A Technical Assistance Programme to Strengthen Public Expenditure Management in Lesotho through promoting Medium-Term Expenditure Frameworks

Assessment of MTEF process in Lesotho Report

Authors: Owen Willcox; Ian Mackenzie Dr Ratjomose P. Machema and Simon Cresswell

April 2022

Table of contents

List of tables, figures, and boxes

No table of figures entries found.

Executive summary

A Medium-term Expenditure Framework (MTEF) is a budget which extends beyond a single year's revenue and expenditure projections to include a medium-term perspective. A holistic definition of an MTEF, and the eventual goal of an MTEF Reform Programme, is that a medium-term budget replaces the annual budget[1]. Successful implementation of MTEFs require macro-fiscal policies which limit government expenditure to available resources, framed in accurate and realistic medium term revenue projections guided by debt sustainability analysis. An MTEF is based on multi-year fiscal targeting and the enforcement of fiscal rules which ensure the three primary objectives of Public Expenditure Management (PEM): aggregate fiscal discipline; allocative efficiency and technical efficiency[2].

The findings of the assessment of the Lesotho MTEF, conducted by Oxford Policy Management in 2021 and 2002, is that Lesotho's annual budgeting includes projections for two outer-years. However, these projections are based on unreliable macro-economic modelling and are not adequately supported by key finance and budget systems. In addition, there are deep seated systemic weaknesses which undermine the PEM objectives of aggregate fiscal discipline, allocative efficiency and technical efficiency.

Shrinking revenue streams, an increase in the demand for services and the lack of medium-term fiscal planning have resulted in the depletion of the country's reserves, growing budget deficits and the inability to fund many key government services, resulting in Lesotho's failure to develop its economy and citizens. Lesotho is lagging in achieving their global sustainable development goals (SDGs) and the extreme fiscal shocks generated by the global economic crises in 2020 have resulted in a country in a fiscal crisis. Unless there are fiscal policy changes in Lesotho, the country will continue on its current trend of negative growth, dependency on loans and failure to achieve meaningful socio-economic development.

The Lesotho Ministry of Finance; Budget Office spear-headed this Technical Assistance Programme with support from UNICEF and the engagement of Oxford Policy Management (OPM). This report includes an assessment of existing PFM systems and practices in Lesotho, solutions to addressing weaknesses and a 'Road Map'

[1] World Bank (2013). Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks
[2] World Bank (1998) Public Expenditure Management Handbook. Washington DC

(implementation strategy) which will result in a medium-term budget replacing the annual budget and a gradual return to a path of economic stability.

Introduction

This assessment report is structured as follows:

Section 1: Key observations and recommendations capture observations together with proposed solutions and recommendations

Section 2: Assessment of the Lesotho MTEF is divided into three Sub-Sections:

- IT programmes and systems
- Macro-economic modelling and projections
- Institutional and capacity building requirements

This assessment draws on global practice and references the World Bank's Public Expenditure Management Handbook[3], and Beyond the Annual Budget Global experience with Medium-Term Expenditure Frameworks[4] .

Section 3: The Lesotho MTEF road map provides (1) a realistic vision of what an MTEF budget can achieve, (2) a PFM reform context including previous MTEF reforms in Lesotho and the context for ongoing PFM/MTEF reform. The road map includes recommendations for immediate implementation *('Quick Wins')* and for a phased in, incremental strengthening and institutionalising of a government wide MTEF.

[3] International Bank for Reconstruction and Development (1998) Public Expenditure Management Handbook.
[4] World Bank (2013). Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks

Key Observations and Recommendations

1.1 IT Programmes and Systems

1. CBMS functionality assessment

The Central Budget Management System (CBMS) is Lesotho's budget management tool. It is a well-developed, intuitive and comprehensive budget tool. However, it does not contain functionality for detailed budgeting in the outer two years of the MTEF period. Medium-term Expenditure Framework (MTEF) budgeting requires detailed budgeting for all three years of the MTEF period. However, the CBMS contains functionality allowing spending agencies to budget only for the 1st year of the MTEF. The outer 2 years of the MTEF are then calculated through an automatic formula – a simple growth rate of 5 percent.

The growth rate of 5 percent was built in to the CBMS and applied to all items lines. This prevents spending agencies from capturing detailed budgets for the outer 2 years of the MTEF in the CBMS and means that the final published MTEF is effectively a one-year budget plus two outer years calculated with a simple 5 percent increase.

Not only does this prevent medium term planning within spending agencies, but since the Medium-term Fiscal Framework (MTFF) is forecast using a more sophisticated methodology, the MTEF budgets calculated using a flat 5 per cent growth rate is misaligned with the MTFF. This creates incoherence between the MTFF and the MTEF.

In addition, the Central Budget Management System (CBMS) does not reference the previous year's expenditure. An MTEF budget should be a 'rolling budget' which uses previous outturns to calculate the upcoming fiscal year (FY1) and to update the 2nd (FY2) and 3rd (FY3) allocations to ensure that the actual expenses of the previous year are not lost, but rather form the baseline for the new year's budget process. The CBMS does not contain this functionality implying that spending agencies budget afresh every year, and do not use their MTEF budgets as a baseline from which to reduce, increase or reprioritise spending.

2. Integrated Financial Management System (IFMS) functionality assessment

The assessment of the Lesotho IFMS is that it is adequate and fit for purpose and that the challenges surrounding the IFMS are due to processes regarding its use, not to the system itself. The first challenge is that monthly and annual accounting periods are not reliably 'locked' at the appropriate times. This makes it difficult to produce reliable monthly and annual reports, as the numbers in the system are subject to changes until locked.

Secondly, payments are currently recorded in the system before they are paid by the Central Bank. Hence, the IFMS captures transactions as approved payments when their actual payment transaction may be delayed due to Central Bank liquidity challenges.

Finally, the IFMS does not include all donor funded projects. Donors and partners have their own detailed FMS implying that the government IFMS does not capture the full cost of service provision.

3. Integration of capital and recurrent budget

Lesotho's capital budget comprises approximately 26 per cent of total expenditure. The Public Sector Management Programme provides the framework for capital projects which is managed by the Public Sector Investment Committee (PSIC), responsible for the appraisal of projects for inclusion in the Capital Estimates and the Public-Sector Investment Programme (PSIP).

A comprehensive MTEF would identify clear linkages between recurrent and capital expenditure. The MTEF provides the framework to identify the timelines of multi-year projects and how they will impact on recurrent expenditure in future years. For example, if the Government of Lesotho is constructing a new hospital, the MTEF would identify its completion date and the Ministry of Health's budget would allocate funds for the recurrent expenditure to operate the new facility.

Budget Framework Papers can be used to identify changes in the scope during the implementation of a project, projects that have been included in the budget while they are not ready for implementation as well as procurement and tender related delays in project implementation. The CBMS, IFMS and PSIP data base should interface so that the MTEF is used as a tool to manage the impact of projects on recurrent expenditure.

4. Capacity Challenges relating to the use of CBMS and IFMS

Data from the CBMS and (Integrated Financial Management System (IFMS) can produce automated reports however it appears that raw datasets are not easily extractable and made available to staff. Raw datasets are important for analysis purposes and challenges accessing data may be related to possible shortcomings in budget and monitoring processes. This may be a pervasive problem across processes and further investigation would be useful.

The relevant Ministry of Finance (MOF) staff have the capacity to understand and use the CBMS and IFMS and to 'troubleshoot' basic 'glitches' when running customised reports and data requests. However, for non-standard requests and system adaptions, the MOF rely on the software company's services. This is possibly due to a lack of confidence in their ability and not a lack of capacity.

5. Recommendations for the CBMS

Amendments are required to the CBMS to accommodate a credible MTEF. Firstly, the functionality of the CBMS needs to be expanded to capture detailed budgeting information from spending agencies for all three of the MTEF years. The ceilings for each year of the MTEF are determined by the Medium-Term Fiscal Framework (MTFF) and spending agency budget submissions should sum to the MTFF ceilings for each of the 3 years. Although this will increase the administrative burden on spending agencies, it is a necessary condition for MTEF budgeting.

Secondly, it is necessary to expand the functionality in the CBMS to display the previous year's MTEF budgets and request spending agencies to make detailed adjustments each year, rather than capturing completely new, independent budgets. This is one of the cornerstones of an MTEF and requires a significant shift in the culture of budgeting, which currently sees each year as an independent entity.

These changes will resolve sequencing difficulties between the finalisation of the MTFF and budget preparation. Currently, the annual budget preparation starts before the MTFF is finalised, meaning the initial ceilings are subject to change. Substantially changing the ceilings during the budget process undermines trust in the MTFF from the spending agencies. The use of the previous year's (Fy-1) budget as the initial starting point (baseline) for spending agencies should provide sufficient time for the Macroeconomic Department to finalise the MTFF before it becomes essential to the budget process.

Thirdly, the functionality of the CBMS to produce Budget Framework Papers needs to be expanded. (This is discussed in detail in Section 1.9 of this report.) The CBMS needs an additional module which acts as an overlay of the expenditure sheets to allow for MDAs to identify their baseline, new spending proposals (NSPs) and efficiency gains. This functionality would also show which NSPs can be funded within MDA ceiling, and which would incur expenditure above the level set by the ceiling. The functionality would need to allow for changes in the ceilings and in the versions of the expenditure sheet during budget preparation.

The detailed change request documenting the desired changes discussed to be shared with the CBMS software company Softech. (Annex 1) and Softech's CBMS Budgeting System Gap Analysis Document Changes (Annex 2).

1.2 Macro-economic modelling and projections

6. Assessment of MTFF components and accuracy of MTFF forecasts

Lesotho has a Medium-Term Fiscal Framework (MTFF) in place which should specify a top-down aggregate resource envelope and the allocation of resources across spending agencies. The MTFF and MTEF are currently not based on the same macro-fiscal framework and forecasting models. This report includes detailed recommendations on how credible economic projections can be achieved for revenue sources, including SACU Revenue, tax and non-tax revenue. There are a number of system revisions which can be immediately implemented to provide solutions of how BOS, the MOF Macro projections, the IFMIS and CBMS can be integrated and improve their effectiveness.

The assessment of the Medium-Term Fiscal Framework (MTFF) is that it has high levels of inaccuracy to be the cornerstone of an MTEF. The MTFF produced by the MoF Macro-economic Department and the MTEF produced by the Budget Department utilise different forecast figures. This is partly due to the automatic 5 percent increment in the CBMS for the two outer years but does not explain why projections in the first budget year differ.

An analysis by correlating MTFF data from a particular year's budget speech with outturns in later year's budget speeches. For example, in the 2013/14 budget speech, total revenue was projected to be 63.8 percent of GDP for FY2012/13. In the 2014-2015 budget speech actual revenue was 67.6 percent of GDP denoting a margin of error of 3.8 percent.

Absolute value of errors were used to prevent underestimates cancelling out overestimates, and averages were then calculated for each forecast period. The analysis was run over the period 2010/11 to 2019/20[5] and the forecast errors are shown in Table 1 below.

The values in the Table 2 identify that forecast errors are large, including FY 1 revenue which have an average error of 3.4 percent of GDP. The errors appear to be mainly due to inaccuracies in the forecast of tax revenue and SACU revenue. In addition, estimates of expenditure are inaccurate. Recurrent expenditure has a 3.6 percent average error as a value of GDP in a one-year forecast. Similarly, the forecast error for the capital budget is significant and compensation of employee's forecasts are inaccurate despite the high level of predictability of this expenditure item.

The wide-ranging forecast errors have led to substantial errors in the forecasting of the budget balance.

Table 1: Forecast Errors (percent of GDP)

	1-Year Forecast Error	2-Year Forecast Error	3-Year Forecast Error	4-Year Forecast Error
Revenue	3.40	5.63	10.35	3.00
Tax revenue	1.97	2.69	3.67	2.05
Taxes on income, profits, and capital gains	1.06	1.52	2.07	0.48
Value-added tax	0.78	1.37	1.30	0.80
Grants	0.71	1.34	1.67	3.05
Water Royalties - LHDA	0.25	0.59	0.47	0.68
SACU	2.01	2.23	7.07	4.25
Recurrent Expenses	3.63	7.13	6.94	4.78
Compensation of Employees	2.64	2.53	3.03	1.88
Capital Budget	2.49	3.43	5.13	4.95
Budget Balance	3.28	4.57	4.60	2.20

Lesotho Budget Speeches and own calculations

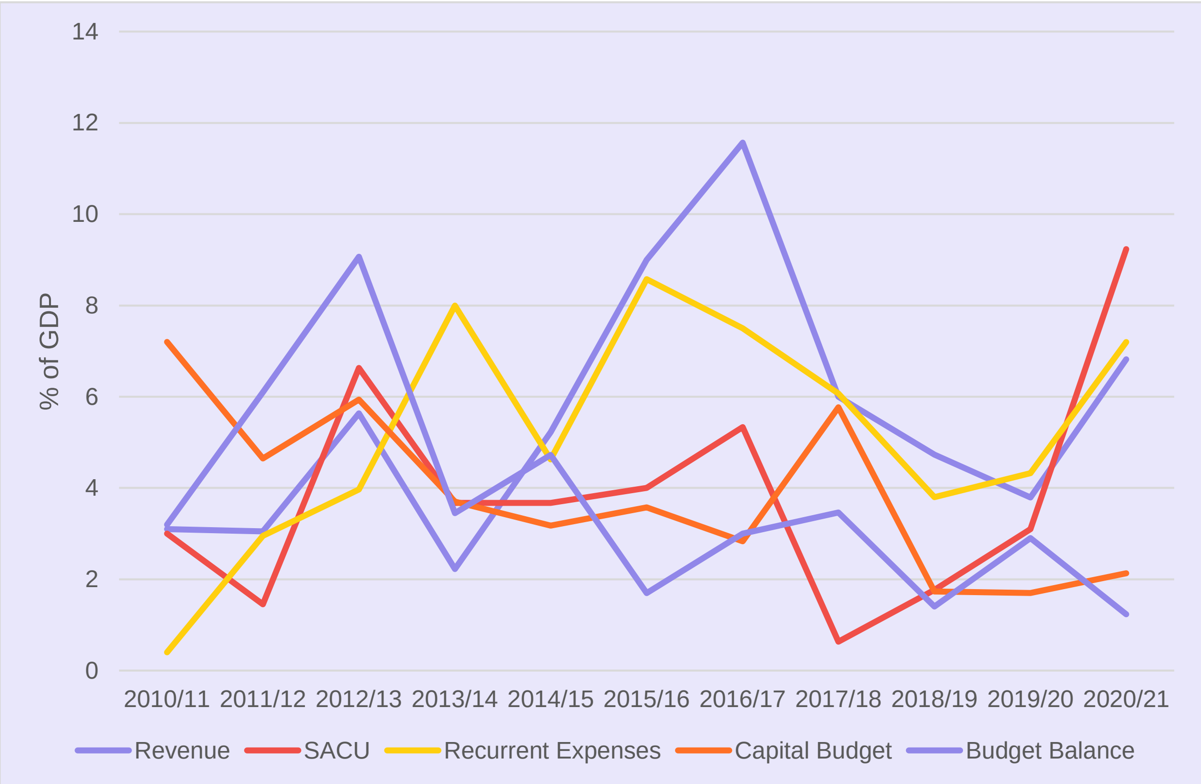
One-year forecasts are inaccurate but there is a significant trend towards larger forecast errors as the period of the forecast increases. This is to be expected given that more events can influence outcomes in a longer period, however revenue projections with errors of 10 per cent of GDP in the 3rd year negate the impact of better fiscal planning that an MTEF can bring. The source of errors will vary based on what is being

[5] The fiscal year 2020/21 is excluded from the analysis because of the impact of Covid-19

projected. Revenue forecast errors could be due to an inaccurate forecast of economic growth, a faulty view of the tax buoyancy (the relationship between the tax take and economic growth) or collection failures. The largest errors in the revenue forecast stem from SACU. Lesotho does not conduct its own SACU forecast but rather uses the projection that South Africa provides.

On the expenditure side, forecast errors suggest a lack of control of expenditure, although it could also be that expenditure is being aligned with changing revenue conditions. The errors in the forecast of Compensation of Employees suggest that the first explanation is more likely.

Figure 1: Forecast Errors over Time: 2010/11-2020/21



Lesotho Budget Speeches and own calculations

7. Forecasts of Economic Growth

Some of the inaccuracy in the MTFF forecasts is due to GDP forecasts which are inaccurate, which in turn bias GDP ratios away from correct values. To determine how accurate forecasts of nominal GDP are, these were extracted from the annexes at the end of budget speeches. For each forecast, these were compared with actual levels. Table three shows the absolute value of the forecast errors and identifies that the accuracy of the forecast increases as the length of the forecast increases. Put differently, forecasts of nominal GDP in Year-3 , are more accurate than those of nominal GDP in Year-1.

Table 2: Accuracy of Nominal GDP Growth Forecast

Period	Forecast Error (percent)
Projected	6.0
1 year	6.8
2 year	5.7
3 year	3.7

One concerning aspect is that forecasts are inaccurate for the current fiscal year (FY-0) that is practically ending at the time of the budget speech. For this fiscal year, there will be at least 2 quarters of GDP estimates available, so inaccuracy for the FY-0 forecast should not occur.

8. Discussion

The MoF Macro-Economic Department has two economic models to produce forecasts. There is a functionality to link the two models which is currently non-operational.

The Financial Programming Model (FPM), introduced by the IMF and widely used in developing economies, is a Microsoft Excel tool maintained by the Ministry of Finance with support from IMF Afritac South. The FPM is based on accounting identities and uses forecasts based on projected growth by industrial sectors which are aggregated to produce national level forecasts.

The second model, the Lesotho Empirical System for Policy Analysis and Forecasting (LESPAF) is based on econometric modelling utilising economic relationships to estimate how sensitive certain variables are. Although econometrics is a component of most graduate level economic degrees, the skills required to run econometric modelling requires advanced post-graduate statistical on-the-job training. The model needs to be maintained by a skilled econometrician, as the economic relationships underlying the model can change subtly over time, and the regressions need to be re-estimated to ensure that the coefficients in the model are correct. The LESPAF is run on EViews which is a user-friendly and accessible econometric platform.

The optimal scenario would be to run both models, however there are a number of barriers to LESPAF being utilised. Firstly, it requires licensing which has expired as license fees have not been paid. In addition, it requires advanced econometric skills whereas the Financial Programming Model requires intermediate Excel skills.

9. Recommendations

In the past, Lesotho had a **Macroeconomic Working Group**. It is recommended that this group reconvene. (This issue is discussed in Section 1.9 of this assessment report).

The licensing, software-update and technical skills issues require an investment of time and resources before LESPAF can be fully utilised. These issues are not within the constraints of this current MTEF assignment. It is, therefore, recommended that MoF Macro-economic Department continue using FPM, and focus on improving the quality of the assumptions used and but that certain structures are implemented to support the forecasting process and improve outcomes. In the long-term, it would be better if Macro ran both models and compared outcomes. Having a second forecast, will provide a test of assumptions and outcomes.

One reason the FPM does not provide correct expenditure data is that IFMS data provided to the MoF Macro-economic Department is not in a user-unfriendly format and requires substantial reformatting before it can be entered into the FPM. This results in delays and in some cases, the use of inaccurate estimates instead of actual data.

SACU revenue can be relatively predictable and stable for extended periods then have a dramatic uptick or plummet when there are fiscal shocks in the region. When there is a significant uptick in SACU revenue it is treated as a 'windfall' and has, in the past, led to a sizable, unplanned increase in government expenditure. When the revenue stream declines back to previous levels the increased levels of spending cannot be rescinded as they create delivery mandates which results in deficit spending amounting to poor fiscal discipline.

In addition to improving the reliability of revenue forecasting it is recommended that the Ministry of Finance conduct an in-depth analytical review of all aspects of SACU. In addition, it is recommended that SACU Development Component is separated out from the fiscus and invested in a stabilisation fund. A good example of this is the Chile Copper Stabilisation Fund. Chile sets a reference price for copper and if the price of copper is above the reference price, the 'windfall' is paid into the Fund which accumulates reserves. These accumulated reserves are used when the copper price falls below the reference price. The result is that there is less variability in the amount of revenue from the fiscus and no political pressure to increase expenditure when revenues are higher than expected.

1.3 Institutional and capacity requirements for an MTEF

10. Assessment of Lesotho's MTEF capacity against global benchmark measures

This section draws on two quintessential World Bank references, the Public Expenditure Management Handbook (1989) which provide an overall framework for Public Finance Management (PFM) reform and the World Bank (2013) Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks which is based on observations of MTEF implementation programmes by the World Bank from over three decades and in over one-hundred countries.

An effective budget system needs to be based on a set of core (PFM) principles, summarised in Table 2 (below). These provide a set of global standards to assess the credibility of the Lesotho MTEF.

Table 3: Summary assessment of Lesotho's MTEF against global measures

Measures of a good MTEF[6]	Explanation of MTEF measures	Summary of assessment of Lesotho's MTEF capacity
Comprehensive & disciplined	A comprehensive and disciplined approach uses the budget as a mechanism to solve problems within a policy driven system. A budget system should provide a rule-based framework of fiscal discipline which absorbs only the necessary resources to implement policy. The budget should be the tool which manages the challenges of hard fiscal constraints and competing demands for funds, considering current and capital demands and constraints for the current and outer years.	There is not a strong culture of budget discipline in Lesotho. Not all donor, private sector and NGO contributions are included in the national budget and operate on parallel planning and budget framework. There are weak links between the budget, policy and planning framework
Legitimacy	Legitimacy is based on having the decision makers who made a policy being part of making future changes to that policy. This is essential for a credible medium-term budget, as it promotes a stable policy framework.	In some cases, changes in policies are made without a thorough analysis of the impact they will have on the budget.

[6] International Bank for Reconstruction and Development (1998) Public Expenditure Management Handbook.

Measures of a good MTEF[6]	Explanation of MTEF measures	Summary of assessment of Lesotho's MTEF capacity
	Legitimacy also includes delivery agents implementing mechanisms to include the private sector and community in budget decisions.	
Flexibility	Flexibility allows programme managers to make strategic and operational decisions, based on reliable information. Flexibility is based on a devolution of power from the political leadership to accounting officers and programme managers, provided that those decisions adhere to policy and are within tight budget constraints.	The CBMS does not allow for flexibility in setting outer year ceilings.
Predictability	Predictability requires the balancing of short- and long-term budget demands within a stable macro-economic, strategic, policy and funding environment.	Lesotho has failed to mitigate budget shocks and currently prioritises short term over long term demands The country has insufficient reserves to plan for and manage fiscal shocks. Outer-year macro-economic forecasts are unrealistic and unreliable. The systems of predicting and managing the fluctuating SACU revenue are inadequate.
Contestability	Contestability allows for ongoing review and evaluation of the ability of government agencies to deliver within the given policy environment. Contestability includes mechanisms for performance evaluation as well as policy review.	Budget hearings are inconsequential with minimal space for MDAs to challenge and compete for budget allocations.
Honesty	Honesty requires unbiassed projections of revenue and expenditure. Checks and balances need to limit over-optimistic budget projections. Systems need to be in place to limit both political and technical bias which can lead to the failure to deliver efficiently and effectively on policy priorities.	Political interference, un-funded mandates and the over-use of supplementary budget undermine budget efficiency and have the potential to undermine fiscal stability.

Measures of a good MTEF[6]	Explanation of MTEF measures	Summary of assessment of Lesotho's MTEF capacity
Information	Information needs to be accurate, reliable, and timely and provide a strong platform for decision making.	The IFMIS payment system does not 'close' payment periods leading to constant carry-overs and off-system arrears. There is no reporting on achievement of delivery targets against the budget There is misalignment and a lack of sequencing of statistical data from the BOS and the budget preparation framework. MOF officers have challenges in extracting and using data from IFMIS and CBMS for a range of reporting requirements.
Transparency and accountability	Transparency and accountability imply that decision makers communicate their decisions and have all the necessary information when making decisions.	In-year financial reporting is often delayed and public access to audited financial statements is limited.

11. Assessment of institutional and governance environment for MTEF implementation

Institutional and governance environment factors will have a significant impact on the ability of the MoF Budget Department to install good PFM systems and champion a multi-year PFM change management strategy. The MoF Budget Department take cognisance that MTEF implementation needs to 'outlive' any economic, fiscal, policy, legislative, governance, and institutional changes which may occur in Lesotho in the next few years. Most of these factors are extraneous to the MTEF Project as they are 'above' or outside of the sphere of influence of the Budget Department who are the project implementation agency. These factors can be recognised as risk factors and are identified in Table 3 (below).

Table 4: Risk factors for MTEF Implementation.

Extraneous Risks	Potential Opportunities	Potential Threats
Highly contested elections are due to be held in Lesotho in September 2022 and may	If major immediate outputs of the MTEF project are realised, the new office-bearers and	The political volatility experienced pre-elections in 2022 might spill over into 2023

Extraneous Risks	Potential Opportunities	Potential Threats
result in many new Ministers, Parliamentarians and Permanent secretaries.	officials can be inducted into an existing MTEF Budget process, through the MDA Budget Committees and MOF Desk Officers	continuing to compromise Lesotho's delivery of services and slow development opportunities.
New political regimes have a tendency to re-structure MDA configuration.	A streamlined institutional environment, with linkages to the National Development Agenda and synchronised with Cabinet Clusters has the potential to promote improved service delivery.	The small gains that have been made in improved PFM practice may be lost, leading to further deterioration in already poor levels of service delivery.
If a new Finance Minister is appointed, she may implement changes within the Ministry of Finance.	The current silo approach and poor communication within the MoF, and between the MoF, BOS and Ministry of Development Planning may be improved through a synchronised management structure.	Institutional re-structuring may compromise the gains made in implementing good PFM practice

12. Socio-economic conditions

Between 2018-2020 Lesotho faced structural, macroeconomic and social challenges due to natural disasters, political instability and sluggish economic growth. In the first quarter of 2020, before any positive COVID-19 case was recorded, economic growth contracted by 1.8 percent. It contracted further by 15.7 percent in the second quarter of 2020 as the impact of the pandemic started to be felt in the country.

The country continues to face major economic and developmental challenges. Its economic performance has been negatively affected by sluggish global economic growth coupled with slow economic growth in the South African economy. Real GDP growth is estimated to have contracted by 1.2 percent and 0.4 percent in 2018 and 2019, respectively and it is projected to average 0.6 percent between 2019–2023. The poverty rates are estimated to have increase from 26.6 percent in 2019 to 29.4 percent in 2026. Lesotho's GDP contracted by 5.4 percent in 2020 due to the impact of the COVID-19 pandemic, compared to an expansion of 0.4 percent that was expected before the pandemic.[7]

[7] https://www.worldbank.org/en/country/lesotho

COVID-19-related lockdown measures have had a negative impact on the labour market, resulting in job and income losses concentrated in urban areas. More than 60 percent of Basotho households receive remittances from South Africa monthly and these have fallen due to the global economic slowdown. The World Bank's macro-poverty outlook projections estimate that an additional 3.2 percent of the population has already been pushed into extreme poverty as a result of the pandemic, with the extreme poverty rate now estimated at 30.5 percent.

13. Lesotho's budget credibility rates

Budget credibility rates measure predictability over the budget cycle. They measure the rate of change between the proposed budget and the approved budget. During the Inception Phase of this project a recuring theme emerged of vast fluctuations in ceilings between the indicative ceilings issued in June/July and the budget presented to Parliament the following March. The budget credibility rates are based on data from Budget Estimates Books and differs from that published in the Budget Speech which is used in the analysis in Section 1.2 of this report.

Revenue credibility rates

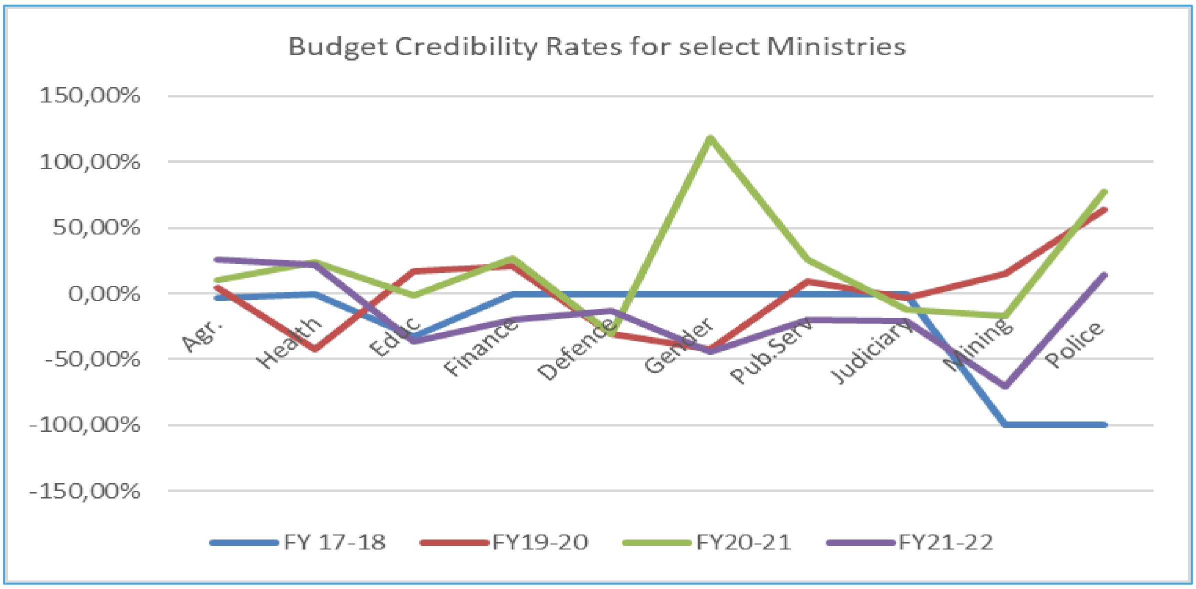
Total revenue figures deviated by 1 per cent (-0.94) for the period FY 2018-2019-FY 2021-2022. In contrast, Southern Africa Customs Union (SACU) revenue deviated by 10 per cent over the same period. In FY 2017-2018 SACU revenue predictions are accurate, however, from FY 2019-2020 onwards they are erratic with a credibility differential of 9 per cent in FY 2019-2020, 53 per cent in FY 2020-2021 and -11 per cent in FY 2021-2022.

Tax revenue credibility rates also fluctuate considerably during the fiver-year period with a zero per cent revision in FY 2018-2019, +30 per cent in FY 2019-2020, and -23 per cent in FY 2021-2022.

Expenditure credibility rates

The average credibility rate by **economic classification** is 7,8 per cent. Compensation of Employees changes very little as it is a statutory commitment based on payroll calculations and there are no large-scale revisions in the budgets for goods and services. However, significant changes are made in **functional allocations**. During budget preparation, ministry allocations change by up to 100 percent between the proposed and approved budgets. Figure 1 (below) illustrates functional budget credibility rates for the social sector as well as other key ministries.

Figure 2: Budget credibility rates by function



14. Planning capacity assessment

Lesotho has instituted a number of key initiatives to bring the budget and planning cycles into a single system. The key components of this are the Budget Framework Papers, the drafting of sector and MDA Performance Indicators, (which are loaded and updated on the CBMS) and the inclusion of performance information in annual reports.

The findings are that despite these synergies, (1) Lesotho's planning capacity is underdeveloped, and (2) there is little real link between budget lines, service delivery activities and development, strategic and operational plans. A caveat of this finding is that the Health, Education and Social Development sector (and possibly additional sectors not part of the MTEF Pilot) have developed strategies, plans, performance indexes, detailed costing and monitoring and evaluation systems as part of their joint delivery within a donor/partner framework. Key Interviewees from these sectors reported on off budget systems which run separate and parallel to the government budget and may commandeer a larger budget than that of the government.

MTEF Roadmap (roll-out strategy)

1.4 Expected outcome of MTEF Roadmap

The outcome of the MTEF Implementation Plan is for the MTEF to become the only planning and budget system in Lesotho. Much emphasis in the conceptualisation of an MTEF, (including in this assessment report) centres around the processes and systems to implement a budget which creates fiscal stability through having realistic revenue forecasting and budget ceilings. While it is recognised that this is central to the MTEF, it is one of two pillars. The second, and equally important, pillar to an MTEF is the creation of a single planning and budgeting process which places as much emphasis on precise and realistic planning as it does on precise and realistic revenue and expenditure forecasts.

1.5 Major benefits of implementing an MTEF

In many countries budget reform requires a multi-year commitment and considerable effort from stakeholders but often amounts to little more than a 'paper based' change with little impact on actual budget practice. There has been considerable progress in the overall PFM reform agenda (including the introduction of Programme Based Budgets) in Lesotho, however, the MTEF in Lesotho fails to provide reliable medium-term budget projections, and, therefore, falls short of serving its core purpose. Noting the lack of progress in implementing an MTEF and the lack of confidence expressed by government officials in key informant interviews, it is important that the MOF communicate the benefits of an MTEF to all stakeholders to gain their commitment and support. The major benefits of implementing a comprehensive and credible MTEF are: -

- Improved fiscal performance (revenue and expenditure);
- The ability to manage the impact of revenue fluctuations and fiscal shocks;
- Closing the gap for political interference and unfunded mandates;
- Improved government capacity to manage borrowing and donor inputs;
- Improved links between policy, development plans and budgets;
- Improved budget efficiency; and
- Increased levels of management ownership at spending agencies.

A strong argument of the fiscal benefits to implementing an MTEF is made by research conducted by the World Bank in the review of global experience with medium-term expenditure frameworks[8] in 2013, which looked at MTEF implementation in 53 countries and found that the average fiscal balance closed by approximately 2.6 per cent within three years of the implementation of an MTEF, and if the MTEF is supported by strong fiscal policy, the fiscal balance continued to shrink, based on continued increases in revenue.

1.6 Global background of the MTEF

Globally, the first MTEFs were introduced in the 1980s and gained prominence in global PFM Reform Programmes in the 1990's[9]. MTEFs have been implemented by more than sixty percent of all countries. MTEFs in low-middle income countries (such as Lesotho) tend to be initiated by donors and international finance institutions (IFIs) to ensure a multi-year commitment to achieving policy objectives and poverty reduction[10]. High-income countries which developed their MTEFS in the early 1980/90s, such as New Zealand, Denmark, Norway and the Netherlands are more likely to adopt MTEFs motivated by improving citizen satisfaction levels[11] through the achievement of budget targets and improved expenditure prioritisation which will lead to improved government service delivery and fiscal performance.

1.7 The context of the Lesotho MTEF Roadmap

This Lesotho MTEF Road Map is designed to combine the momentum derived from the MTEF Programme under the leadership of the Budget Department and restore confidence in implementing an MTEF. It is based on a 6-year plan which the World Bank regards as the minimum time needed to install a fully functional MTEF. In addition, it recognises that budget reform programmes have no completion date and that the reform processes are interactive and iterative, responding to the lessons learnt during implementation.

The 2001 introduction of an MTEF was a component of the PFM Reform Programme which included technical assistance and support from partners such as the European Union, World Bank, Department for International Development (DfID), United Nations

---

[8] World Bank (2013). Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks

[9] World Bank (2013). Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks
[10] World Bank (2013). Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks
[11] Author's own wording

Development Programme (UNDP); International Monetary Fund (IMF) and the Africa Development Bank.

In 2010 the MTEF was included in the broader Public Service Improvement and Reform Programme (PSIR)[12]. However, its implementation was not coherent with other public service reforms and lacked in any meaningful incentives to motivate government officials to be committed to its implementation.

The amalgamation of the Ministry of Development Planning and Ministry of Finance in 2005 was intended to create a solid platform for building an MTEF linking development plans to the budget. However, the opportunity was lost due to IT system challenges and the lack of coherent government wide MTEF capacity building programmes.

The Lesotho MTEF reform has led to general improvements in PFM, but the country, has to date not implemented medium-term budgeting. If the outcome of the current MTEF Project leads to the adoption of a medium-term budget in 2023-2024, it can be argued that Lesotho may see significant improvements in its fiscal performance over the medium-term. However, economic policy makers may not be convinced by this argument and focus on more immediate fiscal strategies, excluding the possibility that a medium-term budget can enhance fiscal performance when implemented in tandem with more high-profile measures to enhance the country's fiscal position.

To contextualise the current MTEF project, interviews were conducted with the MOF Budget Controller, Maleshoane Lekomola-Danziger who initiated the project in 2021. The previous Principal Secretary of Finance Motena Tsolo (currently the PFM Advisor to UNICEF in Lesotho) was also interviewd. Based on these two interviews, it appears that one of the major factors which hampered the installation of the MTEF over the years was **institutional absorption capacity**. Early MTEF implementation interventions (2001-2005) were characterised by intensive, wide-scale training of government officials. This training appears to have been too abstract and far removed from the realities of government operations.

1.8 Future scenarios for the Lesotho MTEF

The starting point on the MTEF Road Map is to consider the likely scenarios for how extensive and impactful the outputs and outcomes of the MTEF implementation will be. The three possible future scenarios are described below. However, more often than

[12] Ministry of Finance Public Finance Management Reform Action Plan. 2012 – 2017/18

not, the future reality plays out as a combination of components from each scenario. Three future scenarios are likely in the next six years[13]:

- **Highway-** A sequenced, incremental implementation of a comprehensive top-down, bottom-up rule-based government wide MTEF which becomes Lesotho's only budget process.
- **Slow Road-** The MTEF roll out is limited to the MOF Budget Office and MDAs with an improved bottom-up approach to budgeting, but no commitment from the cabinet and senior officials as they focus on economic growth without seeing the contribution the MTEF will make in this regard.
- **Traffic jam -**The MTEF remains a 'paper-based' addition to budget documents with no impact on fiscal performance, budget processes or improvement in government performance.

The likelihood of which road the MTEF will take will be based on:

- Developments in the fiscal, political and governance environment;
- Progress made to date on the MTEF;
- Previous and current PFM reforms; and
- The absorption capacity of government officials

Highway

The 'Highway' scenario is the desired outcome of the current MTEF implementation project. It requires a paradigm shift in the country's political leadership, senior management in the economic cluster, including the Central Bank, Cabinet Ministers and Members of Parliament. No matter how successful the MOF and MDAs are in implementing a medium term-budget, it will continue to be ineffectual if it is not adopted by the country's leadership.

This may not be achieved in the short term as it goes hand in hand with a large-scale culture change in Lesotho's governance. The MTEF Road Map is intended to incrementally benefit the economy, through improved development planning and tighter expenditure control which will lead to more fiscal space within the current constraints and gradually to increased revenue and better overall fiscal performance.

Slow road

The MOF Budget Department is the pivotal change agent to drive the institutional and systemic changes to achieve a credible and robust medium-term budget. However,

[13] World Bank experience identifies 6- years is a typical time period for MTEF Implementation. (The World Bank (2013). Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks.)

their sphere of influence is limited to agencies on the same horizontal level and those agencies vertically 'below' the influence of the MOF. In terms of this budget reform programme, the various departments and systems of the MOF, the Bureau of Statistics and the Ministry of Development Planning can be regarded as 'on the same level' and within the sphere of influence of the Budget Department. The Ministries, Departments and Agencies are required to follow the fiscal rules and policies determined by the MOF, whether they are, willingly or unwillingly under the sphere of influence of the MOF.

However, Cabinet, Members of Parliament and senior officials may focus their efforts on immediate economic growth without seeing the contribution the MTEF will make in this regard. In this scenario, the MTEF may be delayed and implemented only once the economic basics are in place.

Traffic Jam

Significant improvements have been made to MOF IT systems to allow for improved medium-term budgeting. However, without the commitment of the Cabinet, Parliament, political heads and senior management, the medium-term budget will remain, as in the case of many countries, little more than a paper-based instrument which does not impact Lesotho's fiscal performance.

1.9 MTEF Roadmap: '*kick start*' implementation activities

There is an immediacy to '*kick start*' MTEF activities. The '*kick start*' activities aim to build stakeholder confidence in the MTEF, take into account ramifications of the upcoming elections and the possibility of governance and institutional changes in the country. The proposed[14] activities are synchronised with the Lesotho budget calendar.

Macro-economic stakeholders in Lesotho used to meet as a **Macroeconomic Working Group**. It is recommended that this group reconvene. It should include members from Macro, the Bank of Lesotho and academia. Other potential members include the Bureau of Statistics. The aim of the group should be to bring all those who are producing forecasts of the Lesotho economy into one forum. The goal should be to discuss forecasts so that any faulty assumptions can be interrogated and reworked.

[14] The Roadmap and proposed activities are of a draft nature as they require the endorsement of stakeholders and where required they may be amended

May 2022-Strengthen the role of Budget Department Budget Officers

Building the status and capacity of Budget Officers as Desk Officers is a fundamental component of PFM strengthening. Staff in the Budget Department are (already) assigned to specific ministries. Their ability to champion the top-down and bottom-up medium-term budget processes can be strengthened through a number of processes. During May 2022, engagement with the Budget Office in the review, and where necessary revision of planning and budget templates. This will increase their ownership of budget processes and their ability to offer support to MDAs. Capacity building sessions on understanding the macro-economic environment and factors influencing budget ceilings will be run, basic budget analysis techniques, methodologies for mentoring and supporting MDA's, and communication and negotiating skills to improve budget hearings.

Recommendation

Assessment recommends that the assignation of Budget Officers to MDAS is reviewed and revised so that Desk Officers are assigned to sectors which are based on existing ministerial clusters. It is further suggested that, once assigned to a sector/MDA the Desk Officer should be attached to 'their' sector for a minimum of 5-years, and before they are re-assigned an induction and hand-over process is followed, including relationship building exercises.

Ensure that the revised PFMA accommodates an MTEF Budget.

The Lesotho Ministry of Finance needs to ensure that the Amended Public Finance Management Act accommodates an MTEF Budget.

Recommendation

The revised PFMA should include: -

A clause which stipulates the nature and status of the MTEFs and BFPs.

A clause stipulating that any instruction to deviate expenditure from the approved budget is in writing and that the Accounting Officer informs the Minister of Finance (in writing) of this deviation.

A clause allowing for a mid-year appropriation act to be passed

Box 1: Rwanda Case Study

Rwanda's State Finance Law includes the revenue estimates for the current fiscal year and data for 2 outer-year projections. Rwanda passes a Revised Mid-year Budget after the preparation of a mid-year budget execution report The Revised Draft Budget includes proposals for policy revision of revenue and expenditure and related estimates. The proposed changes shall be consistent with the approved medium-term strategies and budget framework. If they are different from the approved budget framework, they need to be approved by the Cabinet and Chamber of Deputies.

Expenditure commitments cease on 15 May of the Fiscal Year. Funds which have already been committed are allowed until 30 June of the year. At the end of the last working day of each fiscal year, all appropriations and other authorizations for expenditure shall immediately lapse and all unused funds of public entities shall be transferred to the Treasury. The Minister of Finance may issue specific instructions concerning transfers of unused funds and settlement of commitments that remain unpaid as of 30 June.

Source: The World Bank (2013). Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks.)

Box 2: Namibia Case Study

The Namibia annual budget covers the Fiscal Year 1 April 1 to 31 March 31 year. Budgets includes a Medium-Term Expenditure Framework (MTEF), which is based on projections for revenue and expenditure over the coming 3-year period. Article 126 of the Namibian Constitution, read with Section 1 of the State Finance Act, provide the legal framework for the approval of:

- An Appropriation Bill for FY2022/23
- Estimates of Revenue, Income and Expenditure for FY2022/23, and
- Medium-term Expenditure Framework (MTEF) for FY2022/23-FY2024/25.

Source: The World Bank (2013). Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks.)

June 2022- Issue an MTFF based on credible macro-economic projections.

The first step towards a credible MTEF is for the Government of Lesotho is to ensure that the Annual Budget for FY 2023-2024 (including Year-2 and 3 Ceilings) is based on a credible macro-fiscal framework and forecasting models.

The MTFF which sets the fiscal context for the FY 2023-2024 budget should showcase improved medium-term projections. This will require fast tracking the priority system and institutional changes proposed. *(Refer to Section 4.2).*

June 2022-re-establish MDA Budget Committees

The 'BFP notice' can be used to make realistic improvements to building a culture of expenditure efficiency, allocative efficiency, and technical efficiency at a spending agency level. Together with communicating credible macro-economic projections, BFP

Notice should communicate ceilings which spending agencies will use to prepare their Budget Framework Papers.

The 'BFP notice' should be supported by MOF Budget Officers utilising the MTEF Bottom-Up Budgeting Handbook to run capacity building at Pilot MDAs. In addition to supporting the Budget Committees to develop Budget Framework Papers and engage in the budget preparation for FY 2023-2024, the Budget Committee can establish a platform to ensure that Permanent Secretaries are advised on the PFM framework, regulations and challenges which fall under their mandate.

Recommendation:

It is recommended that the June/July 'BFP notice' from the MOF stipulates that the Pilot MDAs re-establish their Budget Committees. This committee should be made up of the MDA finance Officers, economists and planners.

July 2022: Lesotho Budget Strategy Paper (BSP)

The Lesotho Budget Strategy Paper (BSP) provides a comprehensive and thorough analysis of the macro-economic outlook of the country. It includes analysis of key economic sectors and comments on the GoL's performance against key outputs and outcomes. Section 7.2 of the BSP, Priorities for productive sectors, lists the key spending priorities for the upcoming fiscal year. However, it does not provide specific guidelines on how these spending priorities will be funded. In addition, the FY2022-2023 BSP has 12 spending priorities, and given that Section 81 of the BSP states that '*currently the Government of Lesotho (GOL) experiences no fiscal space for new projects. This makes it difficult to undertake projects/programmes geared towards implementation of the NSDP.*'

July 2022: Budget Framework Paper (BFP)

The BFP, produced annually, is the platform for MDAs to create an MTEF. The BFP should be used to budget within the FY 1 ceiling and the FY 2 and 3 indicative ceiling using the MTEF methodology described below.

The proposed methodology to calculate a three-year (bottom-up) budget for the recurrent budget in Lesotho is the following: -

FY 1 MDA Budget

The FY 1 (upcoming year) budget is based on the spending priorities stipulated in the BSP MDAs need to calculate all their input costs to deliver their mandate, based on the BSP expenditure priorities and within their ceiling for the upcoming budget year.

Outturn results from FY-1 (minus one) should be used as guidance. The calculation of the baseline should be done by the MDA budget Committee and avoid formulaic *'number crunching'* by MDA Finance adjusting line items using a percentage denominator to fit within their ceilings. In addition,

FY 2 and FY 3 MDA Budgets

- FY2 is calculated using the FY 1 approved budget as the new baseline;
- FY3 allocations require strategic thinking and forward thinking on new policies which will be introduced;
- MDA managers need to prioritise activities and delay some activities to future years;
- The quality of performance information in the BFPs needs to be improved. The Assessment reviewed 2019-2020 BFPs and many of the indicators are merely descriptions of processes and not outputs. In addition, where recurrent expenditure is linked to objectives the expenses should be disaggregated into economic line items, e.g., staff and goods and services.

Box 3: Top-down-Bottom-up budgeting using the BSP and BFP

Top-down budgeting is a cornerstone of fiscal discipline. It is the process of formulating accurate medium term macro-economic projections and calculating spending limits (the resource envelope).

The MoF will disaggregate the resource envelope into MDA ceilings

Bottom-up budgeting requires an incremental relinquishing of control from the centre (MoF) to MDAs. It also requires a shift in MDA culture, with the Budget Committee (not the accountants) preparing the budget. The 1st step of bottom-up budgeting is finding **efficiency** gains using the baseline which leads to 'spending' space' within their FY 1 ceilings.

A significant proportion of MDA recurrent allocations are mandatory expenses which have very little flexibility. Salaries are pre-determined and existing contracts need to be honoured. However, mandatory expenses need to be examined and if an MDA can motivate central government to find efficiency gains, these should be included in the BFP, for consideration in future years. A thorough analysis and calculating unit costs of service delivery and procurement of goods and service will, undoubtedly lead to significant efficiency gains.

The 2nd step of bottom-up budgeting is introducing **New Spending Proposals** (NSPs). An NSP may result from a change in the way an MDA delivers services, a new policy or the introduction of an entirely new programme/activity. Examples are: -

Change in the way an MDA delivers services: - the Ministry of Education shifting from an oversight role to a delivery agency for Early Childhood Development.

Introduction of an entirely new programme/activity: - the Ministry of Health's COVID response and vaccination programme.

New Policy: - Decentralisation of government services to district level.

Examples of efficiency gains by MDAs

- Partner with the private sector for service provision (e.g., allow appropriate advertising in textbooks, pamphlets and campaigns);
- Review all administrative procedures and stop those that do not contribute to improved performance;
- Review per capita numbers at hospitals and schools and ensure that frontline staff are deployed in an equitable and uniform manner. This may include re-deployment/re-allocation of frontline staff;
- Discuss all expenditure at the Sector Working Group, especially grants and training programmes which may have duplication;
- Rationalise government and donor services to ensure there is no duplication
- Ensure there is provision for future year activities once donor funding stops;
- Set and enforce rules for travel expenditure
- Re-allocate administrative staff to operational areas. e.g., re-training education clerical staff to be teacher-assistants and to local government.

MDA Performance Information

MDAs are required to report on their financial outturns as well performance against targets. This is done for FY-1 (minus 1) as the BFP is produced in the 2nd quarter of FY0. The current BFP requires MDAs to report on **achievements and challenges.** An analysis of a number of BFPs indicate that most achievements and challenges are resource/input related and do not link to MDA outputs and outcomes. The MTEF Manual should provide guidelines on how MDAs should report on their achievements and challenges. In addition, the narrative section of the BFP should be expanded to allow for MDAs to explain why performance targets were not achieved. This is an important component of the MTEF as it acts as a guide for either an increase or decrease in future budget allocations.

Preparation of MDA Budget Submissions

The MDA budget submissions are a translation of the BFP into disaggregated budget lines. The budget submission are done in an MTEF format including properly costed FY2 &3 budget lines.

If the indicative ceilings issued by MOF in June/July change by the time the Call Circular is issued in October the MoF Budget Officers should explain the rationale for these changes to MDAs and help MDAs re-calculate their budget based on the revised ceilings. This includes a re-calculation of FY 2 & 3 budgets based on the Revised FY 1 allocation.

Box 4: Rwanda Case Study-Budget Framework Paper Process

Rwanda[15] utilises a Budget Framework Paper (BFP) which is approved by its cabinet and contains the government's broad strategic objectives and priorities for budgetary policies for the next fiscal year

[15] ORGANIC LAW N° 12/2013/OL OF 12/09/2013 ON STATE FINANCES AND PROPERTY

and for the next two successive years. The BFP sets targets for aggregate revenues, aggregate expenditures, the fiscal balance and the public debt the state is obliged to pay.

The Rwandan Minister of Finance amalgamates the MDA BFPs and submits a consolidated BFP to Cabinet for approval and then to both Chambers of Parliament.

After approval of the BFP by Cabinet, the State Finance Bill is prepared and submitted to the two parliamentary bodies (the Deputies and the Senate). The Chamber of Deputies assesses the Finance Bill and provide opinions before it is forwarded to the Senate for adoption. The Senate approves MDA ceilings including specific purposes and expected outputs for each budget line.

Source: The World Bank (2013). Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks.)

Synchronised Planning and Budgets

The World Bank[16] recommends that an MTEF has the following four components:

- MTFF- Medium-term fiscal framework
- MTEF-Medium-term expenditure framework
- MTBF- Medium-term budget framework
- MTPF-Medium-term performance framework

Lesotho has an MTFF, MTEF and MTBF and is in the process of adopting a MTPF.

A medium-term performance framework is a performance framework focusing on outputs, within the parameters set by the MTFF, BFP and MTEF. A MTPF should focus on achieving results within budget ceilings. The MTPF should set goals and outputs which show improved performance linked to available funding for each year of the MTEF.

In the same way that the MTEF is a rolling budget, the MTPF should be revised annually as ceilings and allocations change. If the outputs and targets set for a year are not achieved, they need to revised or postponed. It is recommended that the Government of Lesotho's existing planning framework coordinated by the Ministry of Development Planning should be set realistic, rolling targets based on the MTEF. All outputs and outcomes achievable within the macro-economic scenario as per the MTFF and the budget parameters in the MTEF. In addition, the MTPF needs to be focus on the achievement of SDG Goals as well as the NSDP.

The current NDP for Lesotho-National Strategic Development Plan II 2018/19 to 2022/23. NDP III should be launched in March 2022 at the start of the new fiscal year. The NDP and election cycles should correlate to the 5-year Election Cycle. In this regard

[16] World Bank (2013). Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks

the previous elections in Lesotho were in 2017. Theoretically the election manifesto of the elected government in 2017 should be the basis of the national development plan.

Sector plans, the Lesotho Health Strategy Plan follows the same 2017-2022 cycle and the Education Sector Plan is a ten-year plan 2016-2026. The launch of the new NDP Cycle in 2023 provides an opportunity to, not only set realistic development outcomes linked to the MTEF, but also to align all planning and budget cycles. The MTEF Manual and Handbooks, will provide step-by-step guidelines to assist government officials in each stage of the planning and budget cycle.

Establish a pilot social sector working group

A social sector working group (SWG) has been established as a pilot SWG in May 2022. The social sector working group includes the Ministries of Health, Education, Gender, Youth and Sport and Social Development.

It is necessary for the MoF Budget Officers to facilitate SWG meetings which should include programme managers, planners, finance officers and budget officers from each ministry.

The initial meeting would adopt a term of reference for a Sector Working Group (SWG) and establish meeting dates. It is suggested that the SWG meet three times a year: -

- April/May to conduct a performance review
- June/July to discuss the guidelines in the Budget Strategy paper and the preparation of Ministerial Budget Framework Papers
- September/October to prepare a Sector Budget Framework Paper. This is a new initiative and can be an appended to the National BFP submitted to Cabinet.
- The SWG should discuss the rationalisation of individual MDA strategies with a focus on achieving the Sustainable Development Goals, National Development Plan outcomes and ministry strategies through a sector-wide, collaborative approach.

It is recommended that an MOF Budget Officers is assigned the task of monitoring and evaluating the success of the Pilot MTEFs and Social Sector Working Group. It is advised that further roll out of the MTEF and establishment of additional sector working groups be evaluated in the second half of 2023.

BFP hearings and budget discussions

Key Informant Interviewees stated that the BFP discussions (scheduled for August/September) and budget discussions (scheduled for December) are inconsequential as they do not include opportunities for MDAs to motivate their proposed budget, to discuss NSPs and to question the rationale of the ceilings and or changes to ceilings. The BFP discussions are the appropriate forum for budget negotiations. It is recommended that the Budget Officers engage actively with their sectors/MDAs in preparing the BFPs, then act as a facilitator in the BFP Hearings. This requires, firstly, sufficient time allocated to prepare and hold the BFP discussions, and secondly, sufficient time for the hearings themselves. It is also recommended that in 2023, the Social Sector Working Group has a pre-BFP meeting and from 2024 onward they submit a sector wide together with MDA BFPs.

1.10 2023-2026-MTEF Roadmap: activities to build a robust MTEF

Re-build macro-economic institutions

All financial and economic institutions in Lesotho should issue matching macro-economic data. Although the agencies have different ways of presenting and using data, the core figures need to be compatible with each other. Implementing the changes proposed on the methodology and systems used to do macro-economic projections are the first step. This, however, is not sufficient to build fiscal stability if high level decisions are made using non-compatible data sets.

It is proposed that the **Macro-economic working group** (MEWG) is re-constituted to validate the assumptions behind the projections and to establish compatible data which will be used at all levels. In addition to correcting the weaknesses in data and modelling the Macro-Economic Macro Working Group, comprising the Central Bank, Bureau of Statistics, MOF Macro Economic Department MOF Budget Department and Ministry of Planning, should convene a meeting, no later than April 2023.

Including all foreign aid and donor contributions in budgets

Calculating the size, coverage, mechanisms and timeframes of foreign aid will not be possible for the FY 2023-2024 Budget and it is recommended that a comprehensive analysis is done before the FY 2024-2025 Budget is prepared so that all foreign aid can be included in budget documents. Some donor and partner funding mechanisms require funds to be paid from the Central Bank into commercial banks and the GoL does not have a comprehensive system to monitor and report on these accounts.

The MoF Budget Department plan to convene an MTEF Working Group which will include the MoF, Ministry of Development Planning and major donors and partners to implement a mechanism to coordinate GoL and donor budgets and service delivery.

The MTEF Working Group can be a pre-cursor to re-establishing the Public Sector Investment Committee.

Simplify approval processes and phase out roll-overs and arrears

The central finance and economic agencies need to simplify the approval process, primarily between the MOF and Central Bank. This can be achieved through the electronic authorisation and payment system, which is currently under discussion. The Central Bank should also be pro-active and transparent regarding its cash position. Instead of withholding payments which have been authorised by the MOF, it should communicate the likelihood of cash crunches to the MOF ahead of time, so that the MOF can mitigate this by withholding authorisation.

The Lesotho government needs to allocate funds to cancelling outstanding arrears. The size of the arrears was not investigated, which continue to undermine the MTEF. It is suggested that a phased approach to paying off outstanding arrears be implemented within the 2024 fiscal year. In addition, mechanism for 'locking the IFMIS' need to be phased in stop roll-over payments into future accounting periods.

Fiscal Rules and budget resilience

The MoF, with support from the World Bank is currently drafting a set of 'fiscal rules. These will provide rules for issues such as managing debt, managing cash flow, managing SACU 'windfalls' as well as expenditures rules for the current and capital budget. In addition, the MoF is engaged in a project which will create more resilient budgets in the future which are able to mitigate budget shocks and disasters.

Mid-Year budget review and supplementary budget.

The current practice in Lesotho is, after the approval and passing of the Appropriation Act, MDAs submit supplementary budgets These are used to budget lines which did not receive sufficient funds in the approved budget. This allows for 'budget games' where an MDA can deliberately exclude core services from their budget submission and then submit these in a supplementary budget. To alleviate the need to submit supplementary budgets at the start of a fiscal year, it is recommended that Lesotho implement a mid-term supplementary budget.

South Africa has institutionalised a mid-term review in their budget process. They have a Mid-term Budget Policy (MTBP)[17] (referred to as the "mini budget") which allows government departments to apply for adjustments to their approved budgets, apply for roll-overs, request additional funds for unforeseeable and unavoidable expenditure and make virements. The MTBS is based on a review of (1) the accuracy of revenue forecasts, and (2) the absorption and spending rate of government agencies. The South African MTBP is enacted by legislation, including the:-

- Division of Revenue Amendment Bill;
- Adjustments Appropriation Bill;
- Rates and Monetary Amounts and Amendment of Revenue Laws Bill;
- Taxation Laws Amendment Bill;
- Tax Administration Laws Amendment Bill;
- Revised Fiscal Framework
- Adjusted Estimates of National Expenditure; and
- Medium Term Budget Policy Statement

It is strongly recommended that Lesotho adopt a MTBF. It is recognised that it will take a number of years to lobby and gain approval for this. In the interim, the ability to improve the reliability of macro-economic projections, the enforcement of compliance with budget ceilings, and the issuance and enforcement of 'fiscal rules' will incrementally introduce budget discipline. In this regard, un-funded mandates from office-bearers will continue to be a challenge. This is a common practice in many developing democracies, where political office-bearers appear to believe they are exempt from the law. The 'fiscal rules' currently under discussion in Lesotho should institute a process to ameliorate this practice.

For example, the South African Public Finance Management Act (1999)[18] states that any directive by an executive authority of a department to the accounting officer of the department having financial implications for the department must be in writing and, if implementation of the directive is likely to result in unauthorised expenditure, the accounting officer will be responsible for any resulting unauthorised expenditure unless the accounting officer has informed the executive authority in writing of the likelihood of that unauthorised expenditure. Any decision of the executive authority to proceed with the implementation of the directive, and the reasons for the decision,

[17] www.treasury.gov.za
[18] http://www.treasury.gov.za/legislation/pfma/act

must be in writing, and the accounting officer must promptly file a copy of this document with the National Treasury and the Auditor- General.

Awareness Raising with Members of Parliament

The MTEF 'Top-down handbook' is aimed at executive authorities, members of parliament and other political office-bearers. The handbook will provide explanations on global and local macro-economic drivers impacting Lesotho, budget laws and policy and the budget process. The handbook can be adapted into a range of awareness raising and capacity building sessions for the cabinet and parliament.

Conclusion

The Government of Lesotho has made a commitment to implement a fully-fledge MTEF. All of the systems and structures for an MTEF to succeed are already in place in the country. Many have, however, become dormant, due to lack of purpose and motivation. This report has identified practical, achievable actions to revitalise the MTEF system and structures. The outcome of the MTEF is fiscal stability. All budget reforms are arduous processes, spread over many years. They require constant vigilance and commitment as well as a process of reflection and adjustment.

Many countries in the region have a paper based MTEF and continue to conduct incremental annual budgeting. To allow her neighbours to benefit from their experience, it is suggested that Lesotho document their implementation process and share their lessons through forums such as the macro-economic and financial management institutions and Collaborative Africa Budget Reform Initiative (CABRI).