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2017/2018 THIRD QUARTER PERFORMANCE

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Foreword from PS Finance

Government of Lesotho remains committed to improving accountability and transparency of budget management in Lesotho. In achieving this commitment, quarterly Budget and Fiscal Bulletins are published on the Ministry of Finance's website and on Government website for access by the public and the international community.

2017/18 is the third year since the Ministry of Finance launched the bulletins and has been consistent in publishing these quarterly budget and fiscal bulletins. This indicates that it has been entrenched 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. It is also becoming eminent that this bulletin can from next year begin publishing on a monthly basis and having it translated into the language that every citizen will understand.

As indicated in previous quarterly bulletins, Government continues committed to improving its policy performance as a cornerstone and measure of good governance. But citizens – as the taxpayers and electorate – need to be consistently informed on the activities carried out by government, which itself demonstrates fiscal responsibility over the broader public resources and how they are being used to pursue public policy implementation to achieve national development goals. The provision of information also extents to Lesotho's Development Partners who have continued to provide extremely useful support under very trying socio-economic challenges.

As announced in the Budget Speech delivered on the 19th July 2017 following change of Government in June, the planned budget deficit is M1, 597.7 of 4.8 percent of GDP. This remains high given the policy deficit of 3 percent of GDP that government has set itself over the past several years. It requires that the Government intensifies its efforts in the on-going PFM reforms to ensure that the impact of the envisaged improvements is realized in the medium term, especially in achieving fiscal consolidation. The complementary reforms under the Public Sector Modernisation Project (PSMP), also remain very critical, especially as they look into the high wage bill and strengthening the broader public service delivery. The second five-year National Strategic Development Plan (NSDP 2) is also being developed under the PSMP, with emphasis on strengthening strategic planning and fiscal management, including policy monitoring and evaluation for effective implementation.

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 third quarter of 2017/2018. It reports key revenue and expenditures data and how these have changed over the period since the end of the second quarter of 2017/18. The bulletin continues to support the efforts of good governance and the need for fiscal transparency, and importantly, the need to improve the responsiveness of public finances to the challenges the country and its people face.

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The bulletin is divided into three sections. Section 1 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 progress of the Government's initiatives in the PFM improvements and reforms, while Section 4 provides progress in the reform initiatives under the new World Bank funded Public Sector Modernisation Project.

Introduction

Budget and Fiscal 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 third 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. Compared with a total of M17, 423.8 million for fiscal year 2016/17, the current year's expenditure has grown by about 7 percent. For the Recurrent Budget, the annual growth is nearly 9 percent, fundamentally reflecting the size of the wage bill which indicates an annual increase of 4 percent.

The revenue target for the present financial year is M14, 994.8 million which is an increase of 12 percent over the 2016/17 approved target of M13, 370.8 million.

Section 1 – Macroeconomic Developments

In 2017/18, real GDP growth is expected to be around 2.0 percent, compared to a marginally higher rate of 2.6 percent in 2016/17 year-to-date (YTD). The main reason behind the 0.6 percentage decrease is the low performance of both the primary and secondary sectors, particularly mining and construction. Inflation is expected to be in line with that of the Republic of South Africa which is around 4.8 percent currently. Consumer price index is expected to increase by 4.4 percent from 254.9 in 2016/17 to 266.1 in 2017/18 YTD.

The Southern African Customs Union (SACU) receipts have increased considerably in 2017/18 to M 6,154.2 million from M4, 519.0 million in 2016/17. The increase in SACU revenue has mainly been driven by increased private consumption in RSA. Going forward; it is projected that the SACU revenue will go down because of the revision of the sharing formula between member states. With limited alternative revenue sources, the Government's fiscal space and expenditure are expected to shrink and would accordingly, require robust domestic revenue collection and improvements in the quality of expenditure.

The economic condition of Lesotho is in a fragile state. The main reason behind this ominous situation is deteriorating revenues and increasing expenditures. The total revenues collected during the first nine months of the fiscal year (2017/18) are below the projected outturn. Total government revenue has broadly continued to perform much lower than projections.

Table 1: Budgetary Operations – Q3:2017/2018

BUDGETARY OPERATIONS: APRIL - DECEMBER 2017	
Millions of Maloti	
Revenue	**1,1181.9**
Expenditure	**1,1603.1**
of Which	
Recurrent	9,676.7
Capital	1,926.4
Total Balance	**-421.20**

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

The overall budget balance for the third quarter is estimated at M-421.2 million.

Section 2 – Budget and Fiscal Developments

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

Lesotho`s total revenue collections to date (year-to-date) amount to M 11,181.9 million. Last FY (2016/17-April to December), total revenue collected was M 10,625.4 million. This implies that 2017/18 revenue is less than revenue collected in 2016/17. Since SACU receipts are exogenous, if SACU receipts are removed/excluded from both 2016/17 and 2017/18 collections, total revenue amounts to M 7,236.2 million and M 6,566.3 million, respectively. The main reason for the low collections is that all the components (tax revenue, other revenue and grants) of revenue performed badly relative to last FY 2016/17 outturn. From the data presented below, it is evident that Lesotho has to improve her domestic revenue collection.

Figure 1: Revenue Shares (in Millions of Maloti)

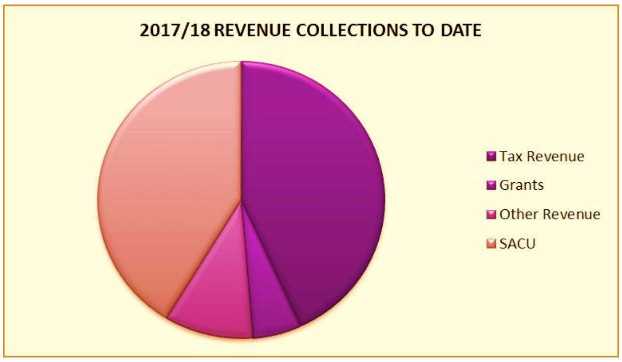


Figure 1 illustrates the total revenue shares of third quarter 2017/2018, revealing that tax revenue is 43 percent of the total share, followed by SACU with revenues comprising 41 percent, while grants and other revenue comprise 5 and 10 percent, respectively, of the total third quarter revenue.

The decline in revenue performance is caused mainly by a mix of growth in SACU, with other revenue items also not living up to expectations. Tax revenue, other revenue and grants registered a decline of 6 percent, 21 percent and 9 percent, respectively, compared with the same period in the previous year. SACU revenue, on the other hand, has increased by 36 percent compared to the same time in 2016/2017.

Table 2: Revenue Performance (in Millions of Maloti) Cumulative over 3 quarters

REVENUE ITEMS	2016/2017 SECOND QUARTER	2017/2018 SECOND QUARTER	GROWTH IN PERCENT
Tax Revenue	5 146.00	4 832.40	-6%
Grants	670.6	611	-9%
Other Revenue	1 419.50	1 122.90	-21%
SACU	3 389.20	4 615.60	36%
TOTAL REVENUE	10 625.30	11 181.90	5%

Tax Revenue

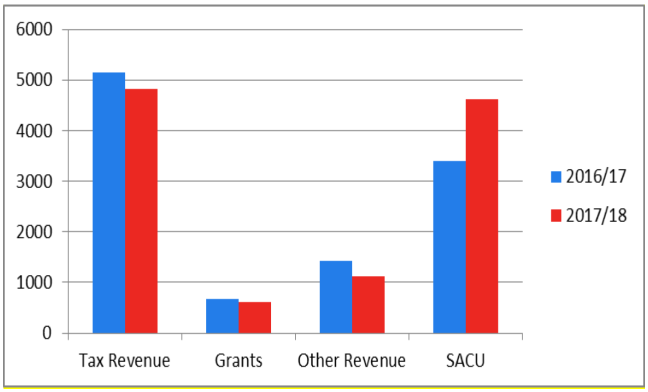
In the past nine months, revenue performance is 6 percent lower than revenue collected last fiscal year in the same period. M 5,146.0 million was collected in 2017/18 in comparison with M 4,832.4 million collected in 2016/17. To date, all major revenue sources have not performed as envisaged relative to the previous fiscal years.

Collections from Lesotho Revenue Authority (LRA) depict a consistent decline similar to 2016/17, which are projected also to lead to collections below the target in 2017/18. The culprit being low collections from Corporate Income Tax (CIT).

Reasons for missing CIT target in 2017/18 largely revolve around the mining sector:

- diamond prices not recovering from 2016/17;
- appreciation of Rand to US dollar; and
- extraction of low quality stones.

Table 3: Revenue performance (in Millions of Maloti)



Other Revenue

Other revenue has not performed in line with the forecast and is lower than the performance of the last fiscal year. The main reason being that Property Income collected was, by far, below last fiscal year`s (2016/17) levels. Property Income and sales of goods and services generated M 594 million and M 812 million, respectively. This current fiscal year to date (2017/18), property income and sales of goods and services have produced M 220 million and M 892 million respectively. Even though sales of goods and services increased by M 80 million above those of last fiscal year, the growth was not enough to increase the total value of `other revenue.

SACU

SACU revenue was mainly driven by increased private consumption in RSA. Going forward, it is projected that the SACU revenues will decline because of the revision of the sharing formula between member states. There is already an indication of this outlook based on the downward forecast for 2018/19, which has been revised to M 5,583.4 million from the current M 6,154.20 million.

Grants

These are donor grants from development partners which are divided into two categories, namely, budget support and capital grants. Budget support can either be recurrent or capital budget, while grants are directed for the development component of the budget. Total grants decreased from last fiscal year same period. Grants amounted to M 670.6 million in 2016/17 against M 611.0 million in 2017/18. This represents a decline of 9 percent in total grants. Total grants did not perform as forecasted. However, it should be noted that there is a persistent problem of under reporting by the spending units.

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

Table 4: 2017/2018 Third Quarter Recurrent Budget Performance

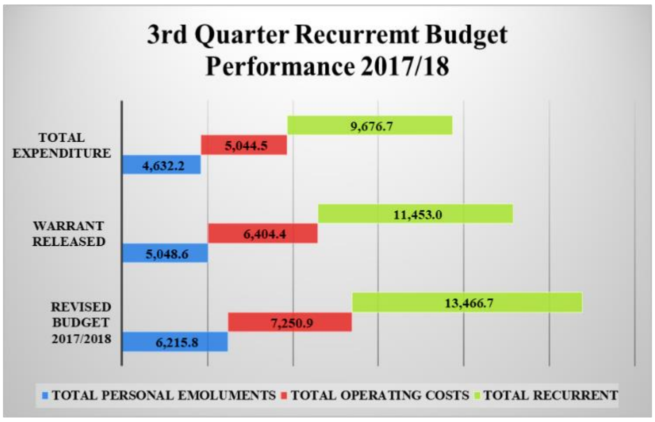
3rd Quarter Recurremt Budget Performance 2017/18

	Approved Budget 2017/2018	Revised Budget 2017/2018	Warrant Released	Total Expenditure	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
TOTAL PERSONAL EMOLUMENTS	6,208.8	6,215.8	5,048.6	4,632.2	1,167.2	92%	75%
TOTAL OPERATING COSTS	7,298.2	7,250.9	6,404.4	5,044.5	846.5	79%	70%
TOTAL RECURRENT	13,507.0	13,466.7	11,453.0	9,676.7	2,013.7	84%	72%

Source: Ministry of Finance; Budget Department

The Recurrent Expenditure for the third quarter amounted to **M9, 676.7** million, which is **72 percent** of the Approved Budget and **84 percent** of the Released Warrant **(M11, 453.0 million**), respectively, as per Table 4 above and figure 2 below. The current year performance of **72 percent** shows a marginal improvement from **69 percent** in the same period **in 2016/2017**. Generally, 2017/2018 Recurrent Budget performance has improved from 2016/2017 same period by 3 percent.

Figure 2: 2017/2018 Second Quarter Recurrent Budget Performance



Although, as a trend, ministries tend to spend all their budgets under wages and salaries, there are a few ministries/offices which appear to spend below 70 percent of their allocated personnel emoluments and they include; His Majesty's Office, Public Service Commission and Ministries of Finance, Trade and Industry, Labour and Employment Gender and Youth, Sports and Recreation, Mining, Water and Small Business Development, Cooperatives and Marketing. This is mainly caused by a high vacancy rate and some delays in filling those funded positions.

There are also other ministries/offices that did not perform as expected on operating costs. Some of the reasons for underperformance on Operating Costs is largely caused by seasonal expenditure, such as payment of Microsoft licenses that are normally paid in the last month of the year. The other reasons for the slow performance on operating costs, particularly in the Ministry of Agriculture and Food Security, is due to the fact that the country is experiencing little rains/drought while preparing for the summer cropping, and much farming activity has not happened in the fields.

However, there are still other Ministries such as Ministries of Trade and Industry, Small Business Development, Cooperatives and Marketing, Pensions and Gratuities and IEC, which have performed well above expectation due to the following reasons:

- Supplementary budget to pay for the duty credit certificates in the Ministry of Trade and Industry;
- Payment of some outstanding bills from recently conducted Local Government elections and the 2017 by-elections for the three constituencies;
- Payment of the outstanding bills for the subsidy which was meant to address the drought from 2015, and which continues to persist in 2018; and
- Arrears of old age pension which were not paid from April to July 2017 due to delays in budget approval.

However, there are some heads such as Principal Repayments, Interest and Subscriptions to International Organisations which currently are still spending outside the IFMIS system due to the technicality in the interface between the IFMIS and the Public Debt system. This problem continues to undermine the reporting and the coverage of the budget.

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

Table 5: 2017/2018 Third Quarter Capital Budget Performance

3rd Quarter Capital Budget Performance 2017/18							
	Approved Budget 2017/2018	Revised Budget 2017/2018	Warrant Released	Total Expenditure	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
GOL	3,433.1	3,468.6	1,963.0	1,909.8	1,558.8	97%	55%
DONOR GRANTS	1,035.1	1,035.1	43.2	16.6	1,018.5	38%	2%
DONOR LOANS	874.4	874.4	40.2	-	874.4	0%	0%
TOTAL CAPITAL	5,342.6	5,378.1	2,046.4	1,926.4	3,451.7	94%	36%

Source: Ministry of Finance; Budget Department

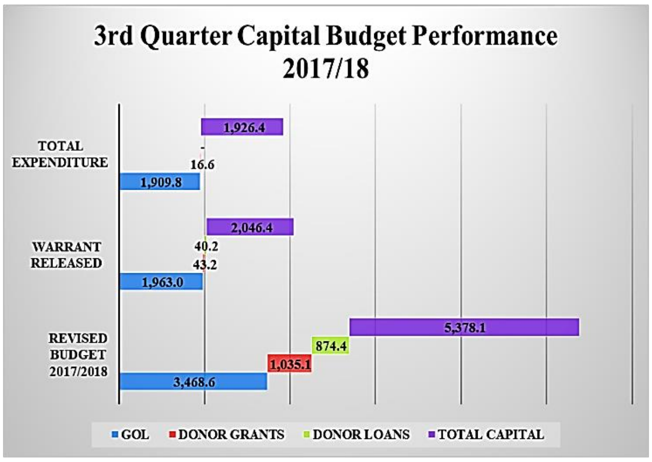
The third quarter Government of Lesotho Capital Budget performance is **M1, 909.8 million,** which is **55 percent** of the total revised budget and **97 percent** of the warranted released, respectively. This spending is the approved Government of Lesotho funded capital budget of **M3, 433.1 million.** Donor grants and Donor Loans continue to perform well below the expectation at 2 percent and zero percent, respectively.

Compared to the same period in 2016/2017 Capital Budget, performance was **81 percent** of Government of Lesotho funded expenditure. This indicates a lower budget execution compared to the same period of last financial year. The reasons for this lower spending pattern largely emanated from reluctance of ministries to spend their budget before it was approved. But is also important to note that during the same time last year, there was a reallocation from slow spending projects to fast performing projects.

It is worth noting that Ministries of Agriculture and Food Security, Education and training, Communications, Science and Technology, Public Works and Transport, Energy and Meteorology, Social Development, and Water have performed extremely well in this quarter, they are above the expected 75 percent of the total approved capital budget.

This increase in spending is attributed to a number of reasons: i) payments of outstanding bills of road construction; ii) payments of outstanding water tankers bills accumulated from 2016/17 financial year; iii) fast tracking of project activities in the energy sector (See table 5 above and figure 3 below).

Figure 3: 2017/2018 Second Quarter Capital Budget Performance



However, despite this general satisfactory performance, there are some ministries which continue to underperform as a result of either having not requested any funds or having not utilized the warranted funds. This is caused by budgeting for projects which are not ready for implementation. The kind of projects appear not to have either designs, land, etc., and this continues to be a big problem in government projects, which intrinsically demonstrates weaknesses in planning.

It should also be noted that expenditure for Donor Grants and Loans continues not to be fully recorded in the IFMIS 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. This problem is expected to be eliminated in the IFMIS upgrade which is expected to be implemented in 2019/2020 budget implementation.

Section 3 – PFM Reforms

Important progress continued to be registered in the implementation of the PFM Reforms during the review period. But there is obviously need for much more intensified effort required from the departments and for them to note that it is the extent of quicker implementation that the direly needed improvements can be achieved in the PFM system.

Component 1 – PFM Regulatory Framework Updated to Underpin PFM Reforms – During the reporting period, Cabinet cleared drafting of the amendments of the PFMA Act, and the Ministry of Finance's Legal Department has since prepared drafting instructions for action by the Parliamentary Drafting Counsel in the Ministry of Law, which would then be tabled to Parliament to be enacted as part of law.

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 during the reporting period: i) A short term expert was engaged during the month to assist the Macroeconomic Policy and Management Department with macroeconomic model. The purpose of the assignment is to review and strengthen the modelling capacity of the department to improve the quality of macro-fiscal forecasting, analysis and reporting and subsequently support credible macroeconomic and fiscal policy formulation; ii) Following deployment of the Softech consultants from August 2017, training on the Central Budget Management System (CBMS) was conducted with the view to introducing the Budget staff to the system and also ensuring that the system did in fact cover all aspects of the user requirements submitted to the vendor earlier. IFMIS Data was collected and work plan for configuration and testing agreed. This gave an opportunity to the Desk Officers in the Budget Department to familiarize themselves with the application and suggest improvements before the training could be given to the other MDAs. The sessions were very useful and a number of suggestions were made to the vendor. The training for all the MDAs was subsequently done during the quarter. All ministries across government have been trained on the system and the 2018/19 budget has been prepared based on this new system which is also planned to be interfaced with the Upgraded IFMIS for budget implementation purposes. One important feature of th e CBMS is that it compels the ministries (or spending units) to observe the budget ceilings, which was a serious challenge in previous years; iii) Under the EU funding, the Public Debt Department held a one-week workshop on Debt Sustainability Analysis (DSA). This was the second and follow-up DSA workshop since the beginning of the PFM reform project, which seeks to monitor and evaluate the sustainable path of debt in Lesotho, with the view to taking necessary measures to avoid any financial pitfalls in the short to medium term; and iv) Eight (8) Private Sector Development (PSD) Department officers attended a one-week training on Effective Risk Management (ERM) at the University of Pretoria in South Africa. The main objective of the training was to equip the participants with the skills to better manage and improve the performance of the State-Owned- Enterprises (SOEs) in Lesotho, through better risk assessment and management processes that are consistent with best international practices.

Component 3 - Cash flow forecasts a major determinant of internal debt and financial investment – The following activities were carried out under the component in the reporting period: i) Follow-up on financial reporting to address gaps identified during compilation of consolidated financial statements for FY2016/17. These included specific discussions and agreement on classification changes with Public Debt and Budget Department. Workshops were also held with all Spending Units on common problems;

- Continuation of revenue bank account reconciliation – 20 of the 26 bank accounts reconciled to 31st March 2017 and processes to ensure timely reconciliation of the 2017/18 revenue deposits;
- Following the successful testing of the CBL bank statement, new expenditure accounts have been opened and operated from early October with objective of ensuring regular and timely reconciliation;
- Two-week follow up mission on efficiency and security of payment processes commenced on 30th October. The mission reviewed progress made since February 2017 and recommended improvements; and
- The same team reviewed the piloting of month closure procedures piloted by IFMIS Application Team during September/October and proposed improvements.

ii) The Liquidity Forecasting Committee was established and met for the first time during the quarter. It looked into the information on the actual monthly cash flows and balances for 2017/18 and forecasts for the remainder of the fiscal year. Proposal were made for containing 2017/18 expenditures and improving future cash flows and reporting. Provision of information to the Committee benefitted from improvements implemented on revenue accounting, monthly consolidated expenditure reports and gaps identified during the 2016/17 accounts closure.

Component 4 - Strengthening of Internal Controls for Operational Efficiency and Effectiveness – The following activities were undertaken during the reporting period: i) As an ongoing capacity development through the assistance of the African Development Bank (AfDB), twenty-four (24) internal auditors attended modules 4 and 5 of the eight (8) modules of the Internal Audit Technician training offered by the Leadership Academy for Guardians of Governance of South Africa. The other three (3) modules had already been successfully delivered. As indicated, this is part of the ongoing capacity building of the internal audit function underpinning professional training which embraces decentralization of the cadre across government for a more effective role of advising Chief Accounting Officers (CAOs) on internal controls and risk management systems and implementation; and ii) A consultant for development of the IT Audit Manual was engaged during the month. The purpose of the assignment is to assist Internal Audit function in the Ministry of Finance to develop a comprehensive Information Technology (IT) audit manual and provide a comprehensive training on how to use the manual. This will enable Internal Audit to discharge its mandate in an efficient and effective manner when auditing IT environment.

Component 5 - Accounting and Fiscal Reporting Compliant with Regulatory Framework and Accounting Standards – The following activities were carried out under the component during the reporting period: i) to help resolve the technical challenges experienced in the EFT, Soft Tech sent a resource person for two weeks, from the 20th November to the 1st December 2017. There has, therefore, been some progress in making the changes to the configuration of the system, but there have been delays on the side of Government in approving and rolling out the changes to the production environment; ii) Treasury held workshops with finance staff from Spending Units to finalize inventory of bank accounts and emphasize the reporting requirements for bank accounts operated outside IFMIS. Treasury also signed-off in-year reporting formats and their importation into IFMIS. However, the absence of comprehensive daily listing of government bank account balances limits Treasury oversight and ability to manage the aggregate cash. Requests have been made to CBL and should be feasible as new core banking system stabilizes; iii) The World Bank Supervision mission visited Lesotho in December to assess progress being made in the project following project extension. The mission concluded that there was good progress in the following areas: a) introduction of the CBMS to be used for capturing the 2018/19 budget although full functionality be addressed when Epicor 10 is configured; and b) opening of the new CBL bank accounts, and reconciliation is being done on these new bank accounts. There was also some progress in the following areas: a) piloting of the Electronic Funds Transfer piloting, including resolution of issues and that internal and external audit should come and take stock once the issues are resolved; and b) month end closures – six ministries are being piloted, and there is need to roll-out to the rest of the line ministries. However, the mission noted that there was need to urgently address the following areas: a) procurement of servers and end user equipment; and b) business process re-engineering needed to be urgently done, with a champion, especially on the side of the line ministries. The aide memoire is expected during January 2018; iv) Engagement of the Risk and Quality Assurance consultant. The Risk and Quality Assurance Consultant will assist the Project Manager during the implementation and for a period after go-live of the upgraded Epicor system, with the specific purpose of project risk management and quality assurance. The consultant will be expected to monitor risks and assess quality of work related to key project activities, including – (a) IT audit; (b) EFT Audit;

(c) Business Process Reengineering; (d) WAN extension and data center set-up; (e) data clean up and conversion; (f) training and change management; (g) Epicor configuration and (h) financial controls, accounting and reporting, including proper configuration and implementation of the Epicor system to provide a platform for the consolidation of the financial position of the Consolidated Fund, the creation of a Treasury Single Account (TSA) to obtain effective control over government cash resources and the effective incorporation of the budget and procurement into the system to ensure effective expenditure control.

Component 6 - Alignment of Public Procurement with International Best Practice – The draft Public Procurement Policy was submitted and approved by Cabinet. This paves way for drafting of the Procurement Bill by the Parliamentary Counsel and submission to Parliament for enactment. Drafting instructions will be issued shortly by the Ministry to the Ministry of Law Parliamentary Counsel.

Component 7 - External Audit and Oversight Compliant with INTOSAI Standards (ISSAI) – The Procurement Audit consultant was engaged in the Office of the Auditor General to equip auditors in the effective undertaking of Procurement Audit, and to provide on the job-training or mentoring for three teams of auditors in both performance and regularity audits for a period of three months.

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 in the reporting period: i) The Improvement and Reform Steering Committee (IRSC) held its quarterly meeting on the 30th October 2017 to assess progress being made in the implementation of both the PFMR and PSM Projects. It is important to note following the decision of the IRSC in its meetings of 07th August and 04th September to adopt the "Reform Tracking Tools" for both projects, the 30th October was the first meeting where the tools were used as basis for assessing progress. It is also important to mention that after eight (8) IRSC meetings, it was in this meeting where the Heads of Department were made to report and account for their performance. In previous meetings, the PFMR Secretariat used to report on behalf of the departments, and this had dire implications for implementation and accountability; ii) An African Development Bank Group Supervision mission visited Lesotho from 30th to 31st October 2017 to review implementation progress of the Institutional Support for Enhancement of Public Financial Management Project (ISEP), and also to attend the IRSC meeting. The mission also reviewed the Economic Diversification Support Project (EDSP), which is implemented under the Ministry of Trade and Industry. Implementation of the ISEP is rated satisfactory, although it is critical that the components improve development of their respective ToRs to expedite procurement of consultants for various assignments; iii) Following the resolution of the IRSC meeting of 04th September 2017 for government to prepare a multiple-year follow-on Public Financial Management Reform Action Plan (PFMRAP), the Principal Secretary wrote to the Fiscal Affairs Department (FAD) of the IMF to help develop a follow-on phase of the PFM reform programme. The reform is expected to cover the five years from April 2018; identify priority reforms that are required to improve the credibility of the PFM system; be informed by the recent PEFA and Internal Midterm Review exercises; acknowledge the ongoing and expected future donor support; and pay attention to maximizing the benefits and managing the risks of the IFMIS upgrade implementation. The draft report was produced together with the associated plan for consideration by Government; iv) As part of a process of building capacity within the component, a workshop on Drafting Terms of Reference was conducted during the quarter. The training covered sixteen (16) HR professionals. The output of the workshop was three (3) completed first draft terms of reference (ToRs) for training identified under PE2. These first drafts were used to prepare final documents for submission to the PFMRS and the EU National Authoring Office (NAO) for final approval; v) To expose the officials in the Ministry of Finance to the Public Expenditure and Financial Accountability (PEFA) framework, three (3) officers from the Cash Management, Budget Office and Planning Unit attended a three-day training on framework. The purpose of the training was to equip participants with in-depth understanding of PEFA; characteristics of the PEFA framework, managing the PEFA assessment process, preparing the PEFA report and analyzing PFM performance, tracking PFM performance changes over time, PFM and PEFA and country experience and Plans; vi) A four-day training on Positive Employee Relations was held in Thaba-Bosiu at the 'Melesi Lodge and delivered to sixteen (16) HR professionals. Facilitated by a team of two trainers, the workshop was very practical-oriented, making use of tested processes and methodologies rooted in human behaviour and organisational psychology. The final Training Report prepared by the experts was delivered in December, 2017; vii) On the invitation of the Principal Secretary of Finance, a presentation on Change Management was delivered on 19th November to Principal Secretaries and other senior government officials at an Induction Retreat held in Leribe. The presentation was followed by a question and answer session, most questions from the 40+ audience focused on the effective management of resistance to change within organisations; viii) Following the request signed by the Minister in November 2017 for extension of the ISEP Project, the AfDB has responded and approved the extension to 20th June 2019; and ix) Audit of the PFM and PSM Projects Financial Statements for 2016/17 were concluded by an external auditor commissioned by the Office of the Auditor General. The audit is unqualified. Copies of the audit report have been submitted to the Development Partners involved in the two projects.

Section 4 – Public Sector Modernisation Project (PSMP)

Component 1 – Strategic Planning and Fiscal Management – Following declination of the position of the NSDP Coordinator in August 2017 and withdrawal of candidates during the ensuing recruitment process in the subsequent months, the position has ultimately been filled with effect from December 2017. However, the Local Economic Advisor who had already done substantial work of the plan also resigned and left the NSDP as at end December 2017.

Component 2 – Improvement of Human Resource Management –The activity under the component during the reporting period was the engagement of the Biometric Census Risk Management consultant. The objectives of the assignment are to: a) assist the Ministry of Public Service to review all preparatory activities necessary for smooth implementation of the census; b) assist in laying the ground in all areas of the census and provide guidance on the pilot exercise; c) assist in contract negotiations with the identified HR firm for the census; d) assist to review census plan and budget in consultation with HR firm; e) assist the Ministry of Public service to identify requirements for the census process; f) monitor census implementation and risk management; and g) assist technical team in monitoring implementation and verification of outputs.

Component 4 – Strategic Implementation Support - A World Bank Mission visited Lesotho during the reporting period with the main objectives to: (a) assess the macroeconomic developments in Lesotho, (b) discuss the main findings of the PER; and (c) review the progress made on implementation of the Public Sector Modernization Project. The mission organized two workshops on October 3rd and October 5th to share and discuss the findings of the PER. The workshops presented and discussed macro-economic outlook, public investment management, tax policy, public employment and wage bill management, and education spending. Implementation of the PSMP has been rated satisfactory. Requests for training under the PSMP has continued to be a challenge as most of these requests were not necessarily consistent with the Development Objective of the project, and in a number of cases components appearing to have a preference of attending international courses, which are rather costly as they involve airfares and per diems. In light of this challenge, the World Bank and the PFMR Secretariat agreed to develop guidelines for selecting training courses as well as reporting to ensure that any investment in training achieves the Project Development Objective (PDO) of the PSMP. It is important to note that given the bulk of capacity building under the project, the returns of such investment should be optimized to ensure that the project meets its intended objective.

Conclusion on the PFMR and PSM Projects

Although there is need for intensified effort, there continues to be important progress in certain pockets of both the PFM and PSM Project implementation. The IMF Multi-Year Follow-up PFM Action Plan mission, which was in the country during the reporting period, has also pointed to the fact that, while there has been progress in some areas of the reform, there is need for specific short term measures to curb some inherent fiscal risks around Budget implementation, Financial Reporting and Cash Management. It is important that when the IMF mission's recommendations are taken onboard, there are definitive efforts to correct the situation, including adopting corrective institutional processes in the medium to long term so that implementation momentum can be entrenched and sustained.

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