



# KINGDOM OF LESOTHO

## TECHNICAL ASSISTANCE REPORT—GOVERNMENT FINANCE STATISTICS

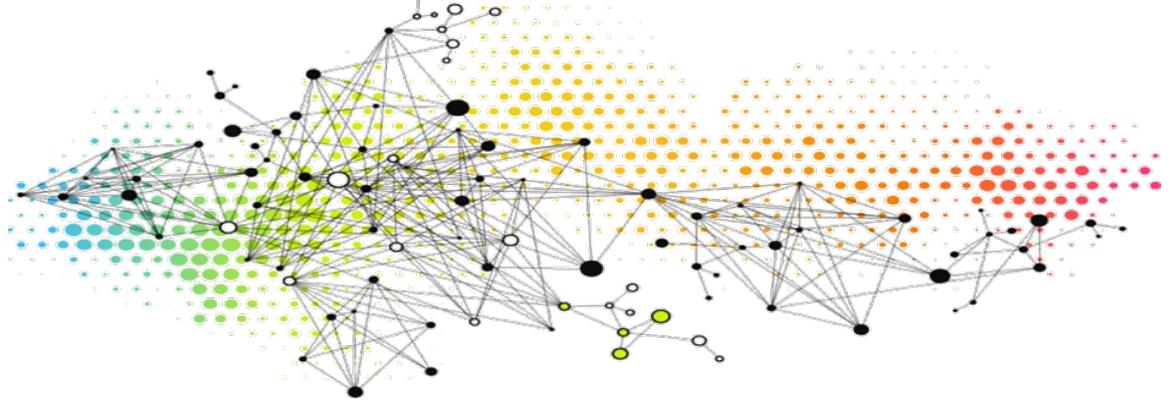
September 2018

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# KINGDOM OF LESOTHO

JULY  
2018

## REPORT ON GOVERNMENT FINANCE STATISTICS MISSION (APRIL 30–MAY 11, 2018)

**Prepared by Clement Ncuti**

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# CONTENTS

Glossary	3
<b>SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS</b>	<b>4</b>
<b>DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS</b>	<b>6</b>
A. Implementation of Recent GFS TA Missions' Recommendations	6
B. Institutional Coverage of the Public Sector	7
C. GFS Compilation for the Budgetary Central Government	8
D. GFS Compilation for the Local Government	17
E. New Chart of Accounts	18
F. Public Sector Debt Statistics	18
G. Data Dissemination	19
H. Officials Met During the Mission	22
<b>FIGURES</b>	
1. Public Sector	8
2. BCG Statistical Discrepancy	16
3. Differences in Statement of Operations After Reclassifications	21
<b>TABLES</b>	
1. Priority Recommendations	5
2. BCG Parastatals and Agencies	9
<b>APPENDIX</b>	
I. Assessment of Recommendations from Previous GFS TA Missions	23

## Glossary

BCG	Budgetary Central Government
CBL	Central Bank of Lesotho
EBU	Extrabudgetary Units
GFS	Government Finance Statistics
<i>GFSM 2014</i>	<i>Government Finance Statistics Manual 2014</i>
IFMIS	Integrated Financial Management Information System
LRA	Lesotho Revenue Authority
MCC	Maseru City Council
MOF	Lesotho Ministry of Finance
PSDS	Public Sector Debt Statistics
SACU	Southern Africa Customs Union
STA	IMF's Statistics Department
TA	Technical Assistance

## SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

- 1. In response to a request from the authorities and as part of the United Kingdom's Department for International Development (DFID) Enhanced Data Dissemination Initiative (EDDI) 2 project, a Government Finance Statistics (GFS) mission visited Maseru, Lesotho, during April 30–May 11, 2018.** The mission was a follow up to two previous GFS Technical Assistance (TA) missions under the EDDI2 in March and November 2016 and in response to a request from the Lesotho delegation during a meeting with the Statistics Department (STA) at the 2018 Spring Meetings for GFS training. The mission's main objectives were to: (i) provide training to GFS compilers on the *Government Finance Statistics Manual (GFSM) 2014*; (ii) review progress against recommendations from previous GFS TA missions; (iii) review the consistency of above-below-the-line fiscal statistics, and integration of flows and stocks of currently compiled GFS; (iv) identify source data, assess magnitude, and review mechanism for recording guaranteed debt and payment arrears; and (v) review current compilation of debt statistics and assist on improving compilation for reporting data to the World Bank-IMF Public Sector Debt Statistics (PSDS) database.
- 2. The mission provided training to GFS compilers from the Ministry of Finance and the Central Bank of Lesotho.** While attendance varied during the training, participation averaged to about six staff in each session. Both lectures, and hands-on training were provided. Lectures were provided in the first four days of the mission and covered 12 lectures. Hands-on training was provided during the second half of the mission on downloading and uploading data files from the Integrated Correspondent System (ICS), and on filling the annual and high frequency (monthly) GFS questionnaire, and the quarterly PSDS questionnaire.
- 3. The mission reviewed progress against recommendations of previous GFS TA missions.** The mission found little progress with implementation of past TA recommendations. Out of the 43 recommendations made during both the March and November 2016 missions, only 6 were completed, 7 partly completed, 2 were ongoing, while 28 were not done. The mission urged the authorities to follow through with implementation of TA recommendations to ensure progress in improving GFS compilation and the quality, comprehensiveness, and coverage of data available for policy decision-making.
- 4. The mission reviewed current compilation methods of GFS for the budgetary central government (BCG).** The mission found out there were significant accuracy, classification, coverage, and comprehensiveness issues that undermine the credibility of fiscal statistics currently compiled and disseminated. Currently compiled and disseminated GFS include a large and persistent statistical discrepancy. The statistical discrepancy averaged to about a third of total revenue in preliminary data for FY2016/17 and FY2017/18. The mission identified and discussed with staff of the Ministry of Finance a number of reasons that may partly explain the discrepancy. The mission reiterated the need for reclassifications already discussed during previous GFS TA missions and identified other transactions that required reclassification for recording consistent

with the *GFSM 2014*. The mission also found out that what constitutes the capital budget (currently included entirely as net acquisition of nonfinancial assets, with the exception grants to other levels of government) includes spending not related to capital formation. Further to that, not all entities making up the BCG are currently included in the statement of operations, as close to half of BCG entities (referred to as “parastatals” or “autonomous” bodies) are not being reported on.

**5. The mission assisted with compilation of GFS for the local government.** The mission assisted GFS compilers with the development of a template for collecting data from financial statements of local government entities and compiled data for 10 district councils using financial statements for FY2016/17. Using the data, the mission compiled three GFS statements: (1) a statement on sources and uses of cash; (2) a statement of operations; and (3) a balance sheet. No data was available for Maseru City Council (MCC) to be included in template.

**6. The mission reviewed a draft of the chart of accounts currently under development.** The mission made recommendations for improvements aiming mainly at: (1) using the opportunity of an update of the chart to align the economic and functional classifications to the *GFSM 2014* economic classification; (2) allowing aggregation of transactions and stock positions by counterpart sectors; (3) expanding the classification by votes to align with the public sector institutional table.

**7. The mission put staff in the debt department in touch with World Bank staff in charge of the quarterly PSDS database.** A letter inviting the Ministry of Finance to start reporting QPSDS was sent to the Minister of Finance, and staff in the debt department were assisted in filling the debt data reporting template. While data is readily available for central government debt liabilities, no comprehensive data is available for the public corporations except for the Central Bank (no data were readily available during the mission for the Lesotho Post Bank and the Public Service Defined Contribution Pension Funds).

**8. To support progress in the above work areas, the mission made the following priority recommendations carrying particular weight to make headway in improving GFS accuracy, classification, coverage, and comprehensiveness.** Further details with specific recommendations can be found under the Detailed Technical Assessment and Recommendations section.

**Table 1. Lesotho: Priority Recommendations**

Target Date	Priority Recommendation	Responsible Institutions
Immediate	<i>Formalize the GFS technical working group by assigning responsibilities and dedicating staff resources for the collection and compilation of GFS.</i>	<b>Ministry of Finance</b>
Immediate	<i>Finalize and adopt a public sector institutional table for consistent use across all macroeconomic statistics (national accounts, monetary and financial statistics, external sector statistics, and government finance statistics); and regularly review, and update the table.</i>	<b>Ministry of Finance</b>
Immediate	<i>Start collecting and compiling data for BCG entities not currently included in the BCG statement of operations, and start compiling data for local governments (including Maseru city council), and extrabudgetary units (EBU).</i>	<b>Ministry of Finance</b>

## DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

Priority	Action/Milestone	Target Completion Date
<b>Outcome: Data are compiled and disseminated using the sectorization of the latest manual/guide</b>		
L	GFS are compiled for the general government and its subsectors.	December 2019
H	Institutional sectors are defined in accordance with <i>GFSM 2014</i> guidelines.	Completed
H	Final comprehensive list of general government units exists and is disseminated.	Completed
<b>Outcome: Data are compiled and disseminated using the classification of the latest manual/guide</b>		
M	Functional classification of expenditure transactions follows <i>GFSM 2014</i> guidelines.	June 2019
H	Economic classifications of revenue and expense follows <i>GFSM 2014</i> guidelines.	Completed
H	Classification of stocks & financial assets & liabilities follows <i>GFSM 2014</i> guidelines.	Completed
<b>Outcome: Data are compiled and disseminated using the coverage and scope of the latest manual/guide</b>		
M	Institutional scope includes all significant general government institutional units.	December 2019
M	The scope of flows includes all transactions of general government units.	December 2019
M	The scope of stocks includes all financial assets & liabilities of general government.	December 2019

### A. Implementation of Recent GFS TA Missions' Recommendations

**9. Progress on implementing recommendations from recent GFS TA missions remains slow.** There were of recent, two TA missions to Lesotho, under the GFS module of the EDDI2 project. The first mission took place during March 14–24, 2016, and the second during October 24–November 4, 2016. Both missions identified issues on the coverage, classification, and comprehensiveness of GFS and made recommendations mainly to reviewing and updating the institutional table of government, and reviewing and revising historical GFS series to incorporate suggested reclassifications. There has been some progress, albeit very slowly, since the missions left. The mission reviewed progress against recommendations of the previous GFS TA missions in March and November 2016 and found out that out of the **43 recommendations** made during

both missions; only **6 were completed, 7 partly completed, 2 were ongoing**, while **28 were not done (Appendix I)**.

**10. Following through with implementation of TA recommendations is critical in making headways to addressing existing issues with fiscal statistics.** The accuracy, classification, coverage, and comprehensiveness issues in the GFS for the BCG currently compiled significantly undermine the credibility of fiscal statistics and hamper proper fiscal policy analysis for decision-making. Recommendations made during TA missions aim at improving the quality of data used for policy-making and efforts ought to be put in implementing the recommendations.

**Recommended Action:**

- Assign responsibilities for following up on TA recommendations and follow through with implementation of recommendations.

## **B. Institutional Coverage of the Public Sector**

**11. The mission reviewed the existing institutional table for the general government and expanded it to cover the public sector.** The public sector in Lesotho comprises 135 entities/units. Some of the units do not constitute institutional units as defined in the *GFSM 2014*<sup>1</sup> and are classified under the sub-sector controlling the unit/or undertaking the related transactions (e.g. principal repayment, interest charges, pensions and gratuities, statutory salaries and allowances, all under BCG).

**12. Agreement has been reached to classify Lesotho Highlands Development Authority (LHDA) as a central government EBU.** Discussions during the March and November 2016 TA missions were inconclusive on the appropriate sectorization of LHDA and the missions recommended that the Ministry of Finance, the Central Bank of Lesotho (CBL), and the Bureau of Statistics review the activities of LHDA to determine whether it really passed the market test to be classified as a public corporation, or whether it is indeed a nonmarket producer and would therefore be classified within general government. The mission noted that the authorities reached agreement on proper sectorization of LHDA within general government.

**13. Further reviewing and finalizing the institutional table is required prior to adopting the table for compilation of macroeconomic statistics.** There is a need to confirm the status of some entities, to know whether they still exist, or are still under the control of the public sector. The

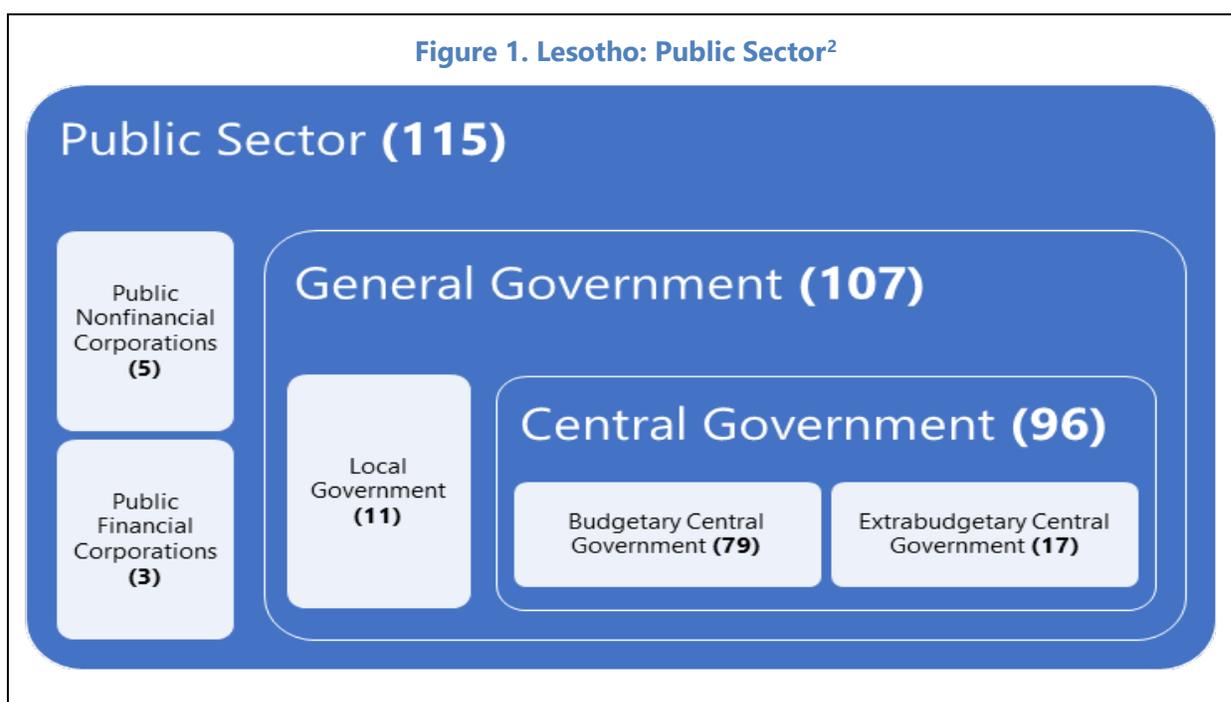
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<sup>1</sup> *GFSM 2014* § 2.22.

mission understood that the Lesotho Pharmaceutical Corporation has been privatized, while the Equestra Fleet Management was under the process of closure.

**Recommended Actions:**

- Review, then finalize and adopt the institutional table of the public sector and use it consistently across all macroeconomic statistics (GFS, National Accounts, Monetary and Financial Statistics, External Sector Statistics).
- Review and update the institutional table on a regular basis to incorporate new entities and/or remove defunct ones.



## C. GFS Compilation for the Budgetary Central Government

### Coverage

**14. Coverage of currently compiled and disseminated GFS for the BCG is incomplete.** The mission understood that coverage is currently limited to entities whose transactions are recorded in the Integrated Management Information System (IFMIS). Transactions pertaining to “parastatals” and “agencies”, other than grants sent from the BCG, are currently not recorded into IFMIS, and therefore not in the BCG statement of operations. The mission identified, from the list of parastatals and agencies, whose oversight is done by the Private Sector Development (PSD) department, 24 parastatals and 2 agencies (Table 2) that according to the *GFSM 2014* sector

<sup>2</sup> Further investigation after the mission led to reclassification of entities that had been classified as budgetary during the mission, reducing the total of budgetary central government entities from 83 to 79.

classification, belonged to the BCG. Full coverage of transactions in the BCG statement of operations would require collecting timely data on all transactions of parastatals classified as BCG entities and including them in the BCG statement of operations.

**Recommended Action:**

- Start collecting on a more regular basis data on transactions for all parastatals and agencies classified as BCG entities and incorporate the data into the BCG statement of operations.

**Table 2. Lesotho: BCG Parastatals and Agencies**

Name	Category
Accommodation Catering and Tourism Enterprises (ACTE)	Parastatal
Basotho Enterprise Development Corporation	Parastatal
Bureau of Statistics	Parastatal
Council for Higher Education	Parastatal
Council of National Manpower	Parastatal
Exams Council of Lesotho	Parastatal
Hospital Boards	Parastatal
Lesotho Casinos and Gambling	Parastatal
Lesotho Electricity and Water Authority	Parastatal
Lesotho Institute of Accounts	Parastatal
Lesotho Medical Board	Parastatal
Lesotho Millennium Development Agency	Parastatal
Lesotho National Dairy Board	Parastatal
Lesotho Opportunities Industrialization Center (LOIC)	Parastatal
Lesotho Sports and Recreation Commission	Parastatal
Lesotho Sports Council	Parastatal
Liquor Licensing Board	Parastatal
Mental Health Advisory	Parastatal
National Manpower Development Secretariat	Parastatal
Olympic Committee	Parastatal
Roads Directorate	Parastatal
Stadium Board	Parastatal
TVET	Parastatal
Youth council	Parastatal
Tourism Licensing Board	Agency
Trade Licensing Board	Agency

**Source:** PSD, Financial and Governance Oversight on State Owned Enterprises.

## Basis of Recording

**15. Recording of transactions in the BCG statement of operations is neither fully on cash basis nor on accrual basis.** The authorities informed the mission that transactions are recorded on cash basis, but further discussions indicated that they are indeed not exactly on a cash basis. The mission understood that there could be a lag between the time either revenue, or expenditure is reported, and the time the actual cash is received or a payment made. While the lag may not be significant on revenue, it can and is sometimes significant on expenditure.

**16. Bridging the time lag between recording of expenditure and actual payment would improve the current recording of transactions in the BCG statement of operations.** Expense and transactions in nonfinancial assets recorded in the statement of operations are transactions that are currently “due for payment” in IFMIS, i.e. for which warrants have been issued, the delivery has been approved, and invoices have been received. What is due for payment is not necessarily paid immediately, as entities need to send paper work to the treasury for verification and instructing payment. When treasury has instructed payment, it usually takes an average of three business days for the CBL to make the payment. The IFMIS is not currently interfaced with the CBL systems to allow pulling information on when actual payments are made, which would otherwise be representing the true cash recording. The mission understood that recording in the IFMIS allowed to distinguish “commitments”—i.e., when a warrant is issued or a request for procurement is made; and “payment”—i.e., when the transaction is posted in the general ledger as paid, or in other words when the payment instruction is made. Considering that processing of payments when the payment instruction has been issued is generally fast at CBL, except at the end of the fiscal year when large volume of payments have to be processed, recording expenditure transactions on a “commitment” basis in the statement of operations, and the difference between commitments and payments in IFMIS as accounts payable would be a significant improvement to the current recording of transactions. Not only would that allow bridging the time lag, at least to a certain extent, between when commitments are made and when actual cash payments occur, but it would also contribute to improving the accuracy of GFS by recognizing payables, which are currently not recorded in the statement of operations and somehow buried in the statistical discrepancy. More importantly, it would also allow to monitor transactions leading to arrears accumulation.

### **Recommended Actions:**

- Move towards recording transactions on a modified accrual basis<sup>3</sup> and start recording expenditure transactions on “commitment” basis.
- Start recording transactions below the line on accounts payable as the difference between commitment and payment transactions in IFMIS.

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<sup>3</sup> A modified accrual basis of recording allows recognition of noncash items in transactions in financial assets and liabilities (accounts receivable/payable).

## Classification

**17. The classification of transactions in the BCG statement of operations requires improvements.** While the current classification of transactions in the BCG statement of operations is broadly aligned to the *GFSM 2001/2014*, there remain transactions that are improperly classified. The missions reiterated recommendations made during the March and November 2016 missions for reclassification of a number of transactions and identified additional items requiring reclassification. The following are transactions that require reclassification in the statement of operations:

- **Withholding tax**—receipts on withholding tax are currently recorded in their entirety as other taxes on income, profits, and capital gains. The mission understood, however, that details making up the collections were available from the Lesotho Revenue Authority (LRA), allowing the distinction between those paid by individuals and those paid by corporations. Available details should, therefore, be used in reclassifying withholding tax as tax on income paid either by individuals or corporations.
- **SACU revenue**—are classified separately in the statement of operation. However, none of the GFS manuals provides for such a revenue item, and the mission reiterated the recommendation from previous missions, to reclassify the SACU revenues in the appropriate revenue category, for international comparability, but include, as a memorandum item, for monitoring purpose, the total amount of SACU revenues. The current revenue sharing formula for the South African Customs Union (SACU) has three components, namely the Customs Component, Excise Component and the Development Component. Each component should be appropriately classified in the respective revenue category such that: (i) the customs component is classified as Taxes on International Trade and Transactions–Customs and import duties; (ii) the excise component is classified as Taxes on Goods and Services–Excise, and; (iii) the development component as Grant–from international organizations. The mission understood that for analytical purposes, and monitoring of the size and trend of SACU revenue, the authorities would still want to have the total shown in fiscal statistics. The mission suggested including total SACU revenues as a memorandum item to the statement of operations for that purpose.
- **Rand compensation**—South Africa compensates Lesotho for lost seignorage revenue, for allowing the Rand to be accepted as legal tender in Lesotho. The transfer from South Africa is usually received in the first last quarter of the fiscal year (March), and is currently recorded in the statement of operations as a Tax on Property–Recurrent taxes on net wealth. The transaction does not really constitute a tax on property as defined in the *GFSM 2014*<sup>4</sup> but rather a transfer, i.e. an unrequited transaction. Since the transaction involves a foreign

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<sup>4</sup> *GFSM 2014* § 5.46 and 5.50.

government making a transfer to Lesotho, the appropriate recording of the Rand compensation should be a Grant—from foreign governments.

- **Students' scholarships**—students pursuing higher education in Lesotho benefit from government scholarship, that are repayable upon completion of education and starting a job, at varying rates, depending on whether the students are employed abroad (100 percent), in the private sector in Lesotho (60 percent), or in government (50 percent). Scholarship payments are made on budget resources and are currently recorded, in their entirety, in the statement of operations as other expense—current transfers. Repayments, when they occur, are processed through the treasury and into a “revolving fund” set up specifically for the collection of students' scholarships repayment and forming part of “trust money accounts”. Transactions in these trust money accounts are reflected in the total change in government deposits in the banking system, recorded in the statement of operations as change in currency and deposits, but no counterpart transactions are currently recorded, adding up therefore to the statistical discrepancy. Students' scholarship payments amounted to 1.8 percent of GDP in FY 2017/18 and averaged a little more than 2 percent of GDP in recent years. No repayments are currently recorded in the statement of operations, however. The mission understood there were difficulties tracking the amounts that are currently repaid to make the appropriate recording in the statement of operations. Efforts should nevertheless be made to start tracking the information, with the assistance of the Manpower Development Secretariat, the treasury, and the CBL. When the mechanisms have been put in place to track the information, appropriate recording should apportion the scholarship payments between other expense—current transfers (for the nonrepayable component) and increase the loan assets (for the repayable component); and when the scholarships are repaid, record a decrease in the loan assets, that matches the increase in currency and deposits currently recorded.
- **Capital budget**—transactions from the capital budget currently include transactions on compensation of employees, purchases of goods and services, grants, subsidies, social benefits and other expense. All grants in the capital budget are to other levels of government, i.e. to extrabudgetary entities, and to local governments. These are currently correctly added up to grants in the current budget, to other levels of governments. All the other categories of the capital budget, however, are also added to the corresponding category in the current budget. Guidance in the *GFSM 2014*<sup>5</sup> requires reclassification of compensation of employees, and purchases of goods and services as acquisition of nonfinancial assets, if they are meant for own account capital formation, i.e. the acquisition of fixed assets for own use. If, indeed, transactions on compensation of employees and purchases of goods and services in the capital budget are meant for the acquisition of nonfinancial assets, then they should be classified as acquisition of nonfinancial assets. If, however, they are not, as may be the case for spending

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<sup>5</sup> *GFSM 2014* § 6.9 and 6.27.

under the capital budget on health and education (other than the acquisition of fixed assets), then they should be classified under the respective category in expense.

- **Interest expense on behalf of members of Parliament**—currently include payments of interest on behalf of Parliamentarians for loans incurred with commercial banks. Interest is payable by units incurring liabilities by borrowing funds from other units (*GFSM 2014*-§ 6.63), and in this case, it is not the government borrowing, but Parliamentarians. Interest paid on behalf of Parliamentarians should be reclassified as compensation of employees, as wages and salaries in kind.
- **Debt payments on behalf of others**—the mission found out that there were instances in the past, where government paid interest on behalf of other institutional units (other general government units, public and private corporations). The mission recommended that all these transactions are first identified, then reclassified accordingly<sup>6</sup>. Interest paid on behalf of other general government units would be reclassified as a grant, unless government acquires an effective claim, in which case it would be recorded as a loan asset. Interest paid on behalf of public or private corporations would be recorded as a capital transfer if government is not acquiring an effective claim, and as an acquisition of a financial asset otherwise, in the form of equity (if the government increases its shareholding because of debt assumption) or loan (if the government assumes the corporations' liability with a third party, and exchanges it with a loan, presumably at better terms, to the corporation). Repayments of loans by these institutional units should not be classified as revenue, but in reduction of loan assets in the BCG statement of operations.
- **Debt assumption**—there is no evidence of recording of debt assumed by government in the BCG statement of operations. Both the 2016/17 annual debt bulletin and the pre-audited consolidated financial statements for the year ending March 2017 refer to 89.7 million maloti the government assumed during FY2016/17, on guaranteed debt to CGM/Presitex Industry (61.6 million maloti) and TZICC (28.1 million maloti). The statistical treatment of debt assumption depends on (i) whether the new debtor acquires an effective financial claim on the original debtor, and (ii) if there is no effective financial claim, the relationship between the new debtor and the original debtor and whether the original debtor is bankrupt or no longer a going concern<sup>7</sup>. The recording of the transactions involving CGM/Presitex and TZICC (both textile industry private corporations), if the government acquired an effective claim for assuming their liabilities, should be recorded as an increase in liabilities for the government (for the debt assumption) reflecting an increase in domestic debt liabilities in the form of a loan from commercial banks (Standard Bank Lesotho), and an increase in loan assets (for the claim government acquires on CGM/Presitex and TZICC). However, if the government

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<sup>6</sup> *GFSM 2014* § A3.30 – A3.31.

<sup>7</sup> *GFSM 2014* § A3.26 – A3.29.

does not acquire an effective claim, a capital transfer ought to be recorded, as the counterpart transaction for liability assumed.

- **Policy lending**—transactions related to policy lending are currently not comprehensively recorded in the statement of operations. The mission received drafts of pre-audited consolidated financial statements for the years ending March 2016 and March 2017. In the statements for the year ending March 2016, the stock of on-lending arrangements amounted to 926 million maloti. The stock increased to 1,045 million maloti in the statements for the year ending March 2017<sup>8</sup>. Recording of on-lending arrangements is currently limited to recording the loans when they are incurred by the BCG but not when they are on-lent to other institutional units. Repayments by these institutional units, if and when they happen, are also not recorded comprehensively. Transactions related to these on-lending arrangements should all be properly recorded in the statement of operations.
- **Rent expense**—are currently recorded in the statement of operations. These, however, do not constitute payments by the government to owners of natural resources, but rather constitute rentals and should be reclassified as purchases of goods and services.
- **Pension liabilities**—are recorded in the statement of operations between FY2008/09 and FY2013/14. However, as the mission understood, these did not constitute pension liabilities of the government, since the government runs an autonomous defined contributions employment related pension fund since 2008. The transactions related to bridging the gap in the newly created pension fund, between contributions and benefits. The pension liabilities were not assumed by government and remained on the books of the pension fund. The transactions should be reclassified as a transfer not elsewhere classified under other expense.

#### **18. Recording of transactions related to project disbursements remains a challenge.**

While compilation is expertly done to matching all annual disbursements (sources of funds) with all expenditures (uses of funds) on external capital grants and loans, the mission highlighted to the authorities a potential issue that may affect accuracy in the recording of transactions. As the mission noted, disbursements in-year take different forms mainly as: (i) direct payments from the creditor/donor, to a supplier of goods abroad and goods are shipped to the country; (ii) direct payments from the creditor/donor to a supplier of services (consultancy services, studies, etc.) that may be resident or nonresident; and (iii) cash transfers to the project management account within the banking system in Lesotho. Changes in the deposits of project accounts as accumulation (disbursements) or reduction (drawdowns for payments in country) are reflected in the total government change in currency and deposits, however, without necessarily having a counterpart transaction above the line as a revenue (disbursement) or expenditure (expense or acquisition of nonfinancial asset). This is the case because no comprehensive information is currently available on “actual” disbursements, and associated spending, especially on capital grants revenue. The lack of comprehensive information constrains compilers to record all disbursements as spent, while part may not be “actually” spent, but remain in “deposits” in the banking systems, therefore creating

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<sup>8</sup> Also available in the [2016/17 annual debt bulletin](#).

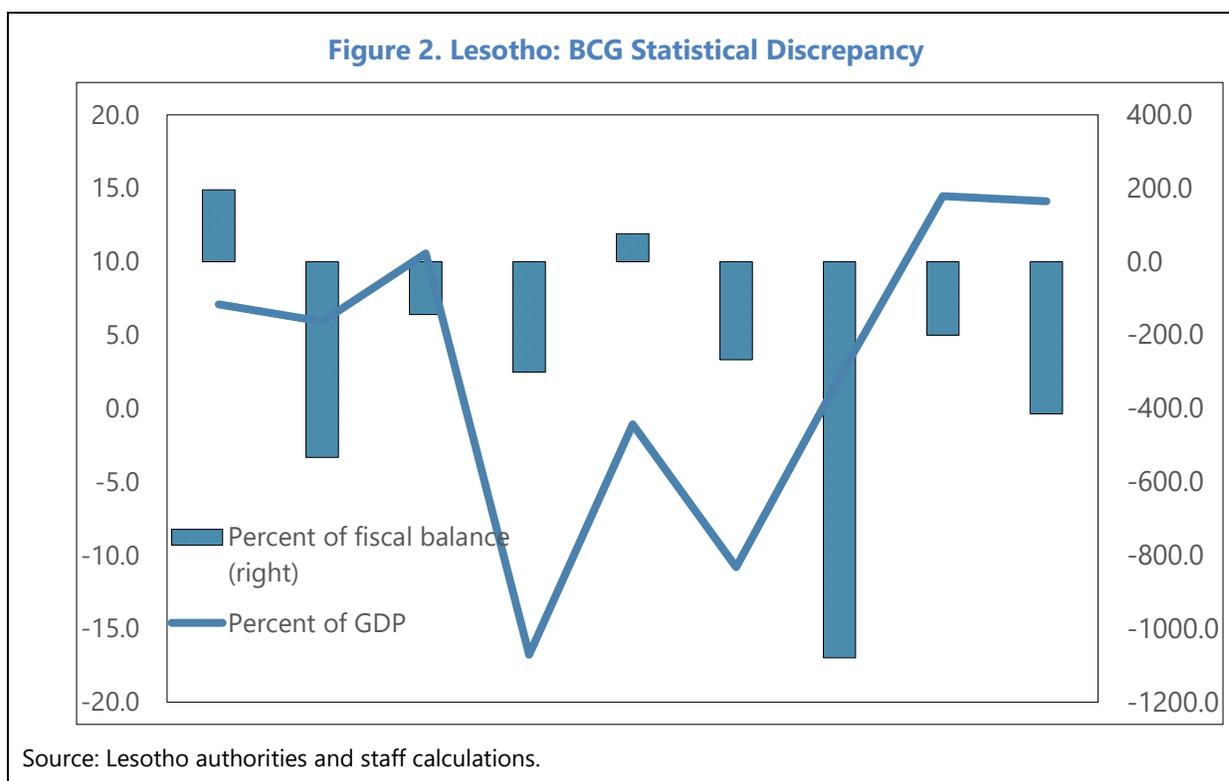
discrepancies in transactions above and below the line in the statement of operations. The mission recommended identifying all the accounts of government projects at the Central Bank of Lesotho (CBL) funded with external capital grants and/or loans, and adjust expenditure, with the change in the stock positions in these accounts (upward for drawdowns, and downward for accumulation). This would be a temporary measure to eliminate discrepancy in transactions above and below the line, until comprehensive information on actual disbursements and spending becomes available.

***Recommended Actions:***

- Implement all reclassifications recommended during the mission.
- Identify all transactions not currently included, or partially included in the BCG statement of operations (i.e.: (i) students' scholarships, (ii) debt assumptions and debt payment on behalf of others, (iii) on-lending) and incorporate them, and also adjust data historically.
- Start to adjust transactions in nonfinancial assets with the change in the stock positions of accounts of government projects at the Central Bank of Lesotho (CBL) funded with external capital grants and/or loans.

**Data accuracy**

**19. The statistical discrepancy in the BCG statement of operations is high.** The mission discussed with the authorities, items that may be contributing to explaining the size of the statistical discrepancy, including as discussed in paragraph 17 and 18 earlier, transactions that are currently not comprehensively included in the statement of operations, but also the coverage discrepancy of transactions above and below the line. The coverage of transactions above the line in the BCG statement of operations is limited, as discussed in paragraph 14, to a narrow set of institutional units, whereas transactions in currency and deposits, as taken from the depository corporations survey include all the central government entities (i.e. including BCG entities not currently included in the statement of operations, but also EBUs). Figure 2 below shows trends of the statistical discrepancy, and magnitude, relative to GDP and to the fiscal balance.



**20. Better data management could reduce inconsistencies between fiscal files.** The mission identified inconsistencies between two of the main GFS files: the “MF\_SGO\_DB” file that is used primarily to aggregate monthly fiscal data from all the various sources; and the “MF\_MTFB\_DB” file that is used for projections and preparation of the medium term fiscal framework and annual budget. Both files include historical series, but only the “MF\_MTFB\_DB” includes projections. Historical series should, in principle, be the same but were not in the files provided to the mission. The authorities investigated the differences and found out they were due to updates made to one of the files and not reflected in the other file. Changes were made to the files to make them consistent.

**Recommended Actions:**

- Reduce the statistical discrepancy to less than 1 percent of GDP.
- Ensure proper data management to maintain consistency between the “MF\_SGO\_DB” and “MF\_MTFB\_DB” files; i.e., ensure that updates to either file is reflected into the other file whenever there is an update.

## D. GFS Compilation for the Local Government

### Coverage

**21. No local government GFS is currently compiled.** Local government in Lesotho comprises 10 district councils, and one city council, Maseru City Council (MCC). The 10 district councils report comprehensive data to the Ministry of Finance that allows compilation of comprehensive GFS statements. The mission reviewed audited annual financial statements of the 10 district councils for FY2016/17 and compiled three GFS statements: (i) a statement of sources and uses of cash; (ii) a statement of operations; and (iii) a balance sheet. No data were available for MCC for compilation and consolidation of local government with BCG GFS.

**22. Templates were created to compile GFS statements.** Templates were created using district councils' financial statements that allow compilation of three GFS statements.

### *Recommended Actions:*

- Use the template created during the mission to compile GFS for district councils for previous years, and start compiling GFS for district councils regularly.
- Collect data and start compiling GFS for Maseru City Council.

### Basis of Recording

**23. Financial statements of district councils include noncash transactions.** Financial statements used for the compilation of GFS for district councils include noncash basis transactions on liabilities. Transactions and stock positions on accounts payable are included in at least three of the district councils (Maseru, Leribe, and Botha Bothe).

### Classification

**24. All district councils use the same chart of accounts consistently.** The district councils' chart of accounts is comprehensive and clearly distinguishes expense categories (41: salaries in post and allowances; 42: travel and transport; 43: operating costs; 47: grants; and 48: other expense); and transactions in nonfinancial assets (53: fixed assets). The fact that all district councils use the same chart of accounts, makes it easy to map and aggregate their data. The classification, however, differs from that used for BCG entities, and is not currently used in EPICOR, the current Integrated Financial Management Information System (IFMIS). No district councils' data, other than grants from the BCG, are currently recorded in IFMIS.

**Recommended Actions:**

- Introduce the new chart of accounts in financial reporting of local governments (district councils and Maseru City Council).
- Introduce all local governments financial data in the new IFMIS.

**E. New Chart of Accounts**

**25. A new chart of accounts is being developed.** The current chart of accounts (COA) was introduced in 2009, along the current IFMIS. The new COA was developed to address shortcomings in the existing classification that does not allow independent reporting of administrative, functional, and economic classification at a granular level, for lack of proper segmentation in the classification. The new COA includes 10 segments, each for a different type of classification (functional, economic, administrative, etc.) and would be expected to address some of the issues with the existing.

**26. The economic and functional classifications of the new COA are broadly aligned with the *GFSM 2001*.** On the request from the authorities, the mission reviewed the new chart of accounts and found out that a few adjustments would be required for both the economic and functional classifications to be aligned to the *GFSM 2014*. The mission stressed that it made more sense to use the opportunity of a new chart of account development to having classifications aligned to the *GFSM 2014* already, rather than having to do that later when the COA is again revised. The authorities mentioned, however, that not considering a shift to a *GFSM 2014* consistent classification was to not substantially deviate from the existing chart of accounts.

**27. The mission provided comments for consideration to further improve the new COA.** The comments for improvements are aiming mainly at: (1) using the opportunity of an update of the chart to align the economic and functional classifications to the *GFSM 2014* economic classification; (2) allowing aggregation of transactions and stock positions by counterpart sectors; (3) expanding the classification by votes to align with the public sector institutional table.

**Recommended Action:**

- All recommendations made for required changes on the economic and functional classifications of the COA should be implemented for consistency with the *GFSM 2014*.

**F. Public Sector Debt Statistics****Coverage**

**28. Coverage of currently compiled and disseminated debt statistics is limited.** Coverage is limited to central government external debt and budgetary central government domestic and

external debt. No data is currently compiled on extrabudgetary units (EBU) domestic debt. No debt data is currently compiled and disseminated for public corporations, and the public sector.

**29. The authorities have been invited to start disseminating quarterly debt statistics.** The mission introduced the authorities to the World Bank’s Quarterly Public Sector Debt Statistics (QPSDS) reporting and had the Bank issue a letter inviting the authorities to start reporting quarterly debt PSDS. The mission assisted in filling a QPSDS reporting template with data on external central government debt; budgetary central government domestic and external debt; and CBL for 2016: Q3 to 2018: Q3.

**30. Broadening the coverage of debt statistics compilation and reporting is required.** The current coverage would need to be expanded to first include all debt liabilities of general government and then also include debt liabilities of public corporations. EBUs domestic debt needs to be compiled, as well as any local government debt liabilities that may exist. Financial statements for the 10 district councils making up part of the local governments for FY2016/17 indicated no borrowing, but included small values on accounts payable liabilities. There was no information available on MCC to determine whether it borrowed. Next in expanding the coverage would be to include public corporations. There are only eight public corporations: three are financial and five are nonfinancial. Data on the financial corporations (CBL, Lesotho Post Bank, and Lesotho Pension Fund<sup>9</sup>) should be readily available and similarly, data for nonfinancial should also be available from individual financial statements of these entities, if they are produced. Debt liabilities of CBL were included in the QPSDS reporting template, but excluded IMF loans that are also included in the budgetary central government loan liabilities.

***Recommended Actions:***

- Fill the QPSDS reporting template for quarters prior to 2016: Q3 and disseminate the data.
- Start compiling data on debt statistics for extrabudgetary units, and local governments, and consolidate with BCG data into general government debt statistics.
- Collect and compile debt statistics for public financial and public nonfinancial corporations.
- Start disseminating debt statistics on a quarterly basis to the World Bank PSDS database.

## **G. Data Dissemination**

**31. Annual and monthly data dissemination to the IMF’s Statistics Department (STA) should now be easier.** The mission incorporated into the authorities’ main compilation file, the “MF\_SGO\_DB” file, two sheets: one for the annual time series GFS questionnaire, and the other— for the high frequency (monthly) GFS questionnaire. The two sheets were linked directly to the data in the “MF\_SGO\_DB” file so that any changes to the data in the file is directly incorporated

<sup>9</sup> The Pension Fund includes two schemes, all for civil servants: (i) the Public Officers’ Defined Contribution Pension Fund, and (ii) the Specified Offices Defined Contribution Pension Fund.

into the two sheets. Dissemination of annual data would only entail copying and pasting data into the annual timeseries questionnaire and uploading the file onto the Integrated Correspondent System (ICS).

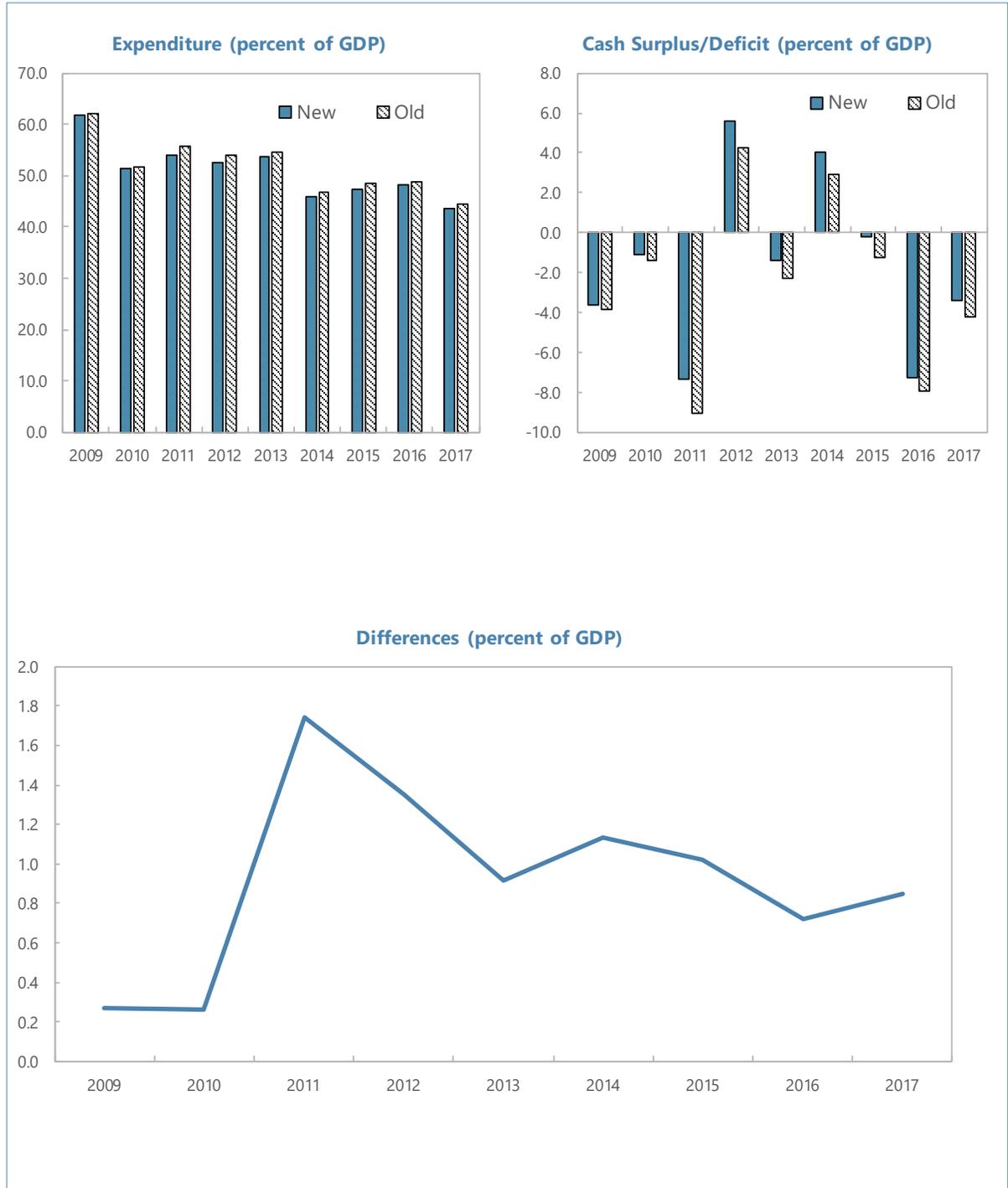
**32. The annual and monthly GFS templates were pre-populated with revised data incorporating recommended reclassifications.** Some of the reclassifications discussed in paragraph 17 were incorporated to the data but would require further refinement. Reclassifications marginally affect fiscal aggregates. Total revenue remains unchanged, while reclassifications from/to expenditure to/from transactions in financial assets and liabilities averaged to a little less than 1 percent of GDP in data for the last 5 years (Figure 3). Reclassifications included in the pre-populated annual and monthly GFS templates are the following:

- Taxes on property exclude the RAND compensation;
- Taxes on goods and services (excises) include 30 percent of the SACU receipts (the exact amount should be included);
- Grants include the RAND compensation as grants from foreign governments and 40 percent of the SACU receipts (the exact amount should be included) as grants from international organizations;
- Taxes on international trade (customs and import duties) include 30 percent of the SACU receipts (the exact amount should be included).
- Compensation of employees adds up the current budget compensation of employees and Parliamentarians interest payment made by the government on their behalf;
- Interest expense excludes interest paid on behalf of Parliamentarians;
- Grants expense include grant expense on the capital budget;
- Other expense that only take 50 percent of students' scholarships and include the pension liabilities repayment.
- Net acquisition of nonfinancial assets sums up the capital budget excluding grants in the capital budget, plus net acquisition of nonfinancial assets.
- Transactions in financial assets include 50 percent of students' scholarship as loans.
- Net incurrence of liabilities excludes the pension liabilities repayment.

***Recommended Action:***

- Refine the reclassification in the BCG statement of operations and disseminate the annual and monthly series to STA and the National Summary Data Page (NSDP) respectively.

**Figure 3. Lesotho: Differences in Statement of Operations After Reclassifications**



Source: Lesotho authorities and staff calculations.

**OFFICIALS MET DURING THE MISSION**

<b>Name</b>	<b>Institution</b>
Arun Kumar	Ministry of Finance/PFM
Bereng Motsoeneng	Ministry of Finance/PSD
Guy Anderson	Ministry of Finance/PFM
Itumeleng Morokole	Ministry of Finance/Debt
Kamohelo Dooda	Central Bank
Khalane Malie	Ministry of Finance/Macro
Kori Lenyatsa	Ministry of Finance/Budget
Libako Leisanyane	Ministry of Finance/Macro
Mafatima Moshoeshe	Ministry of Finance/Macro
Makamoho Majoro	Ministry of Finance/Treasury
Mamosi Senekane	Ministry of Finance/Macro
Mapoloko Seithleko	Ministry of Finance/Debt
Mathabo Hlaahla	Central Bank
Moeketsi Ntoi	Ministry of Finance/Macro
Motseki Khiba	Ministry of Finance/Macro
Neo Lebamang Tau	Ministry of Finance/Macro
Nthabiseng Sello	Ministry of Finance/Macro
Phoka Makashane	Ministry of Finance/IFMIS
Senate Mokobocho	Ministry of Finance/Macro
Seriti Mohobeta	Ministry of Finance/Macro
Teboho Nonyana	Ministry of Finance/IFMIS

## Appendix I. Assessment of Recommendations from Previous GFS TA Missions

No.	Recommendations	Status as of May 2018
1	The MOF, the CBL, and the BOS should further evaluate and confirm the sectorization of LHDA depending on its classification as a market or nonmarket producer, respectively as a public nonfinancial corporation or an EBU. (1) <sup>10</sup>	<b>Done.</b> Agreement was reached between CBL, MoF, and BOS to reclassify as an EBU.
2	Review and finalize the institutional table prepared during the mission and adopt the final table as a standard for the production of consistent macroeconomic statistics in Lesotho. (1)	<b>Not done.</b> No table agreed upon yet.
3	Establish a working group comprised of the Accountant General's Office, the Treasury, the Budget Department and the MOF's Macroeconomic Policy and Management Department, the CBL's Research Department, the BOS, and the Ministry of Local Government to regularly review and update the institutional table. (1)	<b>Not done.</b> No working group currently exists (former members moved).
4	Develop and implement, procedures for maintaining and reviewing regularly the public sector institutional table. (1)	<b>Not done.</b> No procedures in place.
5	Establish in the MOF's Macroeconomic Policy and Management Department a group of officials dedicated to GFS compilation efforts, in line with the intended migration plan to implement GFSM 2014. (1)	<b>Done.</b> A team has been set up to compile GFS.
6	Gradually increase coverage of central government data to cover all entities on the revised institutional table.	<b>Not done.</b> There is still a need to check available financial statements and develop templates.
7	As soon as a time series is produced for BCG, submit historical IFS and GFSY data to STA for dissemination.	<b>Partly done.</b> Annual data were submitted, pending is high frequency data reporting.
8	Ensure involvement of the same working group comprised of the Accountant General's Office, the Treasury, the Budget Department and the Macroeconomic Policy and Management Department of the MOF, the CBL's Research Department, the BOS, and the Ministry of Local Government in the revision of the COA.	<b>Done.</b> COA team in place but ownership and maintenance of the chart remains to be determined.

<sup>10</sup> (1) is a recommendation included in both the March and November 2016 TA reports.

No.	Recommendations	Status as of May 2018
9	Obtain additional TA from STA (electronically or during a mission) for a review of the COA before it is implemented—this recommendation will ensure that the COA is consistent with GFS reporting requirements.	<b>Done.</b> The TA mission reviewed the COA and made recommendations.
10	MOF to regularly update and submit the detailed GFSM 2014-compliant GFSY questionnaire produced by the mission. (1)	<b>Done.</b> Data submitted and included in the GFSY2017.
11	Expand the annual data submissions on BCG assets and liabilities to produce a partial balance sheet. (1)	<b>Not done.</b> Data exist to compile partial financial balance sheet but no attempt has been made in compiling the data.
12	MOF should collect BCG monthly data so that regular IFS questionnaires can be submitted to the IMF. (1)	<b>Partly done.</b> Data is being collected monthly and posted on the NSDP but not reported for the IFS.
13	Obtain information on the types of activities subject to withholding tax and allocate the taxes to the relevant categories. As an interim measure, total withholding taxes should be allocated using proportions provided by the LRA. (1)	<b>Not done.</b> Discussions with LRA on the breakdown of the withholding tax are yet to take place.
14	Revenue entitled “diamond royalties” should be classified as tax on exports and the same treatment should be applied on SNA. (1)	<b>Not done.</b> Reclassification of the series is yet to be done.
15	Disaggregate data on SACU receipts and allocate them to the relevant categories in a consistent manner with other SACU member countries. (1)	<b>Not done.</b> Reclassification of the series is yet to be done.
16	Compile comprehensive data for GFS by adding information which is not in IFMIS—these data can be obtained from data available from the public finance investment database and the CS-DRMS. (1)	<b>Not done.</b> No attempt has been made in accessing the data.
17	Allocate revenue and expenditure funded by transfers from bilateral donors that are paid directly to line ministries or contractors to the specific revenue, expense, and net acquisition of nonfinancial assets categories. (1)	<b>Partly done.</b> Work is in progress.
18	The MOF should investigate the nature of such line items into the MOF’s fiscal tables; collect all data related to the operations of the revolving fund and classify them to the relevant categories according to GFSM 2014 guidelines, including the assets.	<b>Not done.</b> Data on transactions in the revolving fund (repaid scholarships)—information from National Manpower Development Services is not captured in the SGO.
19	Investigate whether the loan for Maseru Waste Water Project was assumed as debt of central government or whether the debt remainder outstanding as debt of the public nonfinancial corporations’ subsector and classify it appropriately, according to GFSM 2014 guidelines.	<b>Not done.</b> Debt assumption is not currently included in the SGO.

No.	Recommendations	Status as of May 2018
20	Review interest revenues and expenses to correctly record the transactions involving interest payments on behalf of parastatals and the equivalent revenues so that these flows can be treated according to GFSM 2014 guidelines. (1)	<b>Not done.</b> Checking what these interest transactions are and the appropriate recording is yet to be done.
21	Assure the compliance of IFMIS data so that all reports produced from these source guarantee consistencies in the data reported. (1)	<b>Partly done.</b> Cut-off date and freezing of the database are currently in place. Inconsistencies remain between the SGO and MTFE.
22	Review the bridge tables within IFMIS to guarantee that all data available be compiled to GFSM 2014 formats and classifications, and establish a procedure for continuous updating. (1)	<b>Partly done.</b> Bridge table done with the draft of the COA, need to make corrections to the COA so that the bridge is also corrected.
23	Obtain additional details on the PPP contracts and record data according to relevant international standards both in GFSM 2014 and SNA 2008. (1)	<b>Not done</b> for lack of data. Need to check again with the contract manager of what information is available.
24	Gradually collect more detailed and timely local government data as it becomes available, and automate processing of such data by integrating the GFS bridge table with the database. (1)	<b>Not done.</b> Need to check with local government/treasury of whether the process of data collection can be automated.
25	Source data for "other accounts payable", "guarantees" and "pensions" should be obtained and then organized into a dataset to improve compilation, validation, and dissemination of public sector debt data by the MOF. (1)	<b>Not done.</b> Data currently not compiled.
26	Review and disseminate data for the World Bank-IMF PSDS database quarterly from 2009–16. (1)	<b>Not done.</b> Need to update the data series produced during the previous missions and submit the data to the World Bank database.
27	Develop procedures and mechanisms for the collection of public debt data from public nonfinancial corporations. (1)	<b>Partly done.</b> The debt department has data on external debt, but no data on domestic debt.
28	Coordinate the GFSM 2014 Migration Plan with the national implementation of IPSASs. (1)	<b>Partly done.</b> Work ongoing with treasury.
29	Enhanced General Data Dissemination System data and metadata should be reviewed and updated. (1)	<b>Not done.</b> Need to check metadata to ensure it is still valid and update it.
30	To the extent possible, the MOF, the CBL, and the BOS should share the same databases and data sources to guarantee consistency among distinct macroeconomic statistical systems, optimize the use of resources, and avoid duplication of efforts. (1)	<b>Not done.</b> Departments are yet to start sitting together to compare statistics.

No.	Recommendations	Status as of May 2018
31	Review Lesotho's COA classifications with the corresponding GFSM 2014 economic classifications.	<b>Ongoing.</b> A new COA is being developed and recommendations were made for its consistency with the GFSM2014.
32	The MOF should ensure that planned revisions to the PFMAA guarantees the framework to gather, consolidate, and disseminate fiscal data for general government as well as the public sector of Lesotho.	<b>Ongoing.</b> A draft PFMAA (and budget regulations and treasury regulations) are being revised/updated/developed to that effect.
33	The CBL should revise its BCG fiscal data presentation, so it is aligned with the MOF's presentation.	<b>Not done.</b> MOF, CBL, BOS need to agree on the public sector institutional table to have the same definitions of sectoral coverage.
34	Gradually increase coverage of central government data to cover all entities of the central and general government, and subsequently also the public sector.	<b>Not done.</b> Requires finishing public sector institutional table first.
35	Ensure involvement of all relevant departments of the MOF, as well as main line ministries in the revision of the COA.	<b>Done.</b>
36	Make use of the recommendations of the mission to align both functional and economic classification of the GFSM 2014 to ensure that the COA is also consistent with GFS reporting requirements.	<b>Not done.</b> Expected to be done following recommendations on the COA changes needed.
37	The MOF should reconcile revenue data from bank accounts and revenue data from the LRA.	<b>Not done.</b> There is still a need to improve statistics revision at the end of the fiscal year (or during the fiscal year) when data from IFMIS has been updated.
38	Obtain detailed data on recurrent expense of district councils, both from the IFMIS and local governments execution, in order to adequately classify grants from the BCG to local governments, derive and classify recurrent expense of local governments according to their economic nature, and consolidate the transfer in data for general government.	<b>Not done.</b> Two things needed are yet to be done: (i) ensure consistency of grant expense in BCG and grant revenue in LG; (ii) ensure that LG acquisition of nonfinancial assets does not include expense items (for maintenance).
39	Obtain detailed data on investment expense of district councils from foreign aid projects to adequately classify them into the respective economic expense categories.	<b>Not done.</b> Check with local government on what data is available and whether it is all included in the financial statements (also check with budget department of what is included in the budget).

No.	Recommendations	Status as of May 2018
40	The MOF should investigate the nature of all line items related to the scholarship and bursary program and revise their treatment in the MOF's fiscal tables; collect all data related to the operations of the revolving fund and classify them to the relevant categories according to the GFSM 2014 guidelines, including the assets.	<b>Not done.</b> There is still a need to correct recording to distinguish expense from acquisition of financial assets (splitting the repayable from the non-repayable portion of the scholarship).
41	Gather detailed data on arrears to classify them into the correspondent items of expense and gradually adopt the accrual recording of these items, so that the proper record of the obligations can be adequately monitored.	<b>Not done.</b> Recording in the SGO is still done on a cash basis, omitting inclusion of accounts payable (arrears).
42	Reroute interest payments on behalf of parliamentarians, so that they are shown as part of their compensation of employees.	<b>Not done.</b> Interest on behalf of parliamentarians is still recorded under interest expense.
43	Organize source data for district councils and the Maseru City Council into a dataset to improve compilation, validation, and dissemination of general government data by the MOF.	<b>Not done.</b> No attempt has been made in compiling local government data.

LESOTHO