministry of Education and Training) in the development of cash plans and forecasting. The IMF Resident Advisor has been working closely with the CMU staff to ensure technical capacity development necessary for constructing cash plans and improving forecasting.

Component 6 - *Public Procurement Aligns with International Best Practice in Efficiency and Transparency* - The procurement anti-corruption training of trainers for anti-corruption structures (DIAAL) and development of public outreach programme training material for the Directorate of Corruption and Economic Offences (DCEO) was undertaken to help DCEO spread the fight against corruption. A procurement anti-corruption training toolkit has been developed and initial sensitization about impending series of workshops and outreach activities countrywide has begun through radio programme interviews in all radio stations of Lesotho and Television. Other forms of media coverage will follow; and Procurement Tribunal (PT) members have been inducted into the operations of the PFMRAP, and regular meetings between PPAD and PT initiated in order to operationalize the committee.

Although there are gradual improvements in how components are implementing the activities of the project, there is still room for further improvements and it is still critical that the components and departments integrate the project activities into their daily operations so as to institutionalize the reforms for continuity and sustainability.

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