Cash management in Lesotho

The importance of effective cash planning during budget formulation and execution

CABRI

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Acronyms and abbreviations

AG	Accountant General
BFP	Budget Framework Paper
BPFMC	Building PFM Capabilities
BSP	Budget Strategy Paper
CABRI	Collaborative Africa Budget Reform Initiative
CBL	Central Bank of Lesotho
CBMS	Central Budget Management System
CM	Cash Management
CMU	Cash Management Unit
DeMPA	Debt Management Performance Assessment
GOL	Government of Lesotho
IFMIS	Integrated Financial Management and Information System
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IT	Information Technology
LMC	Liquidity Management Committee
LTC	Liquidity Technical Committee
MDAs	Ministries, Departments and Agencies
MOF	Ministry of Finance
MTFF	Medium-Term Fiscal Framework
PEFA	Public Expenditure and Financial Accountability (Framework)
PFM	Public Financial Management
PFMA	Public Financial Management and Accountability (Act)
PFMRP	Public Financial Management Reform Programme
PPAD	Procurement Policy and Advice Division
SA	South Africa
SACU	South African Customs Union
TOR	Terms of Reference
TSA	Treasury Single Account

1. Introduction

Over the past few years, Lesotho's macroeconomic situation has come under considerable strain. Given the country's economic dependency on South Africa (SA) and on receipts from the Southern African Customs Union (SACU), slower growth and the recession experienced by SA in 2017 and 2018 led to a contraction of the economy in 2017, although modest growth was achieved in 2018 (see Box 1).

Consequently, government revenue has been negatively affected, resulting in the depletion of fiscal and reserve buffers over time. Towards the end of 2017/2018, the government started to run out of fiscal space in terms of its ability to draw on deposits and fiscal reserves. So as not to jeopardise the currency peg to the rand, and given the shallowness of the local debt markets, the government could not avoid the accumulation of payment arrears. This situation has put service delivery, as well as the welfare of the whole nation, at risk. For example, a commercial supplier decides to withhold future fuel deliveries until back payments have been cleared, thereby creating the possibility of a fuel shortage.

Such a scenario could have been mitigated, although probably not completely resolved, by more active cash management (CM), as there is evidence of a large number of accounts with idle funds available to the government.

Over the past few years, the government of Lesotho (GoL) has been implementing a comprehensive set of reforms aimed at strengthening public financial management (PFM) arrangements in the kingdom. These have aimed to introduce a modern legal and regulatory framework, to ensure transparency and effectiveness in budget policy implementation, to improve cash-flow forecasts and management, to strengthen internal controls and external audit, to make the accounting and fiscal reporting compliant with accounting standards, and to strengthen procurement.

With regard to CM, it is generally recognised that this function needs to be further strengthened and, as discussed below, the situation is evolving and progress is being made on various fronts, albeit slowly. In the past, and in the absence of good systems and sound practices, CM has been the equivalent of cash rationing as a way to manage expenditure. This has impacted not only budget execution but debt management and monetary policy implementation as well as co-ordination. However, more recently the situation has eased, and cash has been disbursed in line with requests rather than availability.

This case study discusses CM arrangements in Lesotho and tries to go beyond the symptoms by asking some pertinent questions concerning challenges that are being encountered in achieving efficient CM operations.[1] Areas covered include:

- Cash forecasting and the submission of cash plans
- The creation and management of bank accounts, including reconciliation issues
- Co-ordination issues, including the close link that must exist between cash and debt management
- Efforts underway to remedy the situation.

We start by describing the legal, regulatory and institutional setup, and proceed to analyse how CM occurs in theory and practice.

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1 This case study was written by Mr José Maurel, Public Debt Management Consultant (Mauritius) for the Collaborative Africa Budget Reform Initiative (CABRI). The consultant would like to thank Ms Danielle Serebro (CABRI) and as well as all officials from the government of Lesotho for their inputs and comments. Responsibility for the views expressed in the case study and for any errors rests with the consultant.

Box 1: The Lesotho economy

Surrounded by South Africa, the Kingdom of Lesotho obtained its independence from Britain in 1966. Its population is estimated at 2.2 million (2016) with the large majority living in or in the vicinity of urban areas. The economy is dependent on the extraction of diamonds, the export of water to South Africa, workers' remittances, and custom and excise receipts from the SACU.

Customs and excise revenue within the SACU is collected and shared among members according to a revenue-sharing formula. Revenues from the SACU are highly dependent on global and regional economic developments in terms of export commodity prices. Over the ten-year period ending 2015/16, the average SACU revenue amounted to 26 percent of gross domestic product (GDP) and 47 percent of total revenue of Lesotho, an illustration of the importance of this component. However, SACU revenue is also very volatile and can result in abrupt 'changes of more than 10 percentage points of GDP' (IMF, 2017). The decline in Lesotho's share of SACU revenue has put enormous pressure on the government's budget.

After growing at 2.1 percent and 2.7 percent in 2015/16 and 2016/17 respectively, the economy is estimated to have slowed down to 0.5 percent in 2017/18. However, led by recovery in the diamond and textile sectors and construction, it is projected to grow by 2.9 percent in 2018/19.

The agricultural sector is the main source of income for most of the rural population. In recent years, foreign investment in the textile industry and commerce have created more jobs and strengthened the economy.

In such a volatile public finance environment, sound CM is a definite priority. While CM does not increase the amount of government revenue, it ensures that available cash is used efficiently, and that the government does not resort to unnecessary borrowing.

It is generally recognised that cash management needs to be further strengthened and that the situation is evolving and progress is being made on various fronts

2. Legal and regulatory framework

Lesotho's legal framework for the management of public finance is evolving. Currently, the Public Financial Management and Accountability (PFMA) Act of 2011 is the main piece of legislation that addresses transparency and accountability issues, as well as the sound management of receipts, payments, and assets and liabilities of the government. The Act is wide-ranging and covers areas such as:

- Powers of the minister and of the chief accounting officer
- Budget (content, review, approval, appropriation)
- Financial management
- Operations of the consolidated fund
- Borrowing and guarantees
- Reporting
- Audit
- Public enterprises
- Procurement

A new Public Financial Management (PFM) Bill as well as a new Public Debt Management Bill have been prepared with the aim to modernise the legal framework and are currently following the approval and enactment process.

New Treasury regulations were adopted by the government in 2014. The regulations recognise the importance of cash-flow planning in Section 13(1), which states that 'the Accountant General, in consultation with the Central Bank, the Budget Department, the Macro-fiscal Unit and other departments shall ensure the existence of a functional cash flow management framework including cash-flow monitoring for efficient and effective use of government cash resources'. Part IV of the regulations, dedicated to cash forecasting and CM, makes provision for the operation of a Cash Management Unit (CMU) within the Accountant General's Office (see Section 3).

Besides the provisions in primary and secondary legislation, CM needs to be supported by a set of manuals and guidelines to inform day-to-day operations. These documents should be widely available and periodically revised in the light of experience. Documents reviewed as part of this case study mention the existence of a CM manual, but this is not available on the Ministry of Finance (MOF) website. No budget guidelines or manuals seem to have been produced despite cash-plan templates having been devised in 2018.[2] One of the findings of CABRI's Building PFM Capabilities project is that some budget documents require considerable improvement (e.g. the budget manual does not present the budget in terms of programmes).

2 However, the circulars for both the budget framework papers and budget estimates do provide some limited guidelines regarding these two activities.

3. Institutional setup

The MOF is responsible for all aspects of fiscal and debt-management policies, including medium-term fiscal planning and the planning of investment. Key departments/units involved in CM within the ministry include:

- *The Budget Department*, responsible for budget planning, including the preparation of budget framework papers that extend fiscal planning (including the planning of investment) into the medium term
- *The Treasury*, responsible for the execution of payments, the management of the government's cash and for financial reporting
- *The CMU***,** which is part of the Accountant General's Office
- *The Public Debt and Aid Management Department*, which manages the central government's debt portfolio and is comprised of a front, a middle and a back office
- *The Macro-Economic Unit of the Department of Economic Policy*, which is responsible for undertaking macroeconomic projections and advising on the stance of fiscal policy.

The CMU, which was established in 2014, falls under the responsibility of the Deputy Accountant General. According to the 2018 Debt Management Performance Assessment (DeMPA) report, its operation was impaired initially by a lack of staff. However, the situation has improved and currently the unit is headed by the Director-CM and three assigned officers. There is a view, however, that the capacity of the unit needs to be strengthened further in order to be able to fulfil its mandate.

The functions of the CMU are as follows:

- To prepare an annual consolidated cash-flow plan based on inputs provided by spending units and agencies made up of monthly cash inflows and outflows including contingency measures
- To generate consolidated revenue and expenditure forecasts to inform Treasury decision-making processes
- To produce a monthly revision of the consolidated cash-flow plan based on inputs from spending units and agencies
- To prepare quarterly rolling cash-flow projections with weekly forecasts for the month ahead
- To update the quarterly cash plan on a weekly basis in the light of actual revenues and expenditures
- To produce and distribute in advance a revised 3-month cash plan every month
- To review financing implications on the consolidated annual cash plan and quarterly cash-flow forecast and to advise the Accountant General (AG) accordingly
- To monitor bank balances and major cash movements to ensure that they are managed in an efficient manner
- To review and monitor the daily cash position, receipts, payments and bank account balances and report to the AG.

The CMU is also intended to serve as the secretariat of the Liquidity Technical Committee (LTC) and the Liquidity Management Committee (LMC) set up in 2018.

Additional institutions are involved in government CM, including:

- *Line ministries and other revenue-collecting agencies*. There are 26 ministries in Lesotho, including the Prime Minister's Office. As discussed in this paper, they are key stakeholders because beyond their revenue collection and project implementation role, they are required to provide inputs to the Treasury for subsequent discussion in the committees involved in CM. One such agency is the Lesotho Revenue Authority, which is responsible for the collection of taxes.
- *The Central Bank of Lesotho (CBL)*. The CBL's primary objective is to achieve and maintain price stability. To attain this goal, it performs a number of functions in accordance with modern central banking practices. An important function of the central bank is to formulate and execute monetary policy for Lesotho. Other functions include issuing of currency, serving as a banker for the GoL and the commercial banks, acting as a custodian of the country's foreign reserves and ensuring supervision of financial institutions. The CBL also acts as an advisor to the government on financial issues specifically, and more generally on macroeconomic issues.

The Cash Management Unit's operation was initially impaired by a lack of staff. However, the situation has improved and currently the unit is headed by the Director-CM and three assigned officers

4. Lesotho's budgetary process

Lesotho's budgetary process is based on the medium-term expenditure framework (MTEF) introduced in the mid-2000s. The framework is often described as a 'top down, bottom up' approach in view of the consultation process that occurs between the MOF and line ministries. MTEFs typically have a three-year time horizon on a rolling basis.

Given that Lesotho's fiscal year runs from 1 April to 31 March, the budgetary process starts in April/May with Cabinet's approval of the budget calendar for the next budget and a review of the MTEF. This is followed by the MOF and the Ministry of Development Planning preparing the Budget Strategy Paper (BSP). The BSP is a key document which sets out the country's policy goals and strategic priorities for the forthcoming fiscal year. It includes an up-to-date assessment of recent macroeconomic and fiscal performances as well as the macroeconomic outlook for the coming years. The BSP requires Cabinet approval, which is usually obtained around June/July.[3]

Once the BSP has been approved, around August, the MOF sends out a call circular for Budget Framework Papers (BFPs).[4] The 2019/2020 circular describes the BFP as 'an instrument that facilitates the alignment of identified national priorities to resource allocations'. The ministries are given indicative ceilings within which they need to indicate their priorities. The ceilings are then revised in an iterative fashion. Prior to 2018/2019, BFPs were compiled using spreadsheets, but now they will be designed within the Central Budget Management System (CBMS). Using the BFPs that have been prepared by ministries, departments and agencies (MDAs), the MOF then proceeds to update the medium-term fiscal framework (MTFF).

Around September/October, the MOF issues a call circular for budget estimates which also requires Cabinet approval prior to dissemination to MDAs. The latter are required to submit to the MOF estimates of revenue and expenditure broken down by programmes and sub-programmes for the next three years.[5] The estimates are discussed with MDAs, adjusted and submitted to the Budget Committee of the Cabinet and to the Cabinet for approval in January/February.

Budget estimates are presented to Parliament for debate by February/March. Once the estimates are approved, the MOF prepares the Appropriation Bill and, when this is passed, the Law Office publishes the Appropriation Act.

Figure 1 summarises the budgetary process.

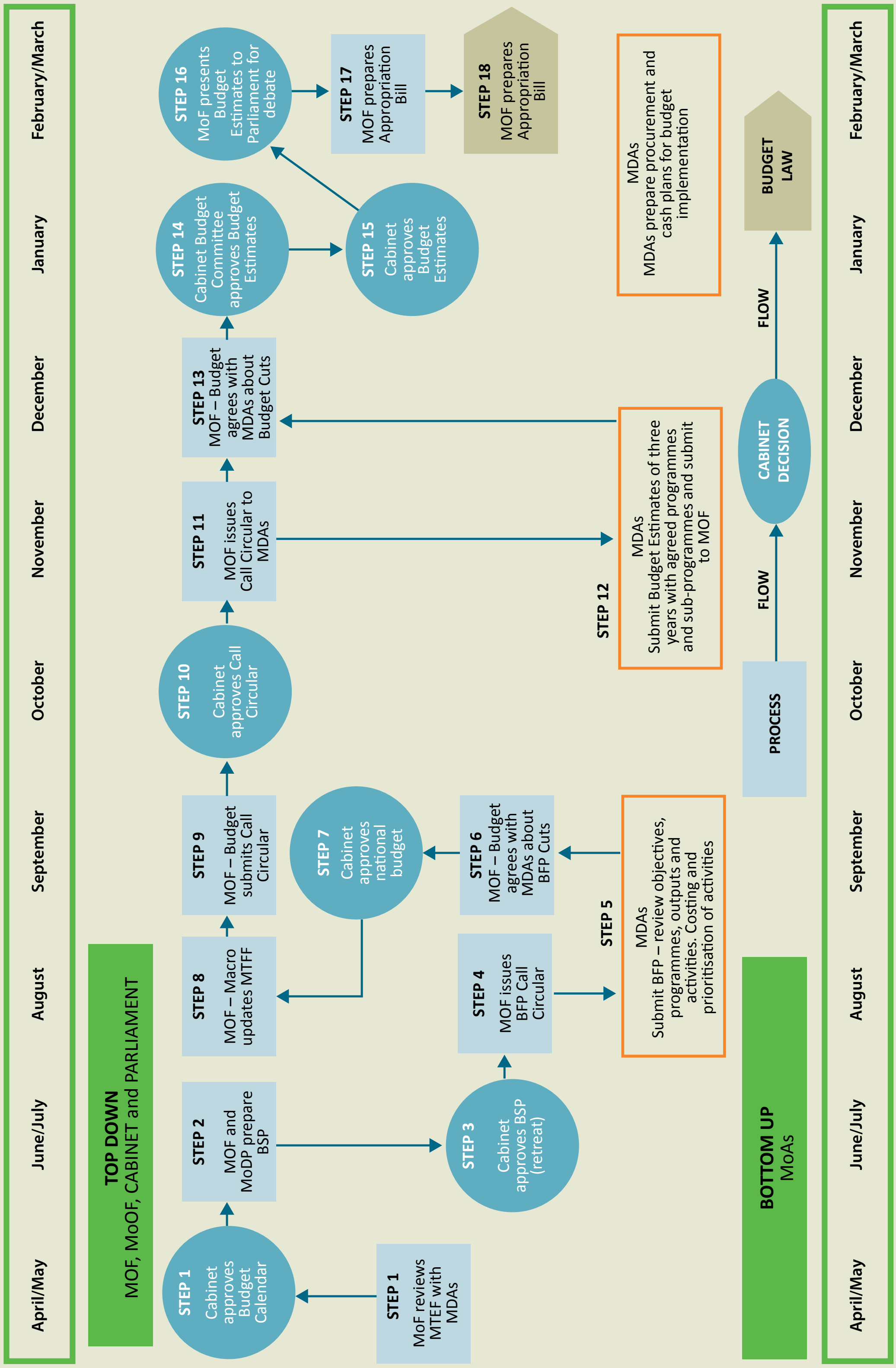
The upstream activities are key to ensuring that the budget figures are credible. One indication of the credibility of the budget is the variance between budget forecasts and outturns. CM can be meaningful only when there are no extreme discrepancies between the two.

3 The Budget Strategy Paper for 2018/2019–2020/2021 is available on the MOF website at: http://www.finance.gov.ls/documents/budget%20book/BSP%20_%202018-19.pdf [accessed 12 December 2019].

4 The call circular for BFPs for 2019/2020–2021/2022 is available on the MOF website at: http://www.finance.gov.ls/documents/circulars/BFP%20Call%202019-2022.pdf [accessed 12 December 2019].

5 The budget estimates call circular for 2018/2019–2020/2021 is available on the MOF website at: http://www.finance.gov.ls/documents/circulars/2018-19%20Budget%20Estimates%20Call%20Circular.pdf [accessed 12 December 2019].

Figure 1: Lesotho's budgetary process



Source: https://www.gov.ls/documents/lesotho-budget-calendar/

5. Lesotho's cash management process

This section discusses three important aspects of CM: the preparation of cash-flow plans; the co-ordination that ought to be in place in order to determine the government's short-term borrowing requirements with accuracy; and the information technology (IT) platforms that support budget implementation, including CM.

5.1 Preparation of cash-flow plans

The procedures to be followed by Ministries to develop cash-flow plans are described in Part IV of the Treasury Regulations (2014). The document provides both the requirements and broad guidelines as to how line ministries should go about preparing cash-flow plans.

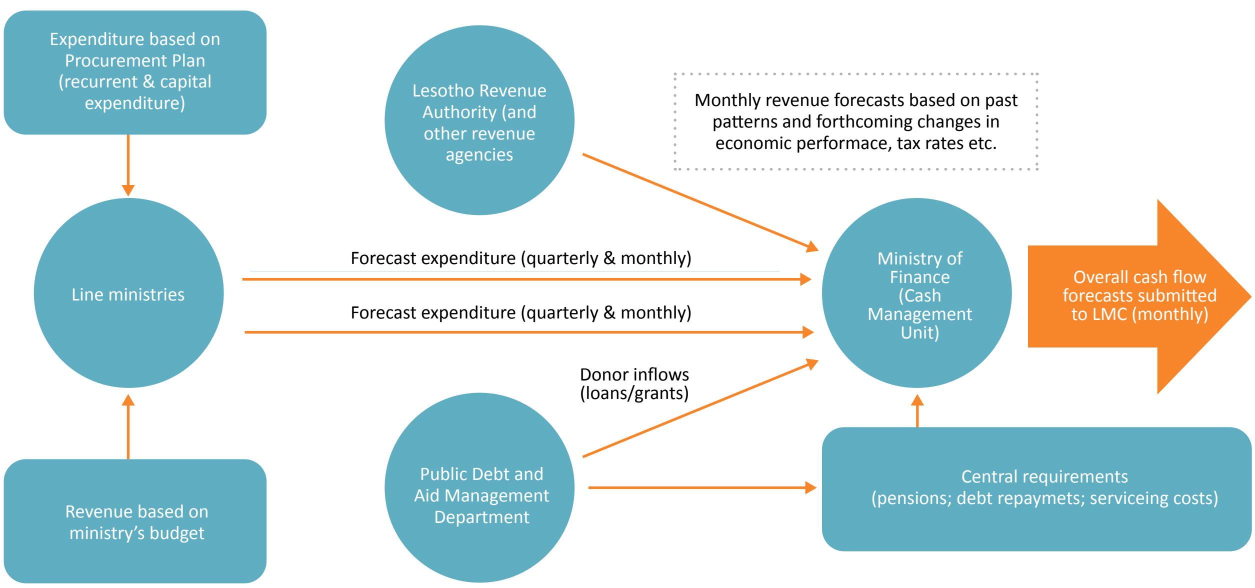
Budget implementation and cash plans prepared by ministries are based on estimates of when funds will be required, using both procurement plans and past patterns of expenditure as guidelines. The CMU then combines this data with central requirements such as pensions, debt repayments (submitted by the Public Debt and Aid Management Department) and other statutory expenses. Revenue figures from the Lesotho Revenue Authority and other revenue-collecting agencies are important inputs.

During the year, the quarterly cash-flow plan is intended to be updated on a weekly basis and submitted to the Liquidity Management Committee (see Section 5.2) on a monthly basis.

The preparation of the cash-flow plan is illustrated in Figure 2.

Lesotho faces several challenges that prevent it from fulfilling the above requirements. These are discussed in Section 6.

Figure 2: Guidelines for preparation of cash-flow plans



5.2 Co-ordination mechanisms

Two committees were established in 2018 to co-ordinate CM and debt-management activities. These are:

- The Liquidity Management Committee (LMC)
- The Liquidity Technical Committee (LTC).

The LMC is a high-level forum dealing with policy issues. It is chaired by the Principal Secretary of Finance and is meant to meet monthly. Other members of the committee include the Accountant General, the Deputy Accountant (CM) the Deputy Accountant General (Expenditure) and heads of the Public Debt and Aid Management, Macro and Fiscal Policy and Budget Departments. The Finance Director (CM) is the secretary to the committee.

The LMC's responsibilities are as follows:

- Approval of the annual cash plan, the borrowing plan, debt sustainability analysis, medium- term debt strategy and the overall limits for quarterly release of warrants
- Overseeing cash planning and its alignment to internal and external borrowing plans
- Advising the finance minister on matters relating to external and domestic borrowing and acceptance of grants on behalf of the government, on-lending and guarantees
- Defining priority payments and monitoring of arrears (if any), and agreeing on an arrears-management strategy
- Monitoring, co-ordinating and directing cash and debt management activities to ensure annual budget expenditures can be implemented on time.

The LTC is a technical committee reporting to the LMC, which is meant to sit weekly under the chairmanship of the Deputy Accountant General (CM). The CMU acts as the committee's secretary. Other members include:

- The Finance Director (CM)
- Finance officers for revenue, salaries, expenditure and financial performance monitoring
- Senior officials from public debt and aid management, macro and fiscal policy, budget and pensions departments

The LTC's terms of reference (TOR) cover three areas – cash management, debt management and liquidity management (see Table 1).

Table 1: The LTC's terms of reference

Cash management	Debt management	Liquidity management
Review of cash-flow outturns for previous periods and comparing them with forecasts	Preparation of borrowing plan and debt-issuance calendar	Analysis of government cash forecasts in the context of Central Bank of Lesotho reserve management and monetary activities
Analysis of forecast errors and agreeing on any necessary action to limit their repetition	Monitoring implementation of annual borrowing plan and reporting to LMC on monthly/quarterly basis	Advising the LMC on matters relating to liquidity and monetary policy risks and how to mitigate these risks
Review of cash-flow forecasts for the period ahead and preparation of risk scenarios	Preparing debt sustainability analysis and the medium-term public debt strategy	
Advising the LMC on action to improve the quality of cash forecasts and ensuring cash adequacy over the period ahead	Advising the LMC on matters relating to external and domestic borrowing and acceptance of grants on behalf of the government	

It is still too early to evaluate the effectiveness of the co-ordination mechanisms since they were revived in 2018. However, it is noted that there is no institutional arrangement or legislative structure/framework governing the operations of the LMC. This could hinder the efficient delivery of its functions.[6] Also, the effectiveness of the committee will also depend on the quality of data submitted by the CMU to inform its decisions.

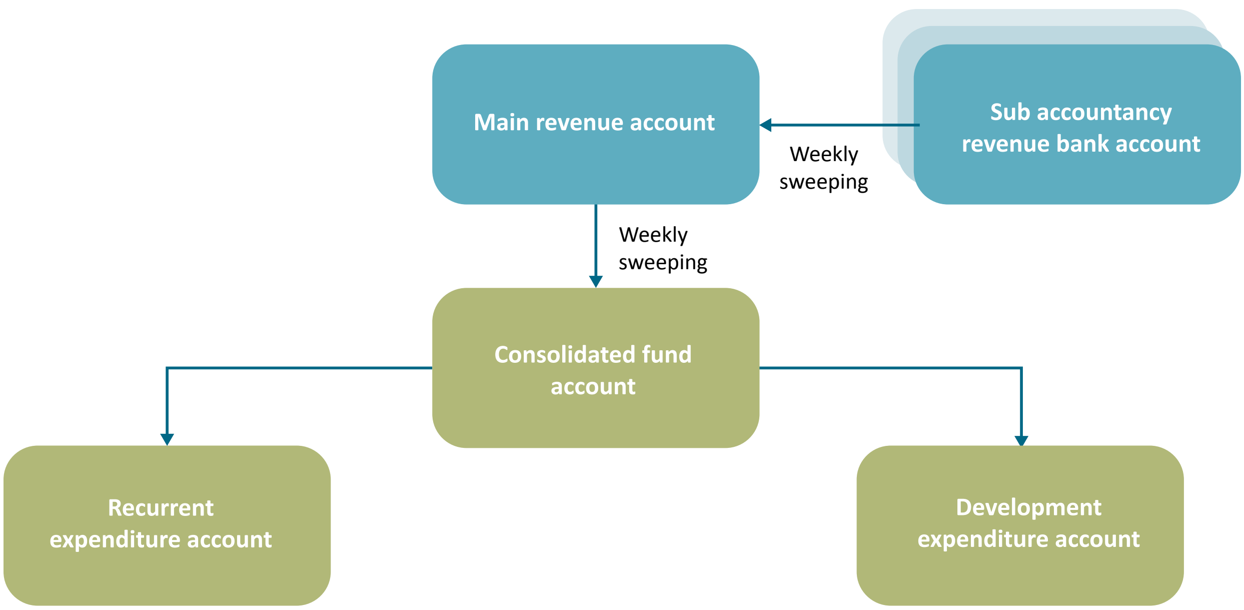
5.3 IT platforms as enablers of data exchange and co-ordination

To achieve a reasonable degree of effectiveness in PFM operations, including those related to CM, countries need to put in place an IT infrastructure and systems to support government budgeting, accounting, debt management, and so on. These systems need to be integrated to allow for the sharing of data and information among stakeholders.

Lesotho has been engaged in strengthening its IT structure for PFM for some time. It has recently upgraded its integrated financial management and information system (IFMIS), which is based on the EPICOR platform, to a newer version (version 10.2) and introduced the CBMS.

Lesotho also introduced a Treasury Single Account (TSA) on 1 April 2019. The system, which is maintained by the CBL, is currently in its initial phase of implementation and its structure is, therefore, likely to evolve in the future. Its current design is depicted in Figure 3.

Figure 3: Current structure of Lesotho's Treasury Single Account



Source: Minister of Finance, Lesotho

6 We understand that the LMC has not been meeting of late.

Most of the budgetary revenue and expenditure go through one of the accounts that make up the TSA. These include the consolidated fund account, the recurrent expenditure account, the development expenditure account and several sub-accountancy revenue bank accounts. Sweeps are made from the revenue bank accounts to the main revenue account and from the latter to the consolidated fund account on a weekly basis. An agreement exists between the MOF and commercial banks whereby the latter report on funds and balances on accounts held with them on a quarterly basis.

The above arrangement allows the MOF to determine how much cash is held by MDAs and to limit the amount of idle funds.

There are still several accounts which are not included in the TSA. These include T-bills and T-bond accounts, project accounts, revenue collection accounts in commercial banks, trust funds and special accounts.

The upgrading to newer versions of such systems and the introduction of new systems offer definite benefits and potential. However, this is not without challenges. Users must be trained in the new versions, links among systems may need to be upgraded[7] and there are usually teething problems encountered. Thus, benefits tend to become tangible in the medium and long term only.

The Treasury Single Account, which is maintained by the Central Bank of Lesotho, is currently in its initial phase of implementation and is likely to evolve in the future

7 For example, the introduction of the new version of IFMIS led to an incompatibility issue with the format of CBL bank statements. Also, the link between the debt recording and management system had to be updated so that debt transactions could be electronically uploaded into the IFMIS.

6. Lesotho's cash management challenges

Although it has some obvious gaps (as mentioned in Section 5.2), the legal and institutional framework for CM in Lesotho could support basic CM practices. However, several challenges hinder Lesotho's CM.

6.1 Poor cash forecasting

Poor cash forecasting is the result of two distinct factors: non-compliance and inaccuracy.

Non-compliance

The Treasury regulations clearly spell out the importance of cash-flow planning. For instance, Section 13(1) states that the Accountant General, in collaboration with the central bank, the Budget Department, the Macro-fiscal Unit and other departments shall ensure the existence of a functional cash-flow management framework, including cash-flow monitoring for efficient and effective use of government cash resources.

Once the annual budget has been approved by Parliament and the Appropriations Act passed, line ministries are required, as prescribed under Section 13 of the Treasury regulations 2014, to prepare and submit annual cash-flow plans to the MOF for consolidation by the CMU. However, in practice this is not done consistently. An initial sensitisation has been undertaken as part of a project implemented by CABRI (see Annex 1), but more work needs to be done in this area. Views differ as to whether offending line ministries should be sanctioned and, if so, how.

Inaccuracy

The other problem that affects cash forecasting is the inaccuracy of cash plans – both those provided by MDAs and the aggregated figures compiled by the CMU. This is more of a capacity issue.

With regard to MDAs, cases may arise where cash plans do not match the budget.[8] In other cases, quarterly breakdowns might be forecasted merely by dividing the total by four.

Inaccurate cash plans can be traced to:

- Line ministries not being familiar with procurement plans
- Lack of co-ordination between procurement managers, finance and human resources, leading to unreconciled cash plans
- Cash plans not capturing extra-budgetary requests
- There are also problems specific to revenues. For instance, some revenue collection is performed manually and, consequently, there is a lag before these are reflected in the accounts. Poor Internet connection in some areas can also delay data capture of revenues. In addition, there can be lags between remittance and data capture.

In general, two methods are used in cash-flow forecasting. The first consists of estimating each component making up revenue and expenditure. The main disadvantage of this approach is that there is a general tendency to be optimistic with regard to revenue forecasts, while there is a downward bias when projecting revenue. This means that revenues are normally overstated during the budget process, and need to be adjusted downwards when revenue is projected for cash-flow purposes. The other method is to use Treasury data to produce time series, which can then be projected after correction for seasonality.[9]

This requires the building up of databases of forecasts and actual revenue and payments, which Lesotho is currently in the process of implementing.

8 Project documentation of CABRI's BPMFC programme.

9 However, this technique requires that once-off expenditures or revenues (e.g. the repayment of bond issue or proceeds from privatisation) are factored in.

6.2 Proliferation of bank accounts

According to the 2018 DeMPA Report, the government's recurring expenses are managed through a centralised disbursement system held in an account at the CBL. The Public Expenditure and Financial Accountability (PEFA) 2016 assessment identifies five main Treasury bank accounts, namely:

- The main revenue account
- The recurrent expenditure account
- The trust account
- The main consolidated fund account
- The capital account.

In addition, the Treasury system includes about 20 'ministry-own' revenue collection accounts (which are regularly swept into the main consolidated fund account), 9 sub-accountancy revenue accounts (also swept weekly) and 18 sub-accountancy bank accounts for payments and trusts.

Payments for capital projects are managed by individual line ministries in their role as implementing agencies. Funds for investment projects are released by the Treasury in accordance with project implementation plans. This arrangement has resulted in line ministries creating a large number of bank accounts with commercial banks.[10]

Most of these bank accounts are donor-financed project accounts and own revenue (internally generated fund) accounts.

It is not clear how many such bank accounts currently exist:

- According to the 2016 PEFA report, there were about 254 government bank accounts outside the Treasury system, maintained and operated by line ministries with authority from the Treasury.
- The 2018 DeMPA report indicates that, after closing 100 accounts, there were 400 accounts among the commercial banks operating in Lesotho.
- As part of CABRI's Building PFM Capabilities (BPFMC) project, a database of active government bank accounts was set up and, according to the project documentation, 178 accounts were closed (during the period May – December 2018). However, the number of remaining bank accounts could not be ascertained.

The proliferation of bank accounts raises questions as to the procedures for opening and closing such accounts. The CABRI BPFMC has shown that commercial banks sometimes do not comply with the PFMA and open accounts without the approval of the MOF. Also, despite MOF instructions to close some bank accounts, commercial banks might not do so at the request of MDAs.

6.3 Poor reconciliation of bank accounts

Another issue, which is related to the large number of accounts, is that reconciliation of bank accounts has been lagging. Regular reconciliation is important not only to provide a sound basis for CM but also to prevent the misuse of funds. This should not only involve reconciling bank statements with cash books but also with expenditure and revenue figures in the IFMIS.

According to the PEFA (2016), the consolidation of the treasury accounts is done monthly. However, the 254 accounts mentioned above remain outside the system without any reconciliation. The problem is particularly acute in the case of project funds where reconciliation is devolved to MDAs. The lack of co-ordination between different departments within MDAs also contributes to the problem.

6.4 Non-functioning co-ordination committees

The two committees that exist for co-ordinating cash and debt management and advising on cash planning and the implementation of the government's borrowing plan have been dormant for some time. It is only following the recent cash crisis that steps were taken to re-establish them. Though their roles are important, there is little the committees can do from a technical point of view if they are not provided with reasonably accurate data to base their decisions on. They do, however, have a supervisory role to play and could address some of the bottlenecks identified above.

10 There are four commercial banks in Lesotho: First National Bank, Lesotho Post Bank, Nedbank and Standard Bank of Lesotho.

7. Conclusion

CM in Lesotho can be described as 'work in progress'. Annex 1 provides some information on two recent initiatives – one funded by a consortium of donors, which has addressed a wide range of PFM areas, and one implemented by CABRI, which has focused on CM.

This case study provides some interesting insights on factors that can impact effective CM. These can not only be useful to other countries implementing CM reforms but can also provide ideas on which development partners may wish to reflect when designing reform programmes.

- One of the main challenges with regard to CM in Lesotho is that of non-compliance. Despite fairly robust laws and regulations, non-compliance (MDAs not submitting cash plans, commercial banks not closing dormant accounts, co-ordination committees not meeting regularly, etc.) impinges on the CM function.
- There is a high level of interdependence among the constituent areas of PFM. Consequently, weaknesses in one area adversely affect other areas. The same applies to CM. In the context of Lesotho, weak budget preparation (capacity constraints within MDAs and the lack of adequate communication between MDAs and the central authorities) is leading to inaccurate procurement plans. This, in turn, is affecting cash flow forecasts and CM analysis down the line, irrespective of how sophisticated these might be. Therefore, remedial action must be taken throughout the 'PFM chain'.
- While the use of IT platforms (IFMIS, TSA, etc.) is very important in promoting modern CM practices, it is not a panacea for resolving the types of problems described in this case study. In some cases, they bring about their own challenges.[11] Buy-in from top management, adequate data flow, acceptance by users and thorough training are some key requirements for the successful implementation of such IT platforms.

Cash management in Lesotho can be described as 'work in progress'

11 The upgrade of the IFMIS has not been without teething problem and the software currently provides a wrong picture of actual expenditure. Until such issues are finally resolved, the system will be unable to support effective CM.

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Annex 1:
Lesotho – Technical assistance for cash management

Over the years, Lesotho has benefitted from technical assistance programmes in the area of PFM from various organisations including from the International Monetary Fund, including the Regional Technical Assistance Centre for Southern Africa (AFRITAC) South, the United States Treasury, the European Union and the Collaborative Africa Budget Reform Initiative (CABRI). Two of the most recent interventions are discussed below.

1. Public Financial Management Reform Programme, Kingdom of Lesotho (2015–2019)

To address perceived weaknesses in the PFM system, the government embarked on an ambitious reform project aimed at transforming Lesotho's PFM systems for the attainment of long-term sustainable development.

The project was funded by a consortium of donors including the African Development Bank, the European Union, the International Monetary Fund and the World Bank. The project officially began in 2013 (although it did not reach full implementation until 2015) and ended in June 2019.

The contribution of the main development partners was as follows:

- The European Union: EUR 4.2 Million
- The World Bank: USD 5.5 Million
- The African Development Bank: UA 2.6 Million

The Public Financial Management Reform Programme (PFMRP) was a direct response to the need for strengthening and restoring the public's confidence in the government's financial management system. The purpose of this reform agenda is to transform Lesotho's PFM systems for the attainment of long-term sustainable development.

The programme is made up of the following components:

- PFM regulatory framework updated to underpin PFM reforms
- Transparency and effectiveness of policy measures reflected in the annual budget
- Cash-flow forecast as a major determinant of internal debt and financial investment
- The internal control framework is strengthened to ensure operational efficiency and effectiveness
- Accounting and fiscal reporting framework fully compliant with the regulatory framework and accepted international accounting reporting standards
- Public procurement aligns with international best practice in efficiency and transparency
- External audit and parliamentary oversight and scrutiny activities are compliant with International Organisation of Supreme Audit Institutions (INTOSAI) standards and best international practices for parliamentary oversight and scrutiny committees
- Governance and institutional management of PFM reforms improved to facilitate ownership and monitoring and evaluation of progress.

The third component on cash-flow planning and forecasting synchronises revenue estimates and spending plans. The budget is built in law, but it differs from the authority to spend, hence the need for a co-ordinated effort to make sure that resources are available when required to properly execute the budget and meet the needs of a variety of budget stakeholders. Component three of the PFMRP lays further claim that if a system is in place to control spending rates and is informed by cash-flow forecasting, then execution of the budget as formulated is likely to meet the budget stakeholders' needs. Under this reform component, a wide range of activities from the establishment of the Cash Management Unit (CMU) are documented. Component three comprises the following project outputs:

- Recruitment of key personnel and operating staff to ensure functionality of the CMU
- Refinement of government banking arrangements and processes to provide a platform for the stock of government cash means
- Capacity-building for liquidity management to equip CMU technical personnel with forecasting know-how
- Assistance in forecasting the government's cash position to manage maturities and issuance of investments and debt
- Census-taking of all government bank accounts with a few of fulfilling all necessary PFM requirements for the establishment of a TSA
- Undertaking capacity-building programmes in order to educate all relevant Treasury personnel on the operations of the TSA

- Continuous advocacy and training on proper and timely bank reconciliation and forecasting techniques
- Assessment and inclusion of TSA framework in the Treasury regulations.

(*Source: MOF website*)

2. Building capabilities for functional PFM in Africa – CABRI

The Building PFM Capabilities (BPFMC) programme (see Box A1 for additional information) places teams of government practitioners centre stage and equips them with an approach that drives incremental change. These teams identify pressing PFM problems and tackle these through a structured eight-month action-oriented programme.

Box A1: CABRI's Building PFM Capabilities Programme

The Building PFM Capabilities (BPFMC) programme was developed by CABRI in collaboration with the Building State Capability (BSC) Program at Harvard's Centre for International Development. 28 teams from 14 African countries have participated in the programme since 2017.

The BPFMC programme stands in contrast to traditional approaches to PFM reform, which primarily focus on technical fixes and have had mixed results. CABRI's programme takes the view that PFM reform does not lend itself to a one-size-fits-all approach and requires the careful management of political and administrative constraints together with a deep understanding of the local context. It is based on the Problem-Driven Iterative Adaptation (PDIA) approach. This learning-by-doing methodology facilitates rapid experiential learning and leads to the emergence of new capabilities.

In May 2018, a six-person team comprising staff from the budget office, debt management office and treasury department of the MOF of Lesotho nominated the following problem for the BPFMC programme:

> *The Ministry of Finance does not know how much cash ministries, departments and agencies (MDAs) require or when it is required.*

This problem statement is a recognition of severe liquidity constraints in Lesotho following the global financial crisis of 2007–2008. SACU receipts, the government's biggest revenue source, have declined significantly. The macroeconomic situation has deteriorated, resources are severely constrained and high deficits persist. The government is facing cash shortages, and in the absence of proper CM, the MOF is struggling to execute the budget.

Following problem construction, the team analysed and deconstructed the problem into its causes and sub-causes. Figure A1 shows the process of problem deconstruction through the team's fishbone diagram. Circled in red are the team's entry points – causes and sub-causes for which the team felt they had the authority of senior technocrats and bureaucrats, the technical ability and acceptance of those directly affected by potential change.

Entry point 1: Non-reconciliation

To show the consequences of infrequent reconciliation, the team collated data on MDAs' unretired balances in commercial bank accounts. The data showed that at the end of FY2017/18, significant amounts of previously allocated funds remained idle. This implied that the government was providing quarterly allotments to MDAs without knowing the amount of cash they already had available. This also reflected the importance of increasing the frequency of reconciliation, which was happening annually, if at all.

Entry point 2: Too many bank accounts

The infrequency of reconciliation is related to the enormous number of bank accounts in operation in Lesotho. The job of the Accountant General's Office becomes far more cumbersome if it must reconcile over 300 bank accounts.

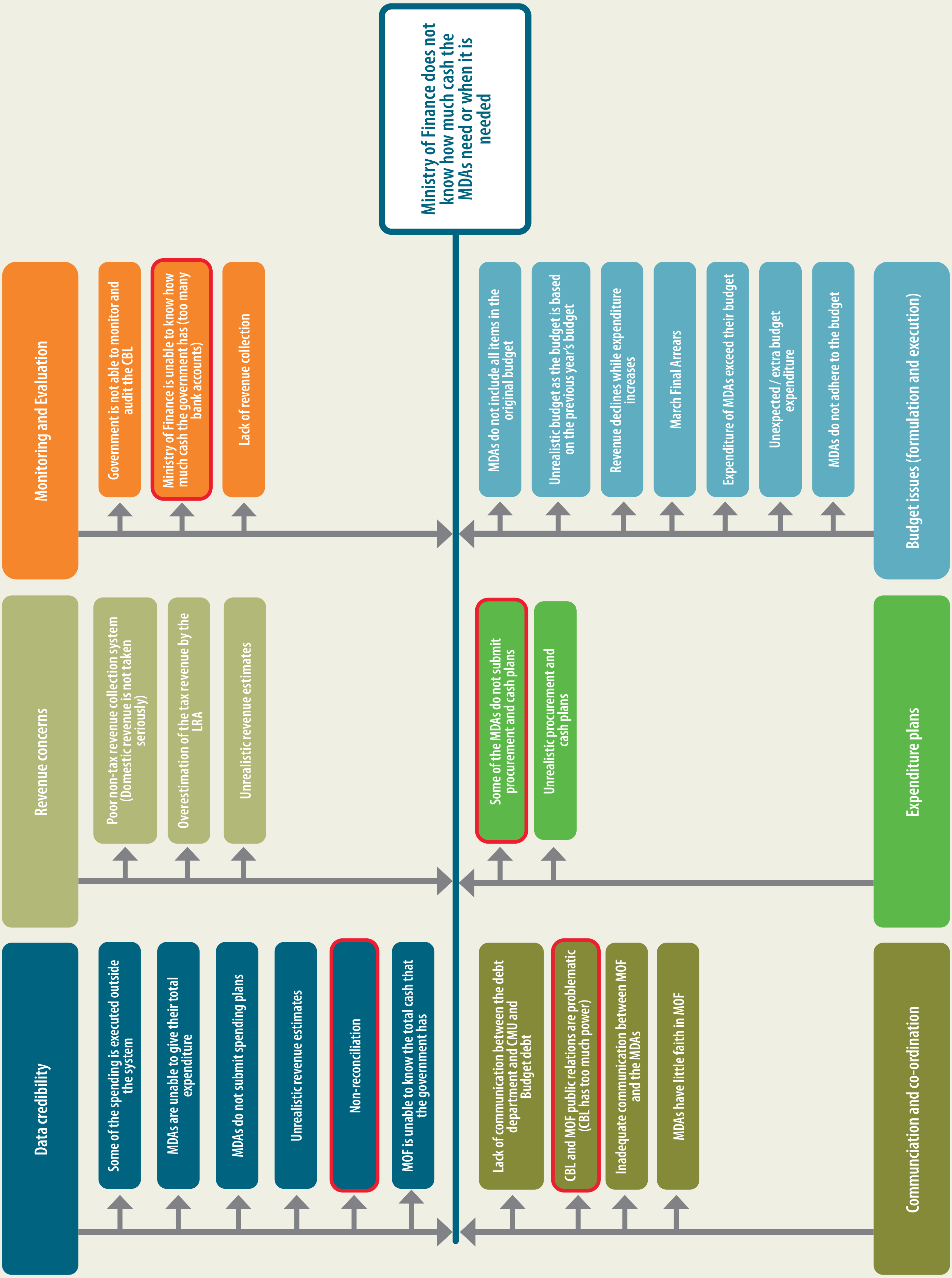
The team worked to develop a database of the government's bank accounts. The team learnt that many MDAs are reluctant to disclose information on their commercial bank accounts to the MOF, despite this being a statutory requirement. Operating from these bank accounts allows the MDAs a certain degree of autonomy in-year and allows them to avoid potential delays associated with obtaining warrants from the MOF.

At the same time, the team was involved with closing dormant bank accounts, thereby saving the government the associated bank charges and easing some of the pressure associated with reconciliation efforts.

Entry point 3: Some MDAs do not submit procurement and cash plans

To better understand why MDAs fail to submit accurate cash plans each quarter, the team surveyed seven MDAs with whom they had established connections. They learnt that there are no functional planning committees in MDAs and procurement, implementation and cash plans are prepared in isolation, implying that cash plans are often developed without knowledge of when expenses will be incurred. MDAs also noted that lack of feedback from the MOF following the submission of cash plans led them to believe that the MOF did not utilise their plans. The team interpreted this to mean that MDAs do not see value in developing accurate plans.

Figure A1: Fishbone diagram showing the problem analysis



This interpretation was substantiated at a workshop facilitated by the team, where representatives from seven MDAs expressed frustration at receiving an allotment that bore no resemblance to their cash plans for that quarter. It came to light then that the allotment was less than the request, because, following the reconciliation exercise at end-March 2018, it was discovered that those MDAs had unretired balances. The MOF subtracted that balance from the request in the cash plan but did not communicate this to the MDAs, leaving the MDAs believing their cash plans were not taken into consideration. This was an important learning experience for the team, as improving communication from the MOF to the MDAs could be a 'quick win', given that a representative from the budget office is on this team. The team continues to work on a communication strategy for desk officers responsible for the MDAs.

To encourage the submission of cash plans, the team developed a circular noting which MDAs had submitted by that quarter's deadline, rewarding compliance and implicitly reminding those that had failed to submit that the MOF is tracking submission. The circular was never disseminated, however, as it was felt that it might antagonise the non-complying MDAs. The team also noted that developing guidelines for submission of cash plans and the establishment of budget and planning committees would be useful for the MDAs, but they felt that they could not proceed without closer involvement of MDAs and the Procurement Policy and Advice Division (PPAD).

Another important lesson from the survey was that few MDAs submit procurement plans to the Budget Office but do so directly to the PPAD. There is also evidence that MDAs do not know how to complete the procurement template due to lack of training.

Entry point 4: Central Bank of Lesotho and Ministry of Finance relations are problematic

During problem deconstruction, the team agreed that poor information sharing between the CBL and MOF negatively impacts the government's ability to manage its cash. A change in the format of the CBL's account statements meant that these were no longer compatible with the MOF's information system and required time-consuming and technically challenging manual manipulation. At the time, this was undertaken by an external consultant; however, the consultant left the country without adequate skills transfer. A member of the team was instrumental in rectifying this situation and ensuring compatibility.

Prior to the team beginning this programme, the MOF sought to improve information sharing between the CBL and MOF by introducing the LMC. Terms of Reference (TOR) for the committee were developed, but, for reasons unknown, these were never formalised. Understanding the importance of communication between the CBL and MOF, the team worked tirelessly to finalise the TOR and obtain the signature of the Principal Secretary. Following the formalisation of the TOR, the team ensured that the committee met according to its schedule, and two members of the team joined the technical committee of the LMC to keep abreast of any challenges related to their problem and to learn of ways they could assist the committee through the provision of information. Unfortunately, the value of maintaining this committee has not been recognised by senior management and, therefore, it has ceased to meet.

BPFMC diffusion in Lesotho

The team made significant progress during the eight-month programme, including improving communication between the MOF and MDAs, improving cash-plan submissions, increasing frequency of reconciliation, formalising the terms of reference for the LMC and initiating a database on MDAs' commercial bank accounts. However, the team acknowledged that without closer involvement and acceptance by stakeholders, such as MDAs and the PPAD, their problem would remain unresolved.

With CABRI's support, the team embarked on a BPFMC diffusion programme in July 2019. The diffusion programme is driven by the original team and includes three teams of 18 officials from various departments within the MOF, including the PPAD, budget, debt and Treasury, and ministries of education, water, local government affairs and agriculture. The diffusion teams are currently in the action-push period of the diffusion programme and are working on the following previously identified causes:

- Non-reconciliation of bank accounts
- Non-submission and inaccuracy of cash plans
- Uncommitted budget committees
- Undocumented arrears
- End-of-year fiscal dumping
- No sanctions for non-compliance with procurement regulations
- Inadequate training on procurement plans
- Non-standardisation of prices
- Excessive number of bank accounts
- Inefficient revenue collection due to manual processing
- Existence of revolving funds, which limit the MOF's oversight of available cash and ability to control expenditure
- Inability of MOF to monitor flows of funds of MDAs with donor-funded projects.

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