GOVERNMENT OF LESOTHO

2016/17 FOURTH QUARTER PERFORMANCE

BUDGET AND FISCAL BULLETIN

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Foreword from PS Finance

Quarterly budget and fiscal bulletins are now being entrenched into the institutional arrangements of the Government of Lesotho macro-fiscal management. Since their introduction in 2015/16 under the ongoing Public Financial Management (PFM) Reforms, the bulletins have been consistently produced and published. This notwithstanding, more effort is required to make continuous improvement in their timely production and publication so that they become 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 continues to be very challenging resulting to not so very favourable regional and global economic developments. However, the government is committed to addressing these challenges, and 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 fourth quarter of 2016/2017. It also highlights developments in the global and domestic economy in the fourth quarter of 2016/2017. 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 2015/16.

The bulletin continues to support the efforts of good governance and the need for fiscal transparency. For availability and accessibility please visit: http://www.finance.gov.ls or http://www.gov.ls

The bulletin is divided into three sections. Section one discusses the macroeconomic outlook and issues that correspond with the submission of the FY 2016/17 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 fourth quarter of FY 2016/17.

The 2016/17 fiscal year's total approved expenditure budget is M 17,190 million, of which the recurrent budget is M 12,396 million and the capital budget, is M 4,793 million. This compared with a total of M 16,719 million for fiscal year 2015/16 indicates an increase of about 3 percent. For the recurrent budget, the year-on-year growth is nearly 3 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 13,370.8 million which is a decrease of 7 percent over the 2015/16 approved target of M 14,402.2 million.

Section 1 – Macroeconomic Developments

Lesotho's economic growth pattern remained low witnessed by a mixed bag of economic factors not different from its neighbours. A combination of the declining GDP growth rate and the downward revision of tax buoyancy have reduced the tax collections by M1, 214.5 million. The revenue estimated target for this year was M14, 040 million despite the actual collections of M15, 254.7 million in 2015/16.

Revenues for the quarter under review fell short and recorded M13, 359.5 million, against the expected outturn of M16,684.6 million. While in the same period of last year the collections were at M15,413.7 million. This deterioration in revenues stemmed mainly from the reduced SACU revenue, coupled with slow economic activity which also negatively affected domestic revenues.

Budgetary Operations: January - March 2017 Millions of Maloti	
Revenue	13 359.5
Expenditure	14 372.5
of which	
Recurrent	11 633.1
Capital	2 739.4
Budget Balance	-1 013.0

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

The overall fiscal balance for this fiscal year is estimated at M-1,013.0 million owing to lower than anticipated expenditure especially with regard to the Capital budget. It is important to note that a combination of lower than budgeted revenue collections and over-spending relative to appropriations have resulted in a deficit which are far higher than approved estimates by Parliament. This affects undermines the issues of Public Financial Management programmes and is counterproductive.

Section 2 – Budget and Fiscal Developments

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

During the quarter under review, the total revenue collections recorded M3,426.6 million, reflecting deterioration in revenues as opposed to the corresponding period of the previous year. This is also an under performance in comparison to the revenue target of M4,170.7 million. The significant drop in total revenue is a result of the decline in Other Revenue, SACU and Grants (see table 2).

Figure 1: Revenue Shares (in Millions of Maloti)

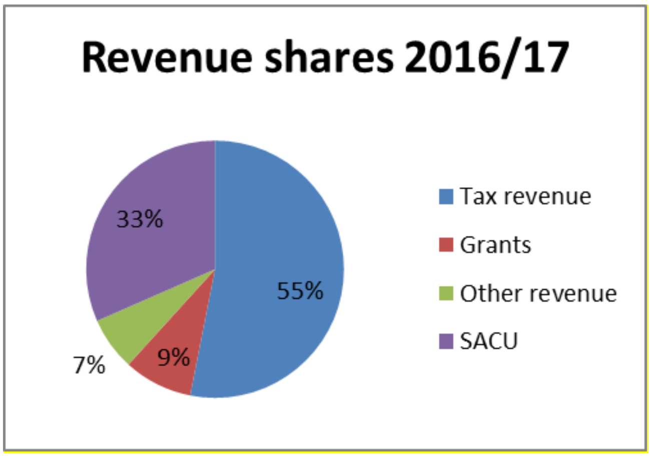


Figure 1 illustrates the total revenue shares for this quarter, revealing a shift in the revenue composition, where Tax revenue takes the lead, contributing around 55 percent of the total reve-nue followed by SACU with 33 percent, Grants with 9 percent and Other revenue with 7 percent.

National revenue components did not perform as expected only Tax revenue grew by 7.8 percent from the previous year. While other revenue fell by 35 percent against last year's actual collec-tion, followed by SACU with 28.4 percent and Grants registered a decline of percent.

Table 2: Revenue Performance (in Millions of Maloti)

Revenue Items	2015/16 Annual	2016/17 Annual	Growth in Percent
Tax Revenue	1,762.7	1,899.5	7.8%
Grants	226.7	182.4	-19.5%
Other Revenue	330.9	215	-35%
SACU	1,577.1	1,129.7	- 28.4%
Total	3,949.1	3,426.6	-9.5%

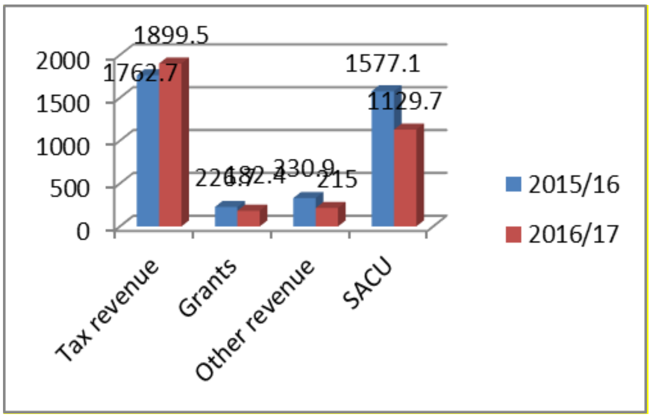
Tax Revenue

Even though Tax revenue presents a slight growth, it did not perform as expected recording M1, 899.5 million it still fell short of quarterly target of M2, 504.8 million. The shortfall in the collections was observed in CIT recording M200.0 and it has shown a deep dent in its per-formance as compared to the previous quarterly performance and year on year performance. Cor-porate income tax collections remained sluggish, owing to lower provisional payments from mining sector due to contracting diamond prices and the dollar to Loti depreciation.

Personal income tax increased firmly and ex-ceeded the quarterly target by M27.5 million reaching M524.5 million. The higher collections stemmed from a substantial increase on Public administration, wholesale and Retail as well as Financial and Insurance.

VAT fell below the yearly target by M10.7million and also against the same period of the previous year. This is due to weakening or slow growth financial sector and telecommunication.

Table 3: Revenue performance (in Millions of Maloti)



Other Revenue

Non-tax revenue which is collected by ministries, was expected to register M255.6 million 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 M215 million which is a decline of 35 percent (see table 2) and a 16 percent shortfall against target of M255.6 million. This decline in the collection is mainly due to the inefficiencies by ministries mandated to collect the tax as well as capabilities of the ministries to provide those services.

SACU

SACU quarterly revenues remain unchanged as in the last three quarters. The revenue remain lower compared to the previous year as they are influenced by the regional and global economic performance and are also predetermined based annual forecasts. During the second quarter, SACU recorded M1,129.6 million, which is 28 percent decline than M1, 599.5 million in 2015/16. This follows the declining economic developments in the South African econ-omy affecting the size of the pool.

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

Table 4: 2016/17 Fourth Quarter Recurrent Budget Performance

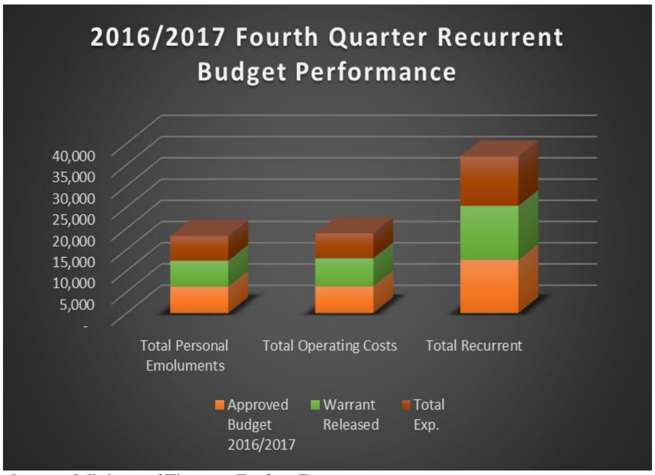
Expenditure Type	Approved Budget 2016/2017	Revised Budget 2016/2017	Warrant Released	Total Exp.	Warrant Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
Total Personal Emoluments	5,950.0	6,191.7	6,119.5	5,798.8	320.7	95%	97%
Total Operating Costs	6,446.0	6,779.9	6,643.2	5,877.2	766.0	88%	91%
Total Recurrent	12,396.0	12,971.6	12,762.6	11,676.0	1,086.6	91%	94%

Source: Ministry of Finance; Budget Department

Total recurrent budget performance reflects an expenditure of M11, 676 million at the end of the fourth quarter which is 93 percent of the approved budget of M12, 396.0 million. The revised recurrent budget increased to M12 972 million due to movement of funds from and within the recurrent budget to finance the extra budgetary requirements as per the cabinet decision of 29 November 2017. The other reason for was for Government to finance the 2017 snap elections.

Personal Emoluments and Operating Costs are at 93 percent and 94 percent of the approved budget respectively. Personal Emolument performance is generally satisfactory while operating costs performance indicates a slightly low performance than anticipated. This is due to heads (Principal Repayments, Interest Charges, and Subscriptions to International Org) which spend outside the IFMIS because of technical problems in the IFMIS and the change of system at the Central Bank of Lesotho therefore public debt could not be reconciled immediately. (See Table 4 above and figure 2 below). The total recurrent expenditure excluding public debt and subscriptions to international organizations heads is 101%. Recurrent Budget performance is generally satisfactory.

Figure 2: 2016/17 Fourth Quarter Recurrent Budget Performance



Source: Ministry of Finance; Budget Department

After movement of funds within and outside the recurrent budget, there are some exceptional ministries that have performed below the expected quarterly warrants on Personnel Emoluments and Operating Costs.

On the other hand, it is worth mentioning that ministries of Finance and of Small Business Development, Cooperatives and Marketing, have high expenditures which is caused by the following reasons:

- Ministry of Finance over expenditure is attributed to the payments of short-term hire towards Bidvest Bank Limited for providing fleet management service to the Government and subvention to Lesotho Revenue Authority which was caused by some improvements that the authority is currently engaging to increase revenue collections; and
- Ministry of Small Business Development, Cooperatives and Marketing continues to finance the food subsidy on maize meal and some selected grains, that was approved by Cabinet of about M162 million and only M118.0 million released.
- Independent Electoral Commission for financing the 2017 snap elections.
- Ministry of Defence for procuring the cyber security system.

- Ministry of Law and Constitutional Affairs paying for services towards the Swiss borrow case.

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

Table 5: 2016/17 Fourth Quarter Capital Budget Performance

Expenditure Type	Approved Budget 2016/17	Warrant Released	Total Exp.	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
GOL Total	2 961.6	2 676.2	2 659.1	302.5	99%	90%
Donor Grants Total	1 169.5	78.8	69.8	1 099.7	89%	6%
Donor Loans Total	933.6	13.4	10.6	923.0	79%	1%
TOTAL	5 064.7	2 768.3	2 739.4	2 325.3	99%	54%

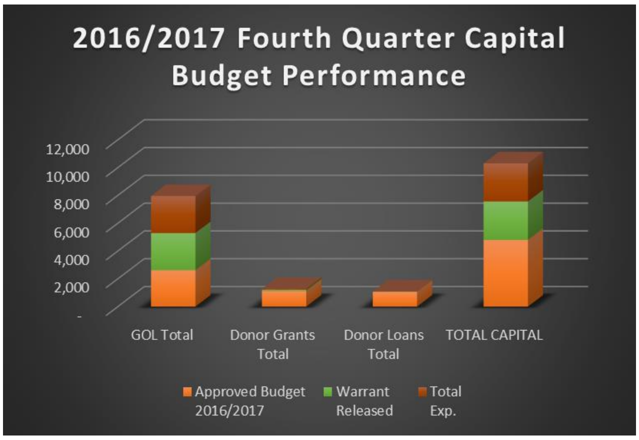
Source: Ministry of Finance; Budget Department

The fourth quarter overall capital performance is M2, 739.4 million which is 54 percent of the total approved capital budget of M5, 064.7 million. It constitutes 90 percent reflected under GOL funding, 6 percent expenditure under donor grants and 1 percent under the loan funded projects. The low performance is the result of donor funded projects that are being managed outside the IFMIS system and, which although reconciliation is done, the reports are not consistently submitted for capturing into IFMIS. The ministry of Finance is still trying ways to include the donor funds to be spend in the IFMIS with the upgrade IFMIS.

Ministries which performed well above the expected 75 percent under GOL are i) Ministry of Finance, ii) Ministry of Development Planning; iii) Ministry of Home Affairs iv) Ministry of Public Works and Transport; v) Ministry of Forestry and Land Reclamation; vi) Ministry of Energy and Meteorology; vii) Ministry of Tourism; viii) Ministry of Local Government and Chieftainship Affairs and ix) Judiciary. This outstanding performance is attributed to a number of reasons such as i) population census which has just ended; and ii) fast tracking and improvements of certain activities like National Identity registration, electricity installation, construction of National, urban, rural roads and national museum and iii) ending of the construction of Tŝifa-li-Mali court.

Ministry of Finance was given additional funds to finance Lesotho Millennium Development Authority for payments of contracts geared towards the maintenance health centres across the country. His Majesty's Office was also allocated addition funds to finance the continuation of construction of the Royal Palace after the disputes had been resolved. However, there was no expenditure towards the Palace beyond the approved budget. The rest of the Ministries performed under 75 percent. 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: 2016/17 Fourth Quarter Capital Budget Performance



However, despite this general satisfactory performance, there are some ministries which have not requested any funds while others have not utilised their warranted funds.

It should also be noted that expenditure for Donor Grants and Loans continues not to be fully 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

Although important progress was made in the Public Financial Management Reform Project (PFMRP) during the reporting period, there are also important challenges as flagged in both the Public Expenditure and Financial Accountability (PEFA) assessment and the Internal Midterm Review (IMTR) reports concluded in the quarter under review.

Component 1 - Implementation of Modern Regulatory Framework – The following activities took place during the fourth quarter: i) as reported in the third quarter that arrangements were made for compliance management enrolment, one legal officer of the ministry attended a training course on compliance management offered by the University of Cape Town during January 2016. It is expected that the training will be able to help government address non-compliance of PFM legislative provisions across government; and ii) to familiarise a government-wide finance personnel with different PFM laws and also improve compliance with the PFM legislation, training for trainers was undertaken to equip resource persons across government who would provide and guide the public finances officers on a continuous basis.

Component 2 - Assurance in the Transparency and Effectiveness of Policy Orientation of the Budget (Policy Based Budgeting) – The following activities were undertaken during the reporting period; i) under the leadership of the Macroeconomic Policy and Management Department and with the assistance of the PFM Resident Experts, the draft ToRs for resuscitation of the Macroeconomic Working Group (MWG) were developed and discussed during January 2017. The ToRs are meant to expand the scope of the group on macro-fiscal issues and also to establish a Technical Working Group (TWG) to be able to provide advice to the Minister of Finance for effective macroeconomic policy; ii) as part of an on-going exercise to develop the new Chart of Accounts (CoA), a workshop was held during the reporting period where an expert continued to assist the Technical Working Group (TWG) to finalise the CoA. The TWG was established earlier and consists stakeholders from various departments in the MOF and had already started scoping the requirements. The plan is to have the CoA implemented during the 2018/19 budget year under the upgraded IFMIS.

***Component 3 -* Cash flow forecasts a major determinant of internal debt and financial investment** - Through the assistance of the Resident Advisor, the Treasury continued with arrangements for implementing the TSA. An informational paper on TSA structure has been drafted to apprise cabinet and the wider audience of the process to implementing the TSA. There has also been a design of the revised structure for sub-accountancy banking arrangements, consistent with proposed TSA arrangement, including discussions with one commercial bank to test its viability. There was also a meeting with CBL to make progress on the i) TSA implementation; ii) internet banking access; iii) end of year account sweeping; iv) bank account inventory and quarterly reporting on balances; and v) opening/closing of operational bank accounts to recognize new CBL core banking system and to commence 2017/18 with cleaner set of books. Another important development during the reporting period has been the engagement of six (6) temporary staff in the Treasury to help with the bank reconciliation backlog, which is an extremely critical element of a well-functioning accounting system.

Component 4 - Strengthening of Internal Controls for Operational Efficiency and Effectiveness – Following development of the new Internal Audit Manual with the help of the consultant, the manual has been approved by Ministry of Finance Management.

Component 5 - Accounting and Fiscal Reporting Compliant with Regulatory Framework and Accounting Standards – The following activities were undertaken during the reporting period: i) following the budget module testing in December 2016, a budget execution part of the Epicor, involving procurement, accounting and financial reporting was done in January 2017. The test results are that the module will meet more than 75 percent of the user requirements; ii) at the request of the Accountant-General, a two-member IMF mission visited Lesotho comprising to provide practical guidance in reviewing critical business processes and functional user requirements for the budget and cash releases, sub-accountancy operations and Electronic Funds Transfer (EFT); and iii) the long-standing activity to sign the IFMIS Upgrade Contract between government and Softech happened during February 2017. This provide an important basis for the upgrade to start.

Component 6 - Alignment of Public Procurement with International Best Practice – The following activities were undertaken during the reporting period; i) Following delivery of the procurement tribunal assignment under Component 6 embracing the draft Tribunal Rules, Operational Tools, Advocacy and Communication Strategy and Publicity Strategy. The consultant also did training for different stakeholders including the members of the tribunal to familiarise them with these instruments. It is expected that the tribunal would now be in the position to effectively play its role of procurement dispute resolution; ii) to help professionalize the procurement function across government, support and sustain the ongoing procurement reforms, the AfDB is supporting long term professional training of procurement officers in different ministries. A concept note motivating this activity was developed during December 2016 and was discussed, finalized and approved during January 2017. A total of ninety-two (92) officers will be enrolled in February 2017 to undertake the Chartered Institute for Purchasing and Supply (CIPS) Programme with the Institute of Development Management (IDM); and iii) the draft procurement policy, procurement bill and regulations, standard bidding documents, procurement manual and procurement monitoring and evaluation framework were presented to both the management of the Ministry of Finance and Committee of Principal Secretaries by the consultant during February and March 2017, respectively, for adoption. The drafts are now ready for elevation to cabinet for approval.

Component 7 - External Audit and Oversight Compliant with INTOSAI Standards (ISSAI) – The consultancy for human resource reorganization of the Office of the Auditor-General (OAG) has been concluded and the following draft documents have been produced: i) Organizational Structure; ii) Human Resource Policy Manual; iii) Human Resource Strategy; iv) Human Resource Wellness Policy; and v) Remuneration and benefits Policy. It is expected that in light of the plan to make the OAG independent and also to be complaint with the international standards, these reforms will go a long way to improving the efficiency and effectiveness of the office.

Component 8 - Governance and Institutional Management of PFM Reforms Improved to Facilitate Ownership, Monitoring and Evaluation of Progress – Following Government's decision to conduct an Internal Midterm Review of the PFM to determine progress made so far and what required to be done to make improvements in the remaining project period, a taskforce in the PFMR Secretariat facilitated different activities in March to undertake the review. A comprehensive report of the review was produced with the endorsement of the Minister of

Finance and has also been shared with the development partners. The other important development during the reporting period was the conclusion of the Public Expenditure and Financial Accountability (PEFA) assessment report, an exercise which had started during the third quarter of 2016/17. The report has since been published on the PEFA Secretariat website at https://pefa.org/country/lesotho. Regarding change and institutionalisation of the reforms, there are steady improvements, which require intensification so that real change is actually achieved in the medium term to help with continuity and sustainability of the reforms.

Section 4 – New Public Sector Modernisation Project (PSMP)

The PSMP has three (3) main components and an implementation support component: *1) Strategic Planning and Fiscal Management; 2) Strengthening Human Resource Management; 3) Improving Statistical Capacity; and 4) Strategic Implementation Support.*

Component 1 – Strategic Planning and Fiscal Management – The following activities took place during the reporting period: i) training on Public Expenditure Review (PER) was provided by an expert to strengthen the analytical capacity of the government PER team and to ensure continuity of the PER exercise. This exercise is meant to institutionalize PER in government so that the reviews are done on an annual basis to improve the quality and efficacy of the annual budgets; ii) through the assistance of a consultant, the Ministry of Finance developed a User Manual for the Wage Bill Projection Model. The wage bill projection model is designed to serve as a tool for fiscal analysis by providing policy makers and policy analysts with the capability to; generate a baseline projection to illuminate the fiscal magnitude and potential trajectory of the wage bill over the medium term (2016-2022), analyse how the wage bill might evolve under different assumptions regarding GDP growth and policies governing hiring and compensation (i.e., to conduct sensitivity analysis around the baseline projection) and estimate the fiscal impact of potential options for reform that involve wage or employment policies; iii) as separate wage bill training was conducted during the month. The training was designed to help the trainees develop an understanding of, simulation modeling as a tool of policy analysis and the practical process by which models are developed. It was also to help the trainees to develop the capability to; update the wage bill projection model developed in November 2016 and run simulations with the model to conduct *"what-if"* analysis and to estimate the impact of policy reforms; iii) a one-day training on BOOST tool was provided by the World Bank to ensure continuity of the BOOST. This is a tool that organises the national budget and public expenditure into usable data for analysis to help with advice to the policy makers and effective expenditure management; iv) focusing on domestic revenue mobilization, the World Bank did a presentation on tax administration and provided options for improving tax administration in Lesotho in light of the dire need to increase tax revenue as SACU receipts continue to be volatile. The Bank indicated that there is a tool called TADAT that provides the performance assessment of a country's tax administration that could be useful for the LRA; and v) the World Bank did another presentation of the Public Investment Management (PIM) in Lesotho. The objective was to analyse the trend in public investment, strengths and weaknesses focusing on public investment financed by GoL, and present key policy implications for short to medium term reforms. This was a useful presentation which provided a number of options available to government under the current macro-fiscal challenges.

Component 2 – Strengthening Human Resource Management – The Ministry of Public Service started a data cleaning exercise as part of preparing for the biometric census and ensuring that the government payroll consisted legitimate employees. This is part of government's efforts to improve its wage bill and establishment management.

Component 3 - Improving Statistical Capacity - Forty temporary staff (10 Assistant Supervisors and 30 Enumerators) have been recruited to undertake data collection for Household Budget Survey (HBS). These staff have been trained on all modules of the survey and data collection has started across the country.

The fourth quarter of 2016/17 turned out to be a busy period and importantly underpinning the PEFA assessment and the Internal Midterm Review, which have both provided very useful lessons and recommendations that have to be implemented in earnest to turnaround Lesotho's macro-fiscal environment.

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