GOVERNMENT OF LESOTHO

FIRST QUARTER PERFORMANCE

BUDGET AND FISCAL BULLETIN

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Foreword from PS Finance

Introduced in 2015/16 under the on-going Public Financial Management Reform, the Quarterly Budget and Fiscal Bulletins continue to be the Government's responsibility and commitment, through the Ministry of Finance to ensure that there is transparency in the use of public resources and to communicate such use to the public, as tax payers, and at the right time.

This Budget and Fiscal Bulletin presents the major revenue and expenditure activities that took place in the first quarter of 2016/2017 compared to the same time in 2015/2016. It also highlights developments in the global and domestic economy for the first quarter of 2016/2017. It reports key revenue and expenditures data and how these have changed over the period of a year since the first quarter of 2015/16. The bulletin continues to support our efforts of good governance and in the area of fiscal transparency.

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The bulletin is divided into three sections. Section one discusses the macroeconomic outlook and issues that correspond with the submission of the FY 2016/17 budget to Parliament. Section two presents the budget and fiscal developments and is divided into three sub-sections, which deal with the execution of the Government's budgetary transactions (recurrent and capital expenditures) and revenue collection. Section three provides a summary of the Government's initiatives in the PFM improvements and reforms.

Introduction

This bulletin continues to pursue the objective of reporting and informing various ministries and agencies, the public, donors, and civil society about Government's revenues and expenditure performance. It reports revenue collections and expenditure outlays for the first 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

This year, oil prices, currency depreciation, political instability, oversized welfare state and structural problems contributed to the deterioration of public finances world-wide. Lesotho not being an exception in these challenges has also been faced with tight budgetary problems once again. The fiscal year 2016/17 continues to realize a slow GDP growth, with real GDP estimated at around 2.9 percent. This moderate growth is brought by expected decline in textiles, manufacturing and food products, while construction grows slightly with its magnitude not being able to off-set the dent caused by these major contributors.

In the recent past, Lesotho maintained a relative fiscal discipline despite pressures from the external shocks. It continued to realize revenue growth as a percentage of GDP as well as a share of total revenue due to improvements in SACU receipts over the years with an exception of 2010/11 and 2011/12 where it declined and recorded 16 percent of GDP (55 percent of total revenue) and 12 percent (53 percent of total revenue), respectively, compared to an annual average of 30 percent (60 percent of total revenue in prior years. It declined in 2014/15 and

2015/16 and registered 48 percent and 42 percent, respectively, as a share of total revenue as a result of reduction in SACU receipts associated with regional important decline.

Table 1: Budgetary Operations – Q1:2016/2017

Budgetary Operations: January- March 2016 Millions of Maloti	
Revenues	**3,127.5**
Expenditures	**3,974.0**
of which	
Recurrent	**2,905.0**
Capital	**1,069.0**
Budget Balance	**-846.5**

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-846.4.

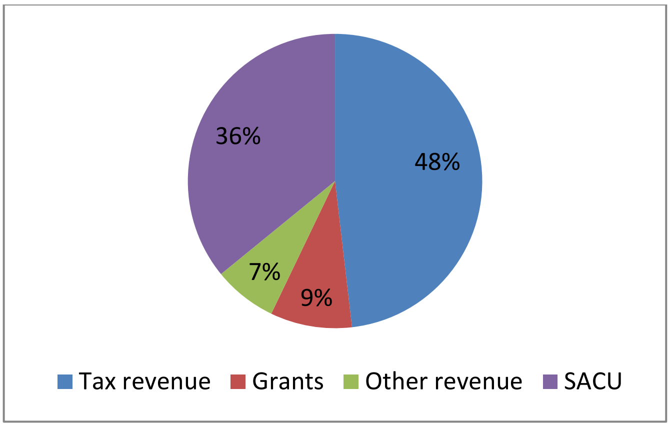
The fiscal deficit is a result of several factors, but among others, is the drastic decline in SACU revenues coupled with ballooning budget. It is also motivated by the depreciation of the Loti/Rand to the Dollar which has increased the cost of the external debt such that it increased the debt to GDP to 50.5 percent. This requires stringent fiscal policy measures such as fiscal rules both in the short run and long-run to safeguard fiscal stability and sustainability.

Section 2 – Budget and Fiscal Developments

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

Government revenue is largely dependent on SACU receipts which are influenced by global and regional economic environment. The volatility of SACU receipts has far-reaching implications to Lesotho's fiscus given is contribution to total revenue and therefore government's budget financing ability. Figure 1 illustrates the total revenue shares for this quarter, revealing a different turn, where tax revenue contributes 48 percent of the total revenue followed by SACU with 36 percent, Grants is 9 percent and other revenue with 7 percent.

Figure 1: Revenue Shares (in Millions of Maloti)



Besides SACU receipts, the other significant source is tax revenue, which is normally the second largest component of total revenue, which slightly grew by 5.6 percent compared to last year (see Figure 2). On the other hand, Grants grew by 17.3 percent from last year (about 4.3% of GDP) due to increase in Capital grants. Non tax revenue only grew by 10.5 percent but declined to 4.5 as a percent of GDP.

Table 2: Revenue Performance (in Millions of Maloti)

Revenue Items	2015/16 annual	2016/17 annual	Growth in percent
Tax Revenue	**1,431.1**	**1,510.7**	**5.6%**
Grants	**239.4**	**280.7**	**17.3%**
Other Revenue	**186.9**	**206.5**	**10.5%**
SACU	**1,667.4**	**1,129.7**	**- 32.2%**
Total	**3,524.8**	**3,127.5**	**-11.3%**

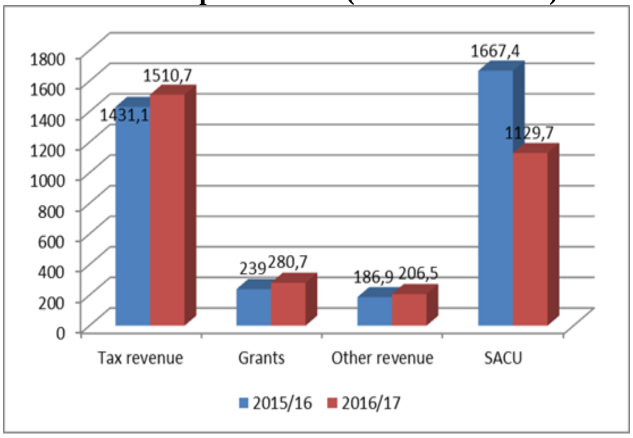
Tax Revenue

As mentioned earlier, tax revenue did not perform as expected recording M1, 510.7 million against the target of M1, 569.6 million. This was due to low collections in PAYE attributed to the reduction in employment levels by the large tax payers in the private sector. Other tax collections also declined. Even though PAYE did not meet the target, it grew by M28.5 million as opposed to the previous year.

Corporate Income tax (CIT) registered 46 percent growth against last year and exceeded the target by 10 percent; this was mainly influenced by higher than expected growth in the revenue collections from mining sector (43 percent) and financial and insurance sectors (35 percent). In the face of declining diamond prices, mining sector also contributed significantly in CIT due to dollar appreciation in 2015/16.

VAT collections in this quarter recorded growth of 7.5 percent as opposed to last year's collections and also surpassed the quarterly target by 6.5 percent

Table 3: Revenue performance (in Millions Maloti)



Other Revenue

Other revenue is collected by ministries, while electricity and water royalties are collected by LEC and LHDA, respectively, and remitted to the responsible ministries.

Among the revenue components, other revenue is the least performing revenue with irregularities due to the fact that ministries do not monitor and administer these revenues effectively. A lot of effort is required to correct this situation.

The revenue collections for these quarter registered M206.5 million against the target of M267.8 million. Although these presents growth of 9 percent as compared to last year, it is a 22.8 percent underperformance against the target. This is attributed to the poor administration of the taxes such as dividends from the institutions where government has shareholding where there are delays in payments or no payments at all. There is also the issue of line ministries not capturing the revenue items accordingly.

SACU

SACU revenue for this quarter will quarter will continue to register lower receipts compared to the previous year. During the first quarter, SACU recorded M 1,129.6 million, which is 32 percent lower that than M1, 667.4 million in 2015/16. This follows the declining economic developments in the South African economy affecting the size of the pool. Due to their volatility and the dependency of government to this revenue, it poses a fiscal risk to the public finances.

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

Table 4: 2016/17 First Quarter Recurrent Budget Performance

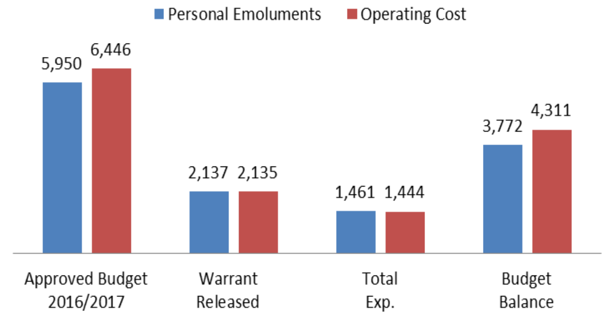
	Approved Budget 2016/2017	Warrant Released	Total Exp.	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
Personal Emoluments	5,950	2,137	1,461	3,772	68%	25%
Operating Cost	6,446	2,135	1,444	4,311	68%	22%
Total Recurrent	**12,396**	**4,272**	**2,905**	**8,083**	**68%**	**23%**

Amounts are in millions of maloti

Source: Ministry of Finance; Budget Department

The recurrent budget performance stood at M2, 904.8 million at the end of the first quarter which is 23 percent of the 2016/2017 approved budget of M12, 396.4 million. This designates that recurrent budget performance is generally the same as compared to the same time in 2015/2016. Personal Emoluments and Operating Costs are at 25 percent and 22 percent, respectively. Generally recurrent budget performance is in line with projections. (See Table 4 above and figure 2 below).

Figure 2: 2016/17 First Quarter Recurrent Budget Performance



It is worth noting that some ministries, such as Health and Development Planning, have performed beyond their expected quarterly warrants at 30 percent and 47 percent, respectively. The reason for the unexpected performance is caused by once off activities such conducting population census and immunization programme. However, there are some exceptional ministries that have performed below the expected quarterly warrants for different reasons such as: delays in: i) warrant distribution and allocation by line ministries, ii) payments to suppliers and iii) postponed activities by line ministries such as local government elections.

In general, most ministries performed below expectation in the following line items: i) vehicle maintenance; this is due to the fact that invoices for government fleet are paid centrally by the Ministry of Finance, and it takes time to reconcile the invoices for the whole government. It is, however, important to note that Ministries of Foreign Affairs and International Relations and Defence and National Security's fleet invoices are being paid by themselves as they have their own fleet; ii) printing and stationery - unavailability of material from Government Printing.

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

Table 5: 2016/17 First Quarter Capital Budget Performance

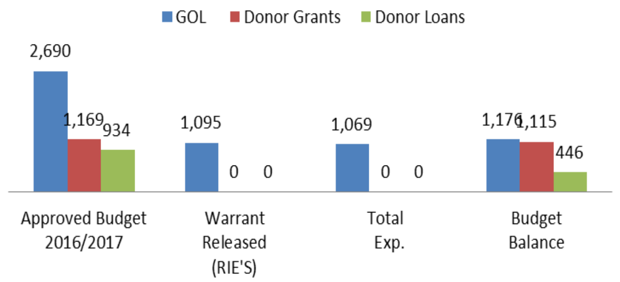
	Approved Budget 2016/2017	Warrant Released (RIE'S)	Total Exp.	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
GOL	2,690	1,095	1,069	1,176	98%	40%
Donor Grants	1,169	0	0	1,115	100%	0%
Donor Loans	934	0	0	446	0%	0%
Total Capital	**4,793**	**1,095**	**1,069**	**2,737**	**98%**	**22%**

Amounts are in millions of maloti

Source: Ministry of Finance; Budget Department

The first quarter capital performance is M1, 069.4 million which is 22 percent of the total approved capital budget of M4, 793.2 million. This is 40 percent incurred under GOL funding; while there was not expenditure under donor grants and Loans funded projects. Capital Budget has performed exceptionally well compared to the same time in 2015/2016 budget. It is worth noting that Ministries of Development Planning, Public Works and Transport, Energy and Meteorology, Local Government and Chieftainship and Gender, Youth and Sports have performed extremely well, they are above the expected 25 percent of the total approved capital budget. This exceptional performance is due to a number of reasons: i) census which has just ended; ii) fast tracking of activities such installations of electricity in the rural areas of the country and the ending of some road constructions, such as Mokhotlong-Sani Pass Road. (See table 5 above and figure 3 below).

Figure 3: 2016/17 First Quarter Capital Budget Performance



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

It should also be noted that expenditure for Donor Grants and Loans continues to be a problem since the expenditure is not fully recorded in the IFMIS, hence the seemingly low performance. This is due to different systems that are being used by the development partners and the fact that, line ministries do not request funds for posting purposes.

Section 3 – PFM Reforms

Under the on-going Public Financial Management Reform Project (PFMRP), various activities were undertaken during the quarter, largely embracing capacity development of different departmental components involved in the project as well as preparing for critical systems for improving management of public resources.

Component 1 - Implementation of Modern Regulatory Framework – Draft Terms of Reference (ToRs) have been development to prepare for engagement of the Short Term Expert to help with arrangements for workshops and training of the finance officers across government. The training will focus on improving compliance and enforcement of the regulatory framework.

Component 2 - Assurance in the Transparency and Effectiveness of Policy Orientation of the Budget (Policy Based Budgeting) – The following activities were undertaken under the component: i) the first Citizens' Guide of the Budget was produced; ii) budget officers were training on the Key Performance Indicators (KPIs) as trainers to be able to train the Ministries, Departments and Agencies (MDAs); iii) the Macroeconomic Policy and Management Department was assisted to develop a simplified macroeconomic model for forecasting; and iv) the component hosted a one-day seminar facilitated by a renowned British professor too share best international practices and provide macroeconomic policy options so as to assist government with a choice of policy decisions.

Component 3 - Establishment of the Cash Management – Following the engagement of the IMF Resident Advisor in the Office of the Accountant General, training was undertaken to assist the staff to improve cash forecasting and management through the assistance of the regional IMF AFRITAC South Office.

Component 4 - Strengthening of Internal Controls for Operational Efficiency and Effectiveness – The activity under this components revolved around recruitment of the consultants to assist with restructuring of the internal audit cadre across government, appraising the existing internal audit charter (ascertain its compliance with Institute of Internal Auditors standards) developing a comprehensive internal audit manual and facilitate operationalization of the Audit Committee.

Component 5 - Accounting and Fiscal Reporting Compliant with Regulatory Framework and Accounting Standards – Several user requirements workshop covering budget, procurement, revenue collection and payment systems were undertaken during the quarter to put together the requirements of the users of IFMIS and to determine the functionality of the envisaged upgraded Epicor 10 version.

Component 6 - Alignment of Public Procurement with International Best Practice – Various consultants were engaged during the quarter to assist the Procurement Policy and Advisory Department (PPAD) to develop the following documents: i) procurement policy; ii) procurement bill and regulations; iii) standard bidding documents; iv) monitoring and evaluation framework; and v) procurement manual.

Component 7 - External Audit and Oversight Compliant with INTOSAI Standards (ISSAI) – The main activities during the quarter under the component involved capacity development of the Public Accounts Committee (PAC) secretariat in research based parliamentary financial oversight and training of sixty (60) officers of the OAG on Procurement Audit.

Component 8 - Governance and Institutional Management of PFM Reforms Improved to Facilitate Ownership, Monitoring and Evaluation of Progress – The mandate of this component is to provide and manage resources for technical implementation in the other seven (7) components. During the quarter, the following activities were undertaken to facilitate implementation in the seven (7) components: i) preparation of the Programme Estimates under the European Union funding; ii) facilitation of the training on the new methodology for Public Expenditure and Financial Accountability assessment for all components; iii) engagement of a short term expert to do a Training Needs Assessment (TNA) for all components as basis for capacity development and institutionalization of the reform; and iv) prepared the annual financial statements for auditing of the project as a requirement for a well-functioning financial system.

It is important to note that the reform will take a while and a lot of strategic patience will be required for government to be able to achieve long term benefits. Departments are also urged to earnestly consolidate ownership and leadership of the reforms.

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