GOVERNMENT OF LESOTHO

2017/2018 FIRST QUARTER PERFORMANCE

BUDGET AND FISCAL BULLETIN

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Foreword from PS Finance

In an effort to enhance the budget discourse, Ministry of Finance has been developing a quarterly "Budget and Fiscal Bulletin" since 2015/16 to discuss and deliberate budget ideas and experiences with particular focus on highlighting success stories, and challenges on impleneting budget.

2017/18 marks the third year where Ministry of Finance has been consistantly publishing quarterly budget and fiscal bulletins and it is now being rooted into the institutional arrangements of the Government of Lesotho macro-fiscal management.

This notwithstanding, more effort is required to make continuous improvement in their timely production and publication as they are becoming important tools for transparency and accountability.

As a measure of good governance, Government recognises the importance of informing its citizens on how it carries out its responsibility of public service delivery and the broader public policy implementation. The provision of information also extents to Lesotho's Development Partners who have continued to provide extremely useful support under very trying economic challenges.

As has been indicated in the previous bulletins, the macro-fiscal management in Lesotho remains to be challenging resulting to very unfavourable regional and global economic developments. However, the Government continues to be committed to addressing these challenges particularly under the on-going PFM reforms, supported by the various Development Partners, plans to address the current gaps in the systems and processes which will improve the PFM environment in the medium to long term. The other important project is the Public Sector Modernisation (PSM), which transcends PFM reforms and also looks into improving the broader public service delivery.

This Budget and Fiscal Bulletin, like the previous ones, presents the major revenue and expenditure activities that took place in the first quarter of 2017/2018. It also highlights developments in the global and domestic economy in the first quarter of 2017/2018. It reports key revenue and expenditures data and how these have changed over the period of a year since the end of the fourth quarter of 2016/17. The bulletin continues to support the efforts of good governance and the need for fiscal transparency.

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The bulletin is divided into three sections. Section one discusses the macroeconomic outlook and issues that correspond with the submission of the FY 2017/18 budget to Parliament. Section 2 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 3 provides a summary of the Government's initiatives in the PFM improvements and reforms, while Section 4 provides progress under the new World Bank funded Public Sector Modernisation Project.

Introduction

This bulletin continues to follow the objective of reporting and informing various stakeholders about Government's revenues and expenditure performance. It reports revenue collections and expenditure outlays for the first quarter of FY 2017/18.

The 2017/18 fiscal year's total approved expenditure budget is M 18,709.3 million, of which the recurrent budget is M 13,506.7 million and the capital budget, is M 5,202.6 million. This compared with a total of M 17,423.8 million for fiscal year 2016/17 indicates an increase of about 7 percent. For the recurrent budget, the year-on-year growth is nearly 9 percent, largely reflecting the size of and the annual increase of 4 percent in the wage bill.

The revenue target for the current financial year is M 14,994.8 million which is a increase of 12 percent over the 2016/17 approved target of M13,370.8 million.

Section 1 – Macroeconomic Developments

The real GDP growth is expected to recover around 3.4 percent following a slow growth of 2.1 percent in 2016/17. The recovery is realised in agriculture production which significantly de-clined in 2016 due to the El Nino.

During the quarter under review, the total reve-nue collections slightly missed the target and rec-orded M3, 322.5 million, against the expected outturn of M3, 359.3 million. This reflects a slow economic activity so does the collections.

Budgetary Operations: April - June 2017 Millions of Maloti	
Revenue	3,338.10
Expenditure	3,103.80
of which	
Recurrent	2,806.60
Capital	297.20
Budget Balance	234.30

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

The overall budget balance for the second quarter is estimated at M234.30 million.

Section 2 – Budget and Fiscal Developments

Section 2:1 – The First Quarter Revenue Collection

This section discusses revenue performance dur-ing the first quarter of 2017/18. The total revenue collections recorded M3, 338.1 million, reflecting deterioration in revenues as opposed to the same period of last year. This is also an under perfor-mance in comparison to the revenue target of M4, 008.8 million. This shortfall in revenue is a result of the decline in Tax revenue which was compen-sated by an improvement in other tax items (see table 2).

Figure 1: Revenue Shares (in Millions of Maloti)

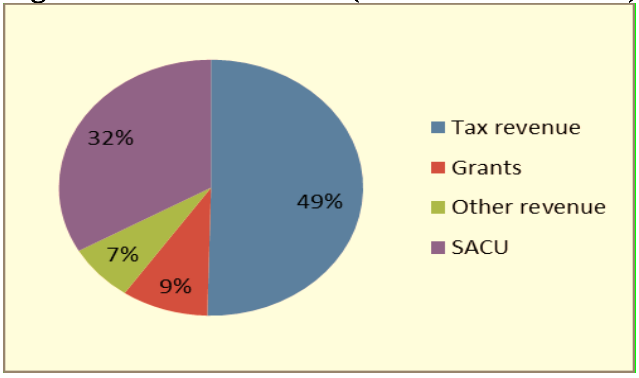


Figure 1 illustrates the total revenue shares for this quarter, revealing a shift in the revenue composition, where Tax revenue takes the lead, contributing around 49 percent of the total revenue followed by SACU with 32 percent, other revenue with 12 percent and Grants with 7 percent.

The reductions in revenue performance are brought mainly by a mix of growth in some items while some are declining. Tax revenue grew by 7.2 percent from the previous year and other revenue registered a growth of 19 percent as opposed to last year. While SACU revenues declined by 32 percent and Grants by 2.4 percent.

Table 2: Revenue Performance (in Millions of Maloti)

Revenue Items	2016/17 Annual	2017/18 Annual	Growth in Percent
Tax Revenue	1,804.10	1,373.40	-24%
Grants	245.20	196.20	-20%
Other Revenue	342.60	229.90	-33%
SACU	1,129.70	1,538.60	-36%
Total	3,521.60	3,338.10	-12%

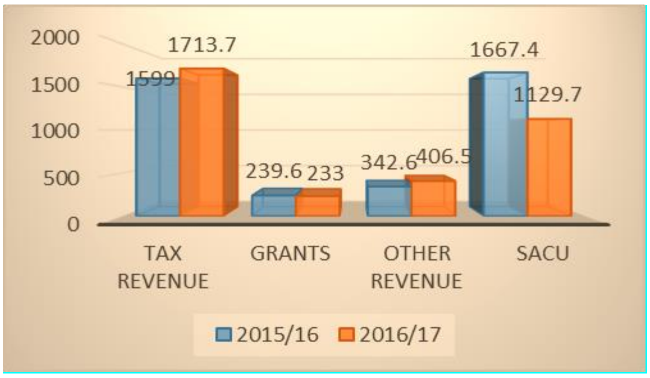
Tax Revenue

Even though Tax revenue presents a slight growth, it did not perform as expected recording M1, 713.7 million against the target of M1, 882.7 million. The shortfall in the collections was ob-served in CIT recording M276.8 against the target of M634.6. This was attributable to the slow growth in mining, telecommunications and finan-cial sector. Also poor sales in Wholesale and retail sector in 2015/16 led to lower than anticipated revenue collections.

Personal income tax registered an increase of M25million against the target of M475, 2 million realising a 5 percent growth. The positive growth was brought by improved levels of employment in the private sector especially in non-manufacturing sector and the expansion of one of the mines- which is among high wage companies.

Wholesale and retail sales contribute around 60 percent of VAT. In this quarter they grew by 7 percent such that total VAT recorded growth of 4.4 percent as opposed to last year's collections and also surpassed the quarterly target by 2.5 per-cent.

Table 3: Revenue performance (in Millions of Maloti)



Other Revenue

Other revenue is collected by ministries, while electricity and water royalties are collected by LEC and LHDA, respectively, and remitted to the responsible ministries. This component registered a total collection of M229.9 million which a decline of 32 percent in growth (see table 3) compared to the same period of last year. Water Royalties and Electricity has marginally increased while other items have recorded no collection or just a little. This is as a result of under reporting and delays in capturing revenue data in the IFIMIS by line ministries of other items under the non-tax revenue.

SACU

SACU revenues are expected to increase by 36 percent recording M 1,538.6 million in the current year, from a low M1, 129.7 million in 2016/17. The significant increase is mainly from improve-ment in the economic activity from South Africa rebounding to the revenue of 2015/16. The SACU remittances are mainly from South Afri-can imports and hence rising import duty and ex-cise revenues collected by South Africa on vehi-cle which accounts to 35-40 percent of the tariff revenue.

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

Table 4: 2017/18 First Quarter Recurrent Budget Performance

Expenditure Type	Approved Budget 2017/2018	Revised Budget 2016/2017	Warrant Released	Total Exp.	EXP as % of Warrant Released	EXP as % of Approved Estimates
TOTAL PERSONAL EMOLUMENTS	6 208.5	6 208.5	2 289.3	1 492.0	65%	24%
TOTAL OPERATING COSTS	7 293.8	7 293.8	2 134.1	1 309.6	61%	18%
TOTAL RECURRENT	13 502.3	13 502.3	4 423.4	2 801.6	63%	21%

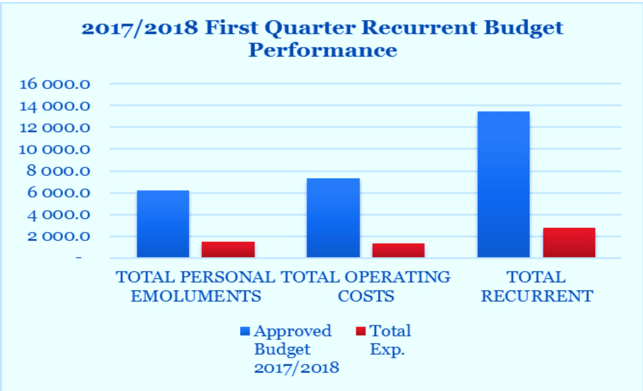
Source: Ministry of Finance; Budget Department

Total recurrent budget performance reflects an expenditure of M2, 801.6 million at the end of the first quarter which is 21 percent of the approved budget of M13, 502.3 million. This is lower than expected expenditure of 25 percent at the end of the quarter.

Personal Emoluments and Operating Costs are at 24 percent and 18 percent of the approved budget respectively. Personal Emolument performance is generally satisfactory while operating costs performance indicates a slightly lower than expected performance. This is due to Principal Repayments, Interest Charges, and Subscriptions to International Org which experienced problems with data entry in the IFMIS due to technical problems in the IFMIS. (See Table 4 above and figure 2 below).

The total recurrent expenditure excluding public debt and subscriptions to international organizations heads is 23 percent. Recurrent Budget performance is generally satisfactory.

Figure 2: 2016/17 First Quarter Recurrent Budget Performance



Source: Ministry of Finance; Budget Department

It is worth noting that Ministry of Finance issued warrant for four month as a constitutional arrangement in the interim while waiting for theapproval of the 2017/2018 budget. However, some ministries seem to have underperformed by the end of the first quarter, minisries such as Prime Ministers Office, Communications Science and Technology, Energy and Meteorology, Public Service Commission, Senate, IEC and Mining.

The major reasons attributed for this unsatisfactory performance was caused mainly by seasonality of the some activities, change of government and that IEC major electoral activities for the local government elections will be undertaken in the second quarter as the elections are set for the 30th September 2017.

On the other hand, it is worth mentioning that ministries of Trade and Industry, Home Affairs, Defence and National Security and of Small Business Development, Cooperatives and Marketing, have high expenditures which is caused by the following reasons:

- Ministry of Trade and Industry over expenditure is attributed to the payments of duty credit ceitificates;
- Ministry Home Affairs requested an advance for printing of passports which is a once off purchase;
- Ministry of Small Business Development, Cooperatives and Marketing continues to finance outstanding bills towards the food subsidy on maize meal and some selected grains, that was approved by Cabinet;
- Ministry of Defence for advance payment of aircrafts insurance;

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

Table 5: 2017/18 First Quarter Capital Budget Performance

Ependiture Type	Approved Estimates	Revised Budget	Warrant Released (RIE'S)	Total Exp.	EXP as % of Warrant Released	EXP as % of Approved Estimates
GOL Total	3 423.1	3 423.1	312.4	297.2	95%	9%
Donor Grants Total	1 072.2	1 072.2	0.0	0.0	0%	0%
Donor Loans Total	707.3	707.3	0.0	0.0	0%	0%
TOTAL	**5 202.6**	**5 202.6**	**312.4**	**297.2**	**95%**	**6%**

Source: Ministry of Finance; Budget Department

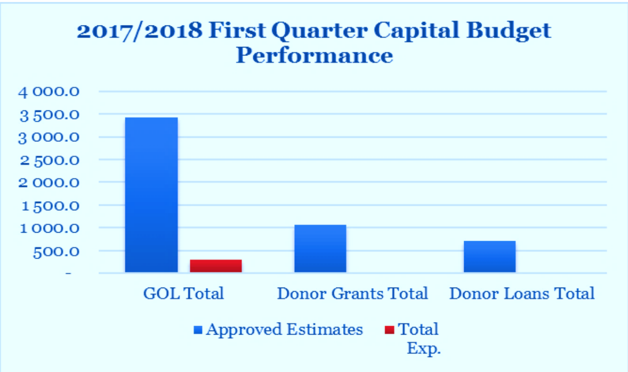
The overall capital budget estimate for the current financial year (2017/18) is M5,202.6. The Government of Lesotho (GOL), Donor Grants and Donor Loans are the sources of funding with contributions of M3,423.1 million , M1,072.2 million and M707.3 million. The current capital investment portfolio has a total of 144 projects, of which 17 are new projects and 127 are ongoing capital projects.

However, it must be noted that some of these projects which fall under capital budget are recurrent in nature as opposed to being developmental. The reasons are; all donor funded projects are regarded as capital even though the activities within such projects are recurrent in nature. Moreover, some of the ministries opt to implement recurrent activities using capital budget due to recurrent budget ceilings limitations.

The total projects expenditure for the first quarter is M297.2 million which is 6% of the approved budget for the year. The overall performance is very poor, no funds were utilised from both the grants and loans, due to late disbursements of funds from Development Partners. The overall poor performance was mainly because of the Lesotho General Elections in June which let to late appropriation of the National Budget.

The low performance in some ministries is due to many factors such as delays in procurement, and budgeting for projects that are not ready for implementation (See table 5 above and figure 3 below).

Figure 3: 2017/18 First Quarter Capital Budget Performance



Source: Ministry of Finance; Budget Department

However, despite this general unsatisfactory performance, there are many ministries which performed better such as Judiciary and Public Works request for payment of outstanding cirtificates for work already done.

Some ministries in this instance had not requested any funds due fact that the approved budget was not entered into the IFMIS – Active Planner in time and that hinders on developmental performance.

The low performance is also as a result of continuous donor funded projects expenditure that is being managed outside the IFMIS system and faiture to reconcile and request funds for posting purposes.

It should also be noted that expenditure for Donor Grants and Loans continues not to be recorded in the system, hence the low performance. This is due to different systems that are used by the development partners and the fact that line ministries do not request funds for posting purposes. These challenges are being addressed under the ongoing PFM and PSM reforms.

Section 3 – PFM Reforms

The PFM reform project is in its third year having started in 2015/16. It is important to note that most of the activities and progress achieved to date involves putting in place PFM systems and processes as well as varied capacity development across components and departments. The impact of these systems, processes and capacity development is yet to take root in the medium to long term.

Component 1 - Implementation of Modern Regulatory Framework – Through the assistance of the Short Term Expert, the Legal Department made a presentation to the Committee of Principal Secretaries, as Chief Accounting Officers (CAOs), underpinning the criticality of compliance with the PFM legal framework and the responsibility of the CAOs in ensuring compliance with the laws. This PSs presentation followed the training to finance officers across government on the PFM legal framework, with the view of having internal resource persons in each ministry to do further training to the ministerial staffs. The STE has also developed a Compliance Framework that will be used across government as a mechanism for reviewing and improving compliance. The drafts of the final report of the STE assignment and the Compliance Framework are available and will be shared with the management once approved by the Legal Department.

Component 2 - Assurance in the Transparency and Effectiveness of Policy Orientation of the Budget (Policy Based Budgeting) – The following activities were undertaken under the component: i) a two-week training for a total of fifty (50) officers across government took place introducing them to government's Public Sector Investment Database (PSID) which has been developed under the support of the EU. The PSID is a system that captures and consolidates data relating to all public investment (GoL and donor funded). The main objective of the training was to expose the participants to the structure of the database, its main functional modules for use in the practical work for project management, implementation and monitoring; ii) National Planning and Budget Regulations workshop whose purpose was to present and orient key officers on the draft planning and budget regulations, solicit new inputs from key stakeholders, critically review and discuss the draft planning and budget regulations, agree necessary improvements to draft planning and budget regulations and agree on the way forward on finalization and implementation; iii) the draft Chart of Accounts (CoA) Manual has been concluded.

The CoA lays down the architecture of how the financial transactions are recorded in the books of accounts or other associated accounting records whether manually or on computer. It consists of a coding structure for capturing and classifying financial information for all the transactions. This structure is so designed as to record both stock as well as flows. The coding structure is required to be designed in such a manner that the information can be classified and reported for legal, administrative and management purposes. This should fully meet the national requirements for budget management and financial reporting.

In addition, it should be capable of meeting international standards for financial as well as statistical reporting; and iv) engagement of the Public Debt Short Term Expert with the main purpose of the assignment is to provide technical support to the Ministry of Finance in strengthening the institutional arrangements and staff capacity of the Public Debt and Aid Management Department (PDAMD) for effective debt management.

Component 3 - Cash flow forecasts a major determinant of internal debt and financial investment –The Resident Advisor in the Treasury continued to provide support on the ongoing work to establish a comprehensive database of government bank accounts. However, lack of full time counterpart staff in the CMU remains a serious challenge, just as is the case with the financial reporting team.

Component 4 - Strengthening of Internal Controls for Operational Efficiency and Effectiveness – As part of the capacity building of the internal auditors, twenty (24) officers enrolled in an Internal Audit Technician (IAT) training programme offered by the Institute of Internal Auditors-South Africa (IIA-SA) facilitated by the Leadership Academy for Guardians of Governance.

Component 5 - Accounting and Fiscal Reporting Compliant with Regulatory Framework and Accounting Standards – The following activities were undertaken under the component during the reporting period: i) Cleaning of the IFMIS Databases as part of Financial Reporting Task Force to clean data in the IFMIS databases, which included clearance of retained earnings; investigation and clearance of hanging transactions (outstanding commitments, payables and advances); confirmation of below-the-line balances (imprests, deposits and trust funds); and bank account reconciliation; ii) training on the SolarWinds System – SolarWinds is software that was procured for Ministry of Communications to assist them to monitor the entire network.

However, the software had not been adequately used since its installation a year ago, as the result of limited exposure by users. The training took place to ensure that the software is used to its full potential, before further investment can be made for the support and maintenance of the software. The training took place from the 5th to the 8th June 2017 on the five of the six modules purchased, and arrangement are underway to provide on the remaining module; and iii) through the support of the Resident Advisor in the Treasury, the financial reporting team designed and distributed reporting templates to be used by district councils in preparing their annual financial statements. This is a very important activity given the challenges that government faces in the financial management of the decentralised activities and the impending fiscal decentralisation. The Ministry of Finance is yet to provide policy guidance on fiscal decentralisation.

Component 7 - External Audit and Oversight Compliant with INTOSAI Standards (ISSAI) – The following activities were undertaken under the component during the reporting period: i) a total of ninety-nine (99) Regularity Auditors attended training on the Standards of Supreme Audit Institutions (SAI) arranged in batches of thirty-three (33) auditors per training over a period of three (3) weeks. The training was facilitated by internal ISSAI mentors in the OAG who have been trained as resource persons. This is a very useful arrangement as the capacity has now been localized and is much cheaper than bringing in a trainer or travelling elsewhere; ii) four (4) auditors from the Office of the Auditor-General attended a one-week performance audit offered by the Institute of Internal Auditors in South Africa as part of the capacity development; iii) following preparation and submission by the A.H. Consulting Firm of the documents on Human Resource Policies and Procedures as part of the ongoing reform in the Office of the Auditor General (OAG), the documents have been reviewed and endorsed as working papers for strengthening HR issues in the organization.

Component 8 - Governance and Institutional Management of PFM Reforms Improved to Facilitate Ownership, Monitoring and Evaluation of Progress – The following activities were undertaken under the component during the reporting period: i) a Project management training workshop attended by officers from the Ministry's Planning Unit, Ministry of Development Planning and the PFM Secretariat. The objectives of the workshop were to help the participants master planning tools, management techniques, and people skills that will ensure project success; ii) following a month long exercise conducting the Internal Midterm Review (IMTR) of the PFM Reform Project, the assignment has been concluded and the report was submitted to the Honourable Minister for his approval so that it could be shared with the wider stakeholders, including the Development Partners; iii) a Public Expenditure and Financial Accountability (PEFA) Assessment workshop facilitated by the consultants was held during the quarter to present the final report. Copies of the report have been shared with all stakeholders, including the management of the Ministry of Finance. The report provides basis for review of the different departmental work plans as well as the PFM Reform Action Plan. Involvement of the management in deciding the necessary PEFA actions and the recommendations of the PFM Internal Midterm Review for incorporation in their respective departmental work plan is critical to be able to address the gaps identified in the report.

Section 4 – Public Sector Modernisation Project (PSMP)

The PSMP is in its second year of implementation and has already made important progress in the short space of time.

Component 1 – Strategic Planning and Fiscal Management – The following activities were undertaken under the component during the reporting period: i) engagement of the consultant for strengthening the Public Sector Investment Committee with the objective of contributing to and conducting an organizational review of the Public Sector Investment Committee (PSIC), develop the capacity enhancement in the core technical areas of project appraisal and to propose the overall restructuring plan across government that seeks to achieve effective public sector investment process to support the National Strategic Development Plan (NSDP). The Project Cycle Management (PCM) in the Ministry of Development Planning is the direct counterpart in the assignment; and ii) facilitated by the consultant, sixteen (16) officers from the Departments of Budget and of Macroeconomic Policy and Management attended an in-house training on the public pension liability modelling and forecasting. The objective of the training was to help the trainees use the model to: a) generate a baseline projection for both the legacy scheme and the OAP to illuminate their fiscal magnitude and potential trajectory over the long term; b) analyze how their trajectories might evolve under different assumptions regarding real GDP growth and inflation (i.e., to conduct sensitivity analysis around the baseline projection); and c) estimate the fiscal impact of potential options for reform that involve changes to benefit provisions or indexation (i.e., to conduct "what-if" analysis in support of policy analysis and reform).

Component 2 – Strengthening Human Resource Management – The Rapid Result Initiative (RRI) - RRI is an approach in project management of implementing and achieving results of selected activities within a short period of time – of around hundred (100) days. Under this component, the RR1 between April and June 2017 is to improve data quality and integrity of Human Resources and Payroll database, and development of online verification mechanism with National Identity and Civil Registry. The Ministries of Public Service, Finance and Home Affairs, are working together to integrate Resource Link Payroll system with the National identity and Civil Register system for validation of personal details of public servants. This is an activity to make improvements in the management of the establishment list and the wage bill. As part of the RRI, the Ministry of Public Service started a civil service payroll cleaning exercise involving districts officers of the Ministries of Education and Training (Teaching Service Department), and of Local Government.

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