



KINGDOM OF LESOTHO

REPORT ON GOVERNMENT FINANCE STATISTICS MISSION (JANUARY 14–25, 2019)

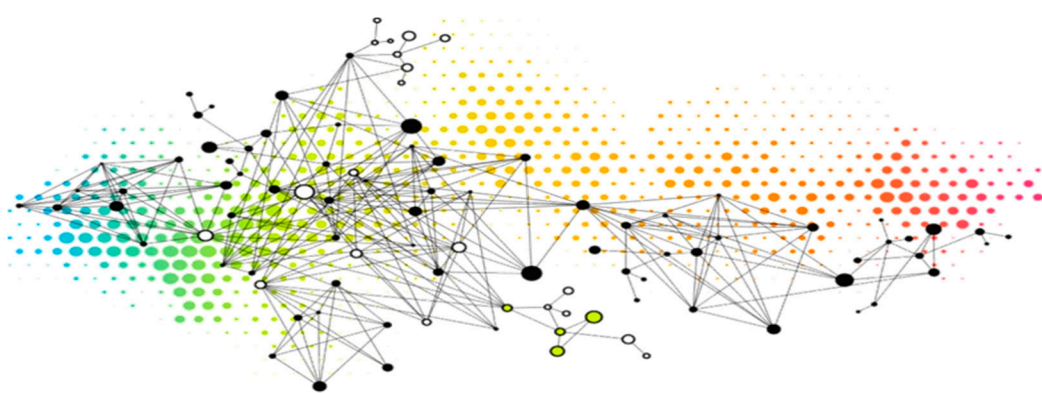
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Prepared by Clement Ncuti and Laurent Kemoe

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CONTENTS

Glossary	3
SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS	4
STATUS OF GFS AND PSDS COMPILATION AND DISSEMINATION	6
A. Implementation of Recent GFS TA Missions' Recommendations	6
B. Institutional Coverage of the Public Sector	6
C. GFS Compilation for the Budgetary Central Government	7
D. GFS Compilation for the Local Government	11
E. GFS Compilation for Extrabudgetary Units	13
F. GFS Compilation for the Pension Fund	13
G. Revised Chart of Accounts and new IFMIS	14
H. PSDS Compilation	14
I. Data Dissemination	15
DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS	17
A. Action Plan for the Improvement of GFS and PSDS Compilation and Dissemination	17
B. Officials Met During the Mission	21
FIGURES	
1. Public Sector Institutional Table	7
2. Trends in Fiscal Aggregates	16
TABLE	
1. Priority Recommendations	5
APPENDICES	
I. Outstanding Issues/Recommendations from March and November 2016 TA Reports on GFS Missions to Lesotho (status as of January 2019)	22
II. Outstanding Issues/Recommendations from April 2018 TA Report on GFS Mission to Lesotho	27
III. Summary of Implementation of Past GFS TA Recommendations	29
IV. Compilation of GFS from Financial Statements	30

Glossary

BCG	Budgetary Central Government
BOS	Lesotho Bureau of Statistics
CBL	Central Bank of Lesotho
COA	Chart of Accounts
COFOG	Classification of the Functions of Government
CS-DRMS	Commonwealth Secretariat's Debt Recording and Management System
DMO	Debt Management Office
EBU	Extrabudgetary Units
GFS	Government Finance Statistics
<i>GFSM 2014</i>	<i>Government Finance Statistics Manual 2014</i>
<i>GFSY</i>	<i>Government Finance Statistics Yearbook</i>
IFMIS	Integrated Financial Management Information System
IFS	International Financial Statistics
LRA	Lesotho Revenue Authority
MCC	Maseru City Council
MOF	Lesotho Ministry of Finance
PFMA	Public Financial Management Act
PSDS	Public Sector Debt Statistics
<i>PSDSG</i>	<i>Public Sector Debt Statistics Guide for Compilers 2013</i>
PODCPF	Public Officers Defined Contributions Pension Fund
QPSDS	World Bank's Quarterly Public Sector Debt Statistics Database
SACU	Southern Africa Customs Union
SGO	Statement of Government Operations
SNA	System of National Accounts
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 January 14–25, 2019. The mission was a follow up to three previous GFS technical assistance (TA) missions under the EDDI2 in March and November 2016 and in May 2018.

The mission was also in response to a request from the Lesotho delegation during a meeting with the IMF's Statistics Department (STA) at the 2018 Annual Meetings in Bali for follow up TA to further assist with improving GFS compilation.

2. The mission aimed to review progress against recommendations of previous GFS TA missions and further assist with improving the quality of GFS currently compiled and disseminated. The mission reviewed progress with implementation of previous GFS TA recommendations and updated the public sector institutional table. The mission assisted in incorporating reclassifications recommended during previous GFS TA missions to the new GFS compilation file and reviewed monthly and annual data covering the period April 1991 to March 2019 were compiled. The large statistical discrepancy which initially averaged about 10 percent of GDP has now been reduced to a range between -2 and 2 percent of GDP in the last five years. The mission also assisted with compilation of preliminary GFS from financial statements of Local Governments and select entities outside the budgetary central government including the pension fund. Upon request from the Ministry of Finance's (MOF) Principal Secretary, a GFS improvement work plan was developed for the next two years, drawing on the existing, and on previous and new GFS TA recommendations. The mission overlapped during the second week, with an AFRITAC South (AFS) Public Financial Management (PFM) TA mission on the upgrade of the Integrated Financial Management Information System (IFMIS) and the new chart of accounts (CoA). The GFS TA mission attended meetings of the AFS PFM mission on the new chart of accounts and reiterated recommendations made by previous GFS mission for improvements to the new chart of accounts (CoA). The mission also overlapped with the IMF African Department's (AFR) Article IV review mission.

3. Broadening the coverage of GFS and improving data accuracy and comprehensiveness remains important, for sound fiscal policy making. With coverage of fiscal reporting limited to the budgetary central government, all other operations of the government, at the local government level, and in autonomous entities (parastatals or extrabudgetary units) remain out of the radar in decision making. A broader view of government operations, that includes those at the decentralized level and in autonomous entities would better reflect the true picture of revenue mobilization, resource allocations, main drivers of the deficit and how it is financed, while also highlighting potential sources of fiscal risks, not limited to just the budgetary central government. The more accurate and comprehensive the data is would also go a long way in better informing fiscal policy decision making. Efforts are required

going forward to build the systems and processes that allow collecting and compiling data beyond the budgetary central government, on a more regular and granular basis.

4. There have been notable improvements with GFS compilation, but challenges remain. The mission found out that the Macro Department had developed a new approach in compiling GFS for the period starting January 2018. The mission reviewed the new compilation methods and noted some improvements with the approach. Accounts payable are now recorded under financing, to bridge the timing difference of commitment basis expenditure. The approach however, although to some extent more accurately reflects, on the revenue, the actual cash collections, adversely affects the accurate disaggregation of components of revenue. The mission understood that source data on revenue, that initially comprised data from the Lesotho Revenue Authority (LRA) and the IFMIS respectively on taxes and other revenue, was changed to data from the Central Bank of Lesotho (CBL). Proportions of revenue collections, from the LRA, are applied to data from CBL, broken down into income tax, taxes on goods and services, with the remaining revenue items being a residual. No data are included in actual grant revenue. The mission understood that owing to challenges with source data for grants, no grant revenue had yet been included. An approach like the one used previously where the budget amount on grants was apportioned by months and considered to reflect the actual disbursement is being considered. Efforts to reflect a more accurate breakdown of revenue items, and actual revenue on grants will be required for meaningful fiscal analysis. Further details on the priority recommendations and the related actions/milestones can be found in the action plan under *Detailed Technical Assessment and Recommendations*.

Table 1. Priority Recommendations

Target Date	Priority Recommendation	Responsible Institutions
June 2019	<i>Formalizing the GFS technical working group, assigning responsibilities, and dedicating staff resources for the collection and compilation of GFS.</i>	MOF: Macro (lead), budget, treasury, IFMIS; CBL; BOS; Local Government.
June 2019 and continuous	<i>Regularly reviewing and updating the public sector institutional table for consistent use across all macroeconomic statistics (national accounts, monetary and financial statistics, external sector statistics, and government finance statistic.</i>	MOF: Macro (lead), Treasury, CBL, BOS.
December 2019	<i>Collecting and compiling data for EBUs and public corporations (including the Pension Fund) and continue compiling data for local governments.</i>	MOF: Macro (Lead), Treasury, Debt, PSD&FA, CBL, Local Government
Continuous	<i>Following through with implementation of TA recommendations.</i>	MOF: Macro

STATUS OF GFS AND PSDS COMPILATION AND DISSEMINATION

A. Implementation of Recent GFS TA Missions' Recommendations

5. Progress on implementing recommendations from recent GFS TA missions remains slow. The mission reviewed progress against recommendations of previous GFS TA missions in March and November 2016, and April 2018. Out of a total of **64 recommendations** made during these missions; only **8 were completed, 14 partly completed, 2 were ongoing, while 40 were not done (Appendix I – III)**. Lack of progress with implementation of TA recommendations is mainly attributable to a lack of formal institutional arrangement and responsibilities assigned in ensuring recommendations are followed through. While certain steps were taken in establishing institutional arrangements in the form of a working group responsible for, among others, reviewing entities making up the public sector; clear assignments of responsibilities on addressing other issues raised by previous GFS TA missions are yet to be made. Following through with implementation of past GFS TA recommendations, assignment of responsibilities will be important in making progress towards improving the quality of GFS currently compiled.

B. Institutional Coverage of the Public Sector

6. The mission reviewed the existing institutional table for the public sector.

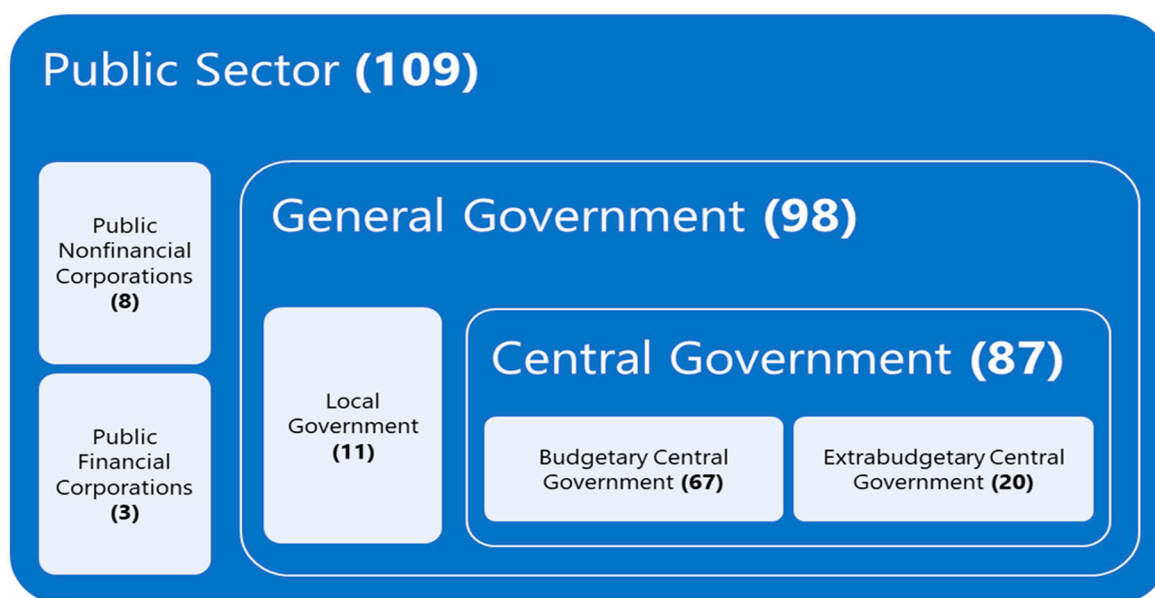
The mission revisited the public sector institutional table developed during previous missions and augmented it with institutional units from the Central Bank of Lesotho's own list, that were not initially included. The list now identifies 109 institutional units (**Figure 1**) that would be classified as controlled by the public sector, of which 98 are non-market entities and belong to the general government, and 11 are market entities and form part of public corporations. The mission assisted the authorities in updating the list of extrabudgetary entities in the institutional table. Sixteen (16) entities were identified by the MOF, three (3) of which were identified by the central bank as Public Nonfinancial corporations. The central bank identified nine (9) additional entities not included in the MOF's list. The augmented table, in addition to including CBL's own sectorization of entities in the public sector, also draws on the list of institutional units included (or not) in the annual consolidated financial statements of the Ministry of Finance's Accountant General office.

7. Usage and update of the institutional table going forward requires involvement of all institutions compiling macroeconomic statistics. While the list may now be comprehensive to a great extent, it nevertheless would still be important for all the entities involved in the compilation of macroeconomic statistics (the Ministry of Finance, the Bureau of Statistics, and CBL) to review the list to ascertain: (i) the exhaustiveness of the list (i.e. all government-controlled entities are included); and (ii) the appropriate sectorization of entities. Finalizing the public sector institutional table and using it across all macroeconomic statistics will be important in ensuring

consistent definition of the government and the public sector at large in all macroeconomic statistics.

8. The mission was informed that a working group comprised of stakeholders from different institutions (MOF, CBL, and BOS) was established to review and update the public sector institutional table; however, progress in finalizing the list remains slow, which reduces the scope for timely including all entities making up the budgetary central government (e.g. parastatals and autonomous bodies) in GFS currently compiled.

Figure 1. Public Sector Institutional Table



Source: Mission and staff from MOF and CBL.

C. GFS Compilation for the Budgetary Central Government

Updated GFS Compilation File

9. The mission upgraded the existing GFS compilation file (the SGO_DB).

The compilation file maps source data from CBL, the IFMIS, and the Debt department into a detailed GFS statement of operations and also included output sheets in the file for reporting data to the *GFS Yearbook* (GFSY) and high frequency databases of the IMF's Statistics.

Department (STA). The mission incorporated, using available data, reclassifications recommended during earlier GFS TA missions, and data that was initially not included.

10. The following are reclassifications and additions made to the new GFS compilation file:

- **Rand monetary compensations** were reclassified from property tax to grants from foreign governments – the amount reclassified averaged about 0.6 percent of GDP in the last five years.
- **Policy lending transactions** that were not initially included in the compilation file were added. Interest repayments on on-lent funds were added to property income under revenue, increasing the receipts by about 0.06 percent of GDP. New disbursements and repayments were added to transactions in financial assets and amounted to a net reduction in financial assets in the form of loans of 0.05 percent of GDP.
- **Unfunded social contributions** representing pension and gratuity benefits for retired civil servants that were not transferred to the Public Officers Defined Contribution Pension Fund (PODCPF) were reclassified from compensation of employees to employment related social benefits – the amounts reclassified amounted to about 1.5 percent of GDP on average in last five years.
- **Transfers made to the PODCPF** between 2008 and 2010 amounting 1.1 billion Maloti were reclassified from pension liabilities in financing to capital transfers expense (other expense).
- **Transactions in the capital budget** initially classified under expense were reclassified under transaction in nonfinancial assets (in accordance with the guidelines of the *GFSM 2014* to include expense meant for capital formation in transactions in nonfinancial assets). The amounts reclassified averaged to about 2.5 percent of GDP in the last five years. Grant expense in the capital budget were however kept in expense, as capital grants, again in line with the guidelines of the *GFSM 2014*, and to ensure proper consolidation (for when it is done) between different levels of government. Purchases of goods and services expense were increased of amounts initially recorded in the recurrent budget and added to transaction in nonfinancial assets for amounts averaging about 0.2 percent of GDP in the last five years.
- **Interest payment on behalf of members of Parliament** initially included in interest expense was reclassified as compensation of employees for amounts averaging less than 0.1 percent of GDP.
- **Change of the basis of recording for expense and transactions in nonfinancial assets and recording of accounts payable.** Expenditure data reported since January 2018 reflect commitments and transactions that are deemed to have completed the payment cycle from the status of funds report in the IFMIS. Although not purely on accrual basis, the recording is much closer to accrual, than cash basis of recording. Accounts payable are now recorded under financing, to bridge the timing difference of accrual like transaction in expenditure, and cash transactions in financing by taking the difference of what is committed and paid in the IFMIS and total payments through government accounts at CBL. Data on accounts payable compiled that way showed an accumulation in payables for the last three months of

FY 2017/18 of about 0.4 percent of GDP and a cumulative reduction in payables in the first 8 months of FY 2018/19 of about 0.2 percent of GDP.

- **SACU receipts.** The mission agreed to keep SACU receipts as a separate revenue item, for purposes of internal reporting of the Ministry of Finance, given the significance of the receipts and the need for monitoring of these receipts. The mission did however recommend reclassifying SACU receipts for purposes of reporting to STA, into excises for the excise component, customs duties for the customs component, and grants from foreign governments for the development component. Reclassifications were incorporated into templates for reporting to the GFSY and high frequency GFS databases. The exact collection for each component may however need to be confirmed as proportions were used in apportioning the SACU receipts that may not represent the actual share of each component.

GFS Accuracy and Comprehensiveness

11. The mission reviewed progress with addressing some of the data issues identified during the previous missions on the **accuracy**, and **comprehensiveness** of GFS currently compiled and assisted in addressing some.

12. The mission assisted in reducing the large statistical discrepancy between net lending/net borrowing and financing data. The mission found out that the main source of the discrepancy stemmed from an error in the calculation of changes in the government's deposits in the banking system. Correcting the error contributed to significantly reduce the statistical discrepancy, which initially averaged about 10 percent of GDP and has now been reduced to a range between -2 and 2 percent of GDP in the last five years (**Figure 2**). While the statistical discrepancy reduced, it nevertheless remains quite high, owing among others, to transactions not currently included in fiscal data on the government's equity participation in public and/or private corporations; the coverage inconsistency of transactions above and below the line, with transactions above the line being narrower than those below the line; and the change in government deposits from externally funded projects not reflected in expenditure.

13. Further reducing the statistical discrepancy will require concerted efforts from various departments within the Ministry of Finance, and CBL:

- **Addressing the coverage discrepancy of transactions above and below the line.** The mission confirmed that the coverage above the line is lower than that below the line, that is, the institutional units for which revenue and expenditure are recorded, are less than those included in the change in the government deposits from CBL and commercial banks. The mission understood that the main reason is the fact that some budgetary central government entities are not included in the current scope of data from the IFMIS, while they are included in the change in government deposits. In addition, a number of entities are included in the CBL and commercial banks deposits as "central government" and therefore showing up in the change in deposits, but their revenue and expenditure transactions are currently not included in the IFMIS and therefore not in the GFS compilation file. The mission was not able to estimate the magnitude of the transactions, but it is likely that all these

entities being grant aided entities, have grants from the budgetary central government as their main source of revenue, and collect little revenue on their own (except presumably some of the extrabudgetary units). It is very important that the coverage discrepancy is resolved immediately, and a phased approach is proposed, considering the existing data source challenges:

- *As an interim measure in the short run:* liaise with CBL and ask to request commercial banks to provide aggregated monthly total deposits from all those entities of the central government that are currently not covered in the IFMIS (and therefore in revenue and expenditure). Remove those balances from the total government deposits from the CBL's Depository Corporations' Survey (DCS) each month to match the coverage below the line with that above the line.
- *In the medium term:*
 - Start collecting data directly from all budgetary central government entities not currently included in the IFMIS. This should be done by sending monthly data requests from those entities in the form of a questionnaire;
 - Include all those entities in the new IFMIS to be launched starting next year, to have direct access to the data.
- **Identifying counterpart transactions on expense and transactions in nonfinancial assets pertaining to the revolving fund** (including students' scholarship repayments), and trust monies and incorporate those transactions pertaining to the budgetary central government in the GFS compiled. Deposits accumulation and drawdown from the revolving fund, relating to among others, transactions of the National Manpower Development Secretariat relating to students' scholarships are currently showing under changes in government deposits, but no counterpart transaction is currently included in the GFS compiled.
- **Collecting data on other economic flows** (holding gains/losses – revaluation, and volume change) on government deposits. The current recording of change in government deposits assumes there are no other economic flows, while there are government deposits in foreign currency, which, when converted to Maloti (LSL) would change, not as a result of transaction, but as a result of revaluation. Liaising with CBL to determine what change in the government deposits is due to revaluation each month and removing that from the computation of the change in government deposits would be required going forward.
- **Collecting data on government equity participation/withdrawal in/from public and private corporations.** The current GFS compilation file does not include any data on acquisition and disposal of equity. Liaising with the private sector department to get historical data on what were the equity acquisition and disposals going as far back as data availability permits and recording those transactions in the GFS compilation on a regular basis would be required going forward.

- **Collecting data on actual capital grants revenue and recording associated expenditure on transactions in nonfinancial assets.** Compilation prior to January 2018 assumed that all capital grants revenue in the budget were disbursed, and the same amount recorded as spent. No data is yet recorded on capital grants revenue and associated transactions in nonfinancial assets in the data starting in January 2018. Data on grants revenue and corresponding expenditure should be collected, in coordination with the Budget and Accountant General's departments at the Ministry of Finance, and the Ministry of Planning; from line ministries implementing the projects externally funded through capital grants. The collected data should then be incorporated in fiscal statistics.
- **Adjusting expenditures for government externally funded projects change in deposits.** Data on the change in government deposits in both CBL and commercial banks includes deposits of externally funded government projects for which the change in deposits may relate to disbursements pertaining to a previous fiscal year, and therefore create a statistical discrepancy since there are no expenditure associated to it. The change in deposits for all these projects, when available, should be used to increase transactions in nonfinancial assets (for drawdowns) and decrease transactions in nonfinancial assets (for accumulations). The Ministry of Finance may need to work with that of Planning and request all line ministries to each provide the list of all externally funded government projects they have and then provide the list to CBL to provide monthly (aggregate) deposits for the list of projects that will have been provided by the Ministry of Finance.
- **Including data on debt assumptions** – including members of Parliament loans assumption as and when there is a change in Parliament and parliamentarians' loans are assumed by government; and defaults on guaranteed debt. Only changes to debt liabilities are currently recorded, while the counterpart, in the form of capital transfers (since government does not acquire any financial claim) is not recorded as part of expense.
- **Ensuring consistency of domestic debt transactions between the Ministry of Finance and the CBL.** The mission found out that the Debt department recorded borrowing from the IMF as an external debt and recommended reclassifying it as domestic debt, since that represented on-lending from CBL to the Ministry of Finance. Inconsistencies on domestic debt service were also identified, that may be stemming from data extracted from the debt recording system (CS-DRMS) differing from those from CBL. The inconsistencies may need to be explained and resolved as appropriate.

D. GFS Compilation for the Local Government

Source Data and Coverage

- 14. The mission assisted with the compilation of data for 10 district councils using financial statements for FY2017/18 and a template created during the previous mission.** Due to major differences in the presentation of the financial statements of Maseru City Council

(MCC) and those of district councils, the mission assisted in the development of a new template for collecting data from financial statements of MCC and harmonizing the presentation of compiled data from all individual local governments in order to facilitate aggregation. The mission also used this template to start compiling MCC GFS data using financial statements for Fiscal Years 2013/14 through 2017/18.

Recommended Actions:

- Complete the compilation of GFS data for MCC using the template created during the mission and available financial statements.
- Aggregate the data compiled for individual local governments and compile the following GFS statements for the Local Government sector of Lesotho for Fiscal Years 2016/17 and 2017/18: (1) statement on sources and uses of cash; (2) statement of operations; and (3) balance sheet.

Basis of Recording

15. Transactions are broadly recorded on cash basis, with a few exceptions. Previous missions found that financial statements of some district councils (Maseru, Leribe, and Botha Buthe) include noncash basis transactions and stock positions, specifically on accounts payable. This mission found that, in addition to this, MCC financial statements include transactions and on accounts receivable.

Classification

16. The presentation of MCC's financial statements is in stark contrast with those of all district councils, where charts of accounts are harmonized. While district councils' chart of accounts distinguishes expense categories and transactions in nonfinancial assets, MCC's financial statements provide an alternative presentation whereby all expenditures are classified under the following subcategories: emoluments, premises, supplies, establishment, transport, and projects. The different presentation of local governments' chart of accounts complicates the aggregation of their data, hence the creation of a specific data compilation template for MCC.

Data Accuracy

17. Compiled GFS for MCC include a large statistical discrepancy due to incomplete rather implausible data included in the financial statements. The discrepancy amounted to about 12 percent MCC's total expenditures in FY2013/14 for which the mission completed the compilation.

Recommended Action:

- In collaboration with data providers at MCC, identify the sources of discrepancies (transactions not currently included in the financial statements and potential errors) and incorporate them in the GFS compilation template.

E. GFS Compilation for Extrabudgetary Units

18. No GFS for extrabudgetary units is currently compiled. The MOF is in the process of collecting financial statements for the extrabudgetary units that have been clearly identified. The mission encouraged the authorities to expedite the process and to start compiling GFS using a template similar to the one developed for local governments. The mission briefly discussed how financial statements are converted into GFS statements and used available data from the financial statements of one budgetary central government entity (LRA), to illustrate the approach. **Appendix IV** provides a general overview on the compilation of GFS from financial statements.

F. GFS Compilation for the Pension Fund

19. The mission compiled GFS for the Public Officers Defined Contribution Pension Fund (PODCPF) using available financial statements. Discussions with the PODCPF indicated that there may be lags in the receipt of social contributions from government, which are recognized as contributions payable in the PODCPF financial statements. The mission understood however that the same may not currently be included in the budgetary central government data as contributions payable.

20. The PODCPF has a funding shortfall, that remains to be ascertained. The mission understood that an actuarial assessment of the PODCPF had indicated a funding shortfall of 7.1 billion Maloti. The PODCPF is expected to commission another assessment, from a different actuary to confirm the amount. Payments currently made to the PODCPF as part of regular administrative expense support amounting to 6.2 percent of pensionable income include an estimated 3 percent meant for covering the fund's shortfall. The mission understood that the amount is insufficient to fully cover the shortfall in a foreseeable future. The Ministry of Finance may need to coordinate with the PODCPF to ascertain the exact amount of the shortfall, and devise plans to close the funding gap. The exact recording of transactions in fiscal and debt data would be determined by the decision made on closing the funding gap. In addition, the Ministry of Finance may need to coordinate with the PODCPF to ensure that amounts transferred to the PODCPF not meant for future social benefits are reclassified; and any contributions payable recorded appropriately in the Ministry of Finance's GFS.

21. The mission noted that the current classification of all transfers to the PODCPF as social contribution may not be in line with guidelines from the GFSM 2014. The mission understood that 10 percent of pensionable income represents social contributions, with equal contributions from the employees and the employer. An additional 6.2 percent of pensionable income is collected and transferred, that includes 1 percent meant for reinsurance, about 2.2 percent for administrative expense, and 3 percent for covering the funding gap of the fund. Transfers not meant for the payment of social benefits to the fund's members, upon retirement, withdrawal from the fund, or in the likelihood of a risk covered through reinsurance materializing,

should be reclassified from social contributions under compensation of employees to transfers not elsewhere classified (other expense).

G. Revised Chart of Accounts and new IFMIS

22. The mission participated in meetings organized in the context of an AFS PFM TA mission on the upgrade of the IFMIS and the new CoA. The two missions collaborated in advising on the consistency of the economic and functional classification of CoA segments with the *GFSM 2014*. In particular, it was reiterated that the Ministry of Finance: (1) uses the opportunity of an update of the chart to align the economic and functional classifications to the *GFSM 2014* economic classification; (2) allow for aggregation of transactions and stock positions, and presentation of stock positions by counterpart sectors; (3) expand the classification by votes to align with the public sector institutional table.

23. The launch of the new IFMIS, if not carefully planned could adversely affect the quality of GFS. The envisaged launch of the new IFMIS as early as starting with FY2019/20 may pose a risk to GFS compilation unless there is careful preparation, ahead of the launch, on data retrieval for fiscal reporting from the new system. Strong coordination will be required between the system developers; departments responsible for the oversight and maintenance of the system; and users of the system, including those responsible for GFS compilation, to ensure the new system can generate comprehensive data for fiscal reporting.

H. PSDS Compilation

24. Progress with compilation of debt statistics remains slow and subject to several coverage and accuracy issues. The mission discovered differences in domestic debt data collected from different sources (Debt Management Office (DMO), IFMIS and CBL). Lack of timeliness in recording (and sometimes failure to record) debt information into the IFMIS has created a discrepancy between debt numbers available from the DMO and IFMIS debt data, giving way to potential mistake in financial transactions recorded in the SGO. The mission was informed that the DMO receives debt securities' auction data from CBL and manually record them in Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS); this process is subject to mistakes which can explain some of the discrepancies between the two sources. The mission also discovered that, neither the CBL nor the DMO systematically record the amounts of matured debt securities repaid and the amounts rolled over, which makes it hard to know how new disbursements and debt repayments contribute to the change in the stock of debt. Besides, in the absence of these detailed information on debt amortization, different assumptions between the CBL and the DMO lead to different debt numbers, further increasing the aforementioned discrepancies.

25. Recording of transactions with the IMF would need to be corrected. The mission found out that funds on-lent to the government by the CBL (specifically funds disbursed by the IMF in the context of past financial arrangements) were being recorded as external debt while

they are in fact liabilities of the government to the central bank. The mission advised the authorities to make the necessary reclassification.

26. The recording of debt reorganization, and in particular debt assumptions, could be improved. The mission found that the liabilities of Parliamentarians, members of the Senate and Statutory bodies, assumed by the government twice in the past (in 2015 and 2017), did not increase the domestic debt numbers of the government as the creditors (Commercial Banks) were directly repaid upon notice of default by the original borrowers. The mission also found that the government had, in the past, guaranteed the debt of farmers vis-à-vis commercial banks and paid back the banks when the farmers defaulted.

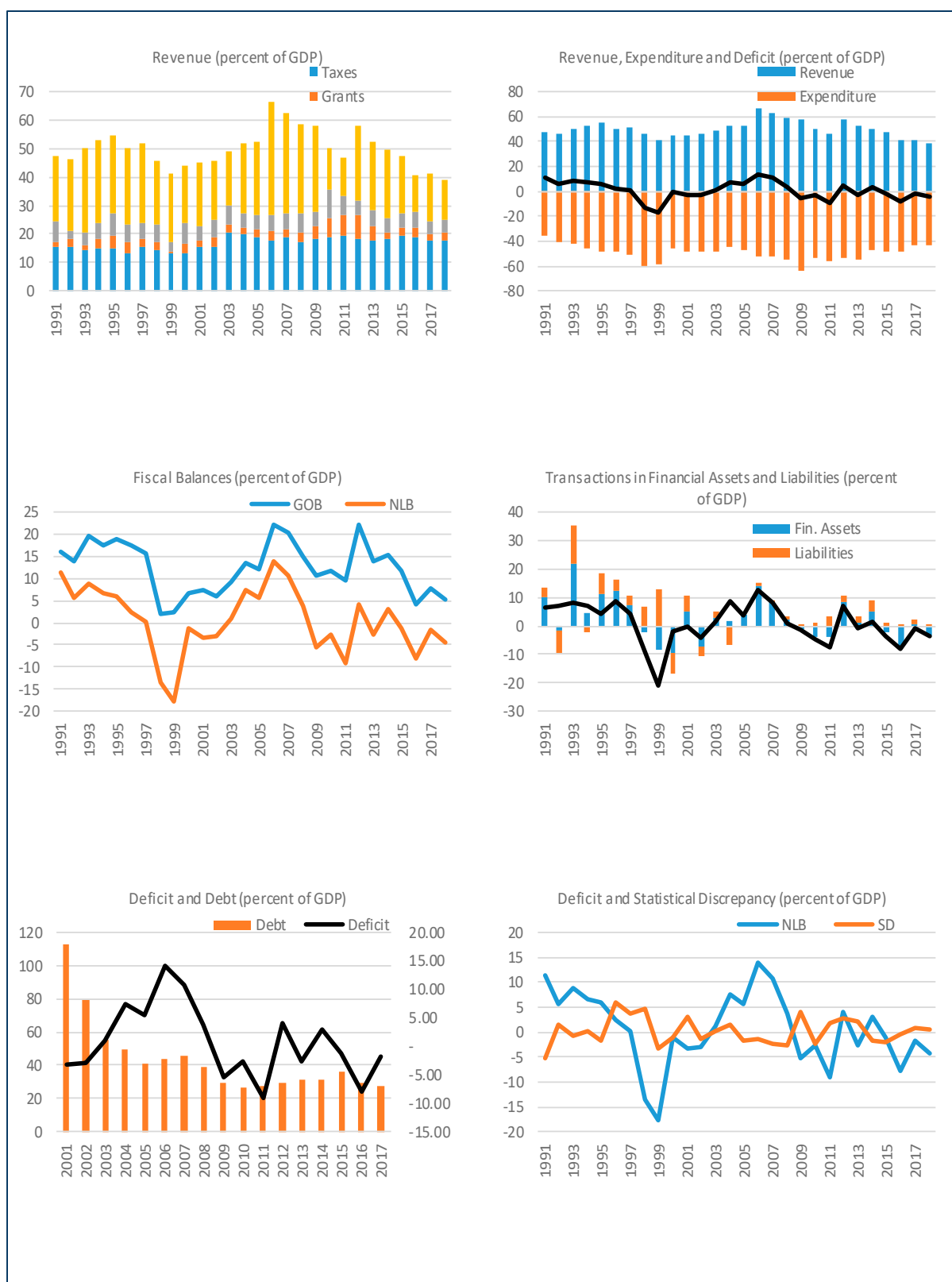
Recommended Actions:

- Systematically record all debt transactions (new disbursements, repayments and amounts rolled-over) into the CS-DRMS and the IFMIS.
- Reclassify funds on-lent to the government by the central bank as domestic debt.

I. Data Dissemination

27. The mission emphasized the need to resume data dissemination to STA both for the GFSY and the high frequency GFS databases. The Ministry of Finance may use data made available during the mission on annual and monthly historical data compiled during the mission for the budgetary central government, and data for the local government for FY 2017/18, to make submissions to STA. The mission further noted that data that had been compiled during the last GFS TA mission for the World Bank and IMF quarterly public-sector debt statistics (QPSDS) database had not been disseminated and encouraged initiating debt data submission to the QPSDS.

Figure 2. Trends in Fiscal Aggregates



Source: Mission and Lesotho Ministry of Finance

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

A. Action Plan for the Improvement of GFS and PSDS Compilation and Dissemination

28. Upon request from the Principle Secretary, Ministry of Finance, the mission assisted in the development of a GFS implementation work plan for the next two years, drawing on recommendations from past GFS TA missions; and actions leading to outcomes on improving, among others: (i) the legal and institutional environment for compilation of GFS; (ii) concepts and definitions, coverage and scope, classification, sectorization, source data, timeliness, and internal consistency of currently compiled and disseminated GFS.

Priority	Action/Milestone	Target Completion Date
Outcome: The legal and institutional environment is conducive to compiling macroeconomic and financial statistics; the relevance and practical utility of existing macroeconomic and financial statistics are monitored; Management processes are in place to monitor the quality of macroeconomic and financial statistics; and Institutional Integrity, Transparency, and Ethical Practices meet statistical standards.		
H	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.	2019Q3
H	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 responsible for coordinating the implementation of the GFS work plan.	2019Q1
H	Assign responsibilities for following up on TA recommendations and follow through with implementation of recommendations.	2019Q1
M	Coordinate the <i>GFSM 2014</i> Migration Plan with the national implementation of IPSAS.	Continuous
Outcome: Data are compiled using the concepts and definitions of the latest manual/guide		
H	Compile GFS for the budgetary central government following the <i>GFSM 2014</i> framework, concepts and definitions.	2019Q1
M	Compile GFS for extrabudgetary central government units following the <i>GFSM 2014</i> framework, concepts and definitions.	2019Q2
M	Compile GFS for local government units following the <i>GFSM 2014</i> framework, concepts and definitions.	2019Q1

Priority	Action/Milestone	Target Completion Date
M	Compile GFS for the general government following the <i>GFSM 2014</i> framework, concepts and definitions.	2019Q3
H	Compile debt Statistics for the budgetary central government following the <i>PSDSG 2013</i> framework, concepts, and definitions.	2019Q1
M	Compile debt Statistics for the extrabudgetary units following the <i>PSDSG 2013</i> framework, concepts, and definitions.	2019Q3
M	Compile debt Statistics for the local government following the <i>PSDSG 2013</i> framework, concepts, and definitions.	2019Q3
M	Compile debt Statistics for the general government following the <i>PSDSG 2013</i> framework, concepts, and definitions.	2020Q3
H	Develop a migration path and timetable to adopt the <i>GFSM 2014</i> guidelines and seek senior management endorsement.	2019Q1
Outcome: Data are compiled using the coverage and scope of the latest manual/guide.		
H	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.	2019Q2
H	Identify all transactions not currently included, or partially included in the BCG statement of operations (i.e., (i) debt assumptions and debt payment on behalf of members of Parliament, (ii) on-lending) and incorporate them, and also adjust data historically to further reduced the statistical discrepancy.	2019Q1
H	Collect data on students' scholarships payments, and repayments and reclassify transactions accordingly in the budgetary central government GFS to further reduce the statistical discrepancy.	2019Q1
H	Identify counterpart transactions on expense and transactions in nonfinancial assets pertaining to the revolving fund, and trust monies and incorporate those transactions pertaining to the budgetary central government in the GFS compiled to further reduce the statistical discrepancy.	2019Q1
M	Collect data on a regular basis for the compilation of GFS for extrabudgetary units.	2019Q2
M	Integrate all local governments financial data in the new IFMIS.	2020Q1
M	Collect data on a regular basis for the compilation of GFS for local governments.	2019Q1
M	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.	2019Q1

Priority	Action/Milestone	Target Completion Date
M	Collect detailed data on investment expense of district councils from foreign aid projects to adequately classify them into the respective economic expense categories.	2019Q3
M	Collect data and compile a financial balance sheet for the budgetary central government.	2019Q2
H	Collect and compile debt statistics for public financial and public nonfinancial corporations.	2019Q3
M	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 Ministry of Finance.	2019Q2
H	Regularly fill the QPSDS reporting template with debt data for central government, general government, and public sector.	2019Q1
H	Start disseminating debt statistics on a quarterly basis to the World Bank PSDS database.	2019Q1
Outcome: Data are compiled using the classification of the latest manual/guide.		
H	Ensure to continue reclassifying transactions in the budgetary central government GFS to comply with the <i>GFSM 2014</i> guidelines such that: (i) Rand monetary transactions are reclassified from property tax to grants from foreign governments; (ii) civil service pensions are reclassified from interest to compensation of employees; (iii) grants in the capital budget are reclassified as capital grants under expense; and (iv) payment of interest on behalf of MPs is classified as compensation of employees.	2019Q1
H	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.	2019Q1
H	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.	2019Q1
H	Start collecting data on government equity participation/withdrawal in/from public and private corporations.	2019Q1
H	Start collecting data on actual capital grants revenue and recording associated expenditure on transactions in nonfinancial assets.	2019Q1
M	Start collecting data on other economic flows (holding gains/losses – revaluation, and volume change) on government deposits.	2019Q2
M	Start compiling functional expenditure (COFOG) classified according to the <i>GFSM 2014</i> guidelines.	2019Q3

Priority	Action/Milestone	Target Completion Date
H	Implement GFS TA recommendations made for required changes on the economic and functional classifications of the COA for consistency with guidelines of the <i>GFSM 2014</i> .	2019Q1
M	Introduce the new chart of accounts in financial reporting of local governments (district councils and Maseru City Council).	2019Q3
M	Introduce the new chart of accounts in financial reporting of extrabudgetary units (parastatals and agencies).	2019Q3
Outcome: Data are compiled using the sectorization of the latest manual/guide.		
H	Review, then finalize, adopt and disseminate 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).	2019Q1
H	Review and update the institutional table on a regular basis to incorporate new entities and/or remove defunct ones.	Annually
Outcome: Data are compiled and disseminated using the appropriate basis of recording consistent with the latest manual/guide.		
H	Move towards recording transactions on a modified accrual basis and start recording expenditure transactions on "commitment" basis.	2019Q1
H	Start recording transactions below the line on accounts payable as the difference between commitment and payment transactions in IFMIS.	2019Q1
H	Start to regularly reconcile revenue data from bank accounts and revenue data from LRA.	2019Q1
Outcome: Data are compiled using appropriate statistical techniques, including to deal with data sources, and/or assessment and validation of intermediate data and statistical outputs		
M	Start documenting GFS compilation procedures.	2019Q2
Outcome: Improved timeliness of data made available internally and/or to the public (shorter delays)		
H	Resume timely dissemination of monthly GFS to the National Summary Data Page (NSDP).	2019Q1
H	Resume timely dissemination of annual GFS for the <i>GFS Yearbook (GFSY)</i> .	2019Q1
M	Disseminate quarterly central government debt on a timely basis to the World Bank QPSDS database.	2019Q1
Outcome: Internal consistency within a macroeconomic or financial dataset has improved (reduced discrepancies)		
H	Reduce the statistical discrepancy to less than 1 percent of GDP.	2019Q2
H	Ensure proper data management to maintain consistency between the "MF_SGO_DB" and "MF_MTFF_DB" files; i.e., ensure that updates to either file is reflected into the other file whenever there is an update.	2019Q1

Priority	Action/Milestone	Target Completion Date
M	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.	2019Q1
Outcome: Longer time series have been compiled and/or made available internally and/or to the public		
L	Update historical series for the budgetary central government consistent with the <i>GFSM 2014</i> guidelines.	2019Q1

B. Officials Met During the Mission

Name	Institution	Department
Mr. Moeketsi Majoro	Ministry of Finance	Minister
Ms. Motena Tšolo	Ministry of Finance	Principal Secretary
Mr. Khalane Malie	Ministry of Finance	Macroeconomic Policy & Management
Mr. Moeketsi Ntoi	Ministry of Finance	Macroeconomic Policy & Management
Mr. Molefi	Ministry of Finance	Macroeconomic Policy & Management
Mr. Motseki Khiba	Ministry of Finance	Macroeconomic Policy & Management
Mr. Toka Sello	Central Bank of Lesotho	Research
Ms. Kamohelo Phenthi	Ministry of Finance	Budget
Ms. Keletso Matšela	Ministry of Finance	Public Debt
Ms. Libako Leisanyane	Ministry of Finance	Macroeconomic Policy & Management
Ms. Mafatima Moshoeshoe	Ministry of Finance	Macroeconomic Policy & Management
Ms. Mamosi Senekane	Ministry of Finance	Macroeconomic Policy & Management
Ms. Maphantsi Sekhesa	Ministry of Finance	IFMIS
Ms. Mapoloko Seitlheko	Ministry of Finance	Public Debt
Ms. Neo Tau	Ministry of Finance	Macroeconomic Policy & Management
Ms. Nthabiseng Sello	Ministry of Finance	Macroeconomic Policy & Management
Ms. Senate Mokobocho	Ministry of Finance	Macroeconomic Policy & Management
Ms. Thabo Moerane	Ministry of Finance	Treasury
Ms. Nnete Hanyane Ramone	PODCPF	Finance
Ms. Malefu Majoro	PODCPF	Finance

Appendix I. Outstanding Issues/Recommendations from March and November 2016 TA Reports on GFS Missions to Lesotho (status as of January 2019)

No.	Recommendations	Status as of January 2019
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) ¹	Done. 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)	Partly done. The list was discussed by staff from the MoF, CBL, and BOS and is yet to be finalized.
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)	Partly done. See recommendation #2.
4	Develop and implement, procedures for maintaining and reviewing regularly the public sector institutional table. (1)	Partly done. Agreement reached on ways to update the institutional table but has not yet been documented.
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 <i>GFSM 2014</i> . (1)	Done. 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.	Not done. No attempt has yet been made on broadening the coverage of GFS.
7	As soon as a time series is produced for BCG, submit historical IFS and GFSY data to STA for dissemination.	Not done. Revised annual and high frequency GFS have not been submitted to the GFSY and GFHF.
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	Done. COA team in place but ownership and maintenance of the chart remains to be determined.

¹ (1) is a recommendation included in both the March and November 2016 TA reports.

No.	Recommendations	Status as of January 2019
	MOF, the CBL's Research Department, the BOS, and the Ministry of Local Government in the revision of the COA.	
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.	Done. The TA mission reviewed the COA and made recommendations.
10	MOF to regularly update and submit the detailed <i>GFSM 2014</i> -compliant GFSY questionnaire produced by the mission. (1)	Not done. Data submitted and included in the GFSY2017, updated data for FY18 and revised series prior to that has not been submitted to the GFSY.
11	Expand the annual data submissions on BCG assets and liabilities to produce a partial balance sheet. (1)	Not done. Not data has been compiled yet for the financial balance sheet even though data is available for the compilation a financial balance sheet for the BCG.
12	MOF should collect BCG monthly data so that regular IFS questionnaires can be submitted to the IMF. (1)	Partly done. 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)	Not done. No discussions have already taken place with LRA on the breakdown of the withholding tax. LRA is still experiencing challenges in disaggregating WHT data.
14	Revenue entitled "diamond royalties" should be classified as tax on exports and the same treatment should be applied on SNA. (1)	Done. Reclassifications done, but are yet to be effected in the working files used for data sharing with AFR.
15	Disaggregate data on SACU receipts and allocate them to the relevant categories in a consistent manner with other SACU member countries. (1)	Not done. 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)	Not done. The Public Finance Investment Database has been down and not accessible. The MoF is yet to find alternative sources of information.
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)	Partly done. Work is in progress.

No.	Recommendations	Status as of January 2019
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 <i>GFSM 2014</i> guidelines, including the assets.	Not done. 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 <i>GFSM 2014</i> guidelines.	Not done. Debt assumption is not currently included in the SGO.
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 <i>GFSM 2014</i> guidelines. (1)	Not done. 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)	Not done. Treasury has started to produce monthly cut-offs starting in October 2018, but there has been no checking to see if the data is consistent.
22	Review the bridge tables within IFMIS to guarantee that all data available be compiled to <i>GFSM 2014</i> formats and classifications and establish a procedure for continuous updating. (1)	Not done. Bridge table needs to be reviewed and finalized and incorporated into the IFMIS to allow data download.
23	Obtain additional details on the PPP contracts and record data according to relevant international standards both in <i>GFSM 2014</i> and SNA 2008. (1)	Not done. No data available yet, expectations are there to have access on the contracts and assess information in the contracts for compilation of GFS.
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)	Not done. Nothing has been done since the previous mission.
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)	Partly done. Only data on guaranteed debt is currently compiled, no data is compiled on other accounts payable and pensions.
26	Review and disseminate data for the World Bank-IMF PSDS database quarterly from 2009–16. (1)	Not done. No data were disseminated.

No.	Recommendations	Status as of January 2019
27	Develop procedures and mechanisms for the collection of public debt data from public nonfinancial corporations. (1)	Partly done. The debt department has data on external debt, but no data on domestic debt. Work is ongoing on mechanisms for sourcing information.
28	Coordinate the <i>GFSM 2014</i> Migration Plan with the national implementation of IPSASs. (1)	Not done. Work is needed to coordinate the activities of the macro department and the treasury departments on their respective plans to migrate to the <i>GFSM 2014</i> and IPSAS.
29	Enhanced General Data Dissemination System data and metadata should be reviewed and updated. (1)	Not done. The designated contact needs to be updated and metadata included updated as the last update was 10 years ago.
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)	Partly done. MoF and CBL have started meeting since September 2018 to ensure consistency in their databases. Coordination with BOS has yet to start.
31	Review Lesotho's COA classifications with the corresponding <i>GFSM 2014</i> economic classifications.	Ongoing. Work is ongoing – there are weekly meetings (on Wednesday) on the development of the chart of accounts.
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.	Ongoing. 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.	Partially done. Alignment has started between MoF and CBL data starting with revenue data (coming from CBL) and expenditure (coming from MoF). Consistency on financing data is yet to be established.
34	Gradually increase coverage of central government data to cover all entities of the central and general government, and subsequently also the public sector.	Not done. No data are currently collected and compiled for entities beyond the narrow budgetary central government (defined as entities included in the budget and IFMIS only).
35	Ensure involvement of all relevant departments of the MOF, as well as main line ministries in the revision of the COA.	Done.
36	Make use of the recommendations of the mission to align both functional and economic classification of the <i>GFSM 2014</i> to ensure that the COA is also consistent with GFS reporting requirements.	Not done. No progress has been made in having the GFS compilers needs for fiscal reporting purposes incorporated in the design of the CoA.

No.	Recommendations	Status as of January 2019
37	The MOF should reconcile revenue data from bank accounts and revenue data from the LRA.	Not done. Reconciliation of LRA data with bank accounts has temporarily been abandoned. Data on revenue collection is now collected from CBL.
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.	Not done. 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). Nothing has been done since the previous mission.
39	Obtain detailed data on investment expense of district councils from foreign aid projects to adequately classify them into the respective economic expense categories.	Not done. 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). Nothing has been done since the previous mission.
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 <i>GFSM 2014</i> guidelines, including the assets.	Not done. 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). All other information is not currently available.
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.	Not done. 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.	Not done. Changes have yet to be made to the current working files. The draft SGO produced during the previous TA mission had already made the reclassification.
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.	Not done. No attempt has been made in compiling local government data since the last data for the 10 districts councils that were compiled during the previous TA mission for FY2016/17

Appendix II. Outstanding Issues/Recommendations from April 2018 TA Report on GFS Mission to Lesotho

No.	Recommendations	Status as of January 2019
1	Assign responsibilities for following up on TA recommendations and follow through with implementation of recommendations.	Partly done. No assignments were made for who is responsible to follow up on TA recommendations. Some recommendations were followed up on separately however.
2	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). (1) ²	Partly done. The list was discussed by staff from the MoF, CBL, and BOS and is yet to be finalized.
3	Review and update the institutional table on a regular basis to incorporate new entities and/or remove defunct ones. (1)	Done. A draft institutional table has been finalized that was reviewed by the TA mission.
4	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.	Not done. No data were collected on BCG entities not currently included in GFS statement and neither were data for parastatals and agencies.
5	Move towards recording transactions on a modified accrual basis and start recording expenditure transactions on "commitment" basis.	Partly done. Starting in September 2018, the SGO expenditure includes actual payments plus commitments. Details on transactions in financial assets and liabilities are yet to be finalized.
6	Start recording transactions below the line on accounts payable as the difference between commitment and payment transactions in IFMIS.	Partly done. Processes started since September 2018, but the true picture of the difference between commitments and payment is yet to be made, through reconciliation of transfers for payment from the treasury and actual payments by CBL.
7	Implement all reclassifications recommended during the mission.	Not done. The current SGO working file has not integrated all the reclassification recommended.
8	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.	Not done. The current SGO does not incorporate all the missing information identified during previous mission.
9	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.	Not done. No reconciliation has been done yet in the current working file.

¹ (1) is a recommendation also included in previous GFS TA.

10	Reduce the statistical discrepancy to less than 1 percent of GDP.	Not done. All recommendations meant to reduce the statistical discrepancy were not implemented.
11	Ensure proper data management to maintain consistency between the "MF_SGO_DB" and "MF_MTFF_DB" files; i.e., ensure that updates to either file is reflected into the other file whenever there is an update.	Done. There were new working files developed ensuring consistency between the SGO and the MTFF.
12	Use the template created during the mission to compile GFS for district councils for previous years and start compiling GFS for district councils regularly.	Not done. No data were collected for previous fiscal years. The only data that were collected were for the financial statements for MCC but were not compiled.
13	Collect data and start compiling GFS for Maseru City Council. (1)	Partly done. Financial statements for MCC were collected, but no GFS were compiled.
14	Introduce the new chart of accounts in financial reporting of local governments (district councils and Maseru City Council).	Not done. The CoA has not yet been finalized.
15	Introduce all local governments financial data in the new IFMIS.	Not done. The new IFMIS will go live on April 1, 2019 but no assurance as to whether local governments will be included in EPICOR.
16	All recommendations made for required changes on the economic and functional classifications of the COA should be implemented for consistency with the <i>GFSM 2014</i> . (1)	Not done. Comments were not integrated in the revision of the chart of accounts.
17	Fill the QPSDS reporting template for quarters prior to 2016: Q3 and disseminate the data. (1)	Not done.
18	Start compiling data on debt statistics for extrabudgetary units, and local governments, and consolidate with BCG data into general government debt statistics.	Not done. Not data is yet compiled on debt statistics for the local government and extrabudgetary units.
19	Collect and compile debt statistics for public financial and public nonfinancial corporations. (1)	Not done. Not data is yet compiled on debt statistics for the public corporations other than guaranteed debt.
20	Start disseminating debt statistics on a quarterly basis to the World Bank PSDS database.	Not done. No data was disseminated.
21	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.	Not done. SGO yet to be completed for starting data dissemination.

Appendix III. Summary of Implementation of Past GFS TA Recommendations

GFS TA Mission	Done	Partly Done	Ongoing	Not done	Total
2016 TA Missions	6	9	2	26	43
2018 TA Mission	2	5	0	14	21
All^{1,2}	8 (12.5%)	14 (21.9%)	2 (3.1%)	40 62.5%)	64

¹ 24 recommendations in the 2016 TA missions overlapped.

² 6 recommendations in the 2018 TA mission overlapped with those from the 2016 TA mission

Appendix IV. Compilation of GFS from Financial Statements¹

1. The main source data for budgetary central government are mainly accounting records or budget execution data. However, for extrabudgetary units/entities, social security funds, public corporations, and local governments in some cases, the main source data are likely to be financial statements. This appendix provides summary guidelines for the compilation of GFS from financial statements.
2. The financial statements to be used are the income statement, balance sheet, and cash flow statement. These statements will usually have been prepared in accordance to private sector accounting rules and follow a noncash basis of recording. Thus, the statements need to be adjusted to conform to the guidelines of the *GFSM 2014*.
3. In general terms, the process involves preparing bridge tables and derivation tables, and then using them to convert the source data from the national presentation to the *GFSM 2014* presentation.
4. More specifically, the steps to follow to compile GFS from financial statements are: (a) prepare bridge tables for the income statement, balance sheet, and cash flow statement; (b) calculate the changes between the closing and opening balance sheet values for each category of assets and liabilities; (c) prepare derivation tables for the major GFS aggregates; (d) compile *GFSM 2014* detail tables and summary statements; and (e) verify the accuracy of the process.
5. Preparation of the bridge tables requires classifying all items in the financial statements according to the *GFSM 2014* classifications. All flows that are not transactions should be identified and excluded from revenue, expense, and transactions in assets and liabilities. These flows are called other economic flows and comprise price changes (revaluations) and other changes in the volume of assets and liabilities. In the income statement these flows are typically called gains/losses from sales of assets, foreign exchange rate gains/losses, impairment of assets/losses, revaluations, provisions, and allowances.
6. The information on the transactions in assets and liabilities for a given period is obtained in general from changes in balance sheet (stock) values. More specifically, the differences between the closing and opening balance sheet values have to be calculated, and then adjusted to remove other economic flows. The information on stocks of assets and liabilities should be calculated for many assets as the balance sheet value of the asset minus accumulated depreciation, minus depreciation for the current accounting period. While for other assets it should be calculated as the balance sheet value of the asset minus allowances for impairment or doubtful accounts.

¹ Extracted from the Government Finance Statistics: Compilation Guide for Developing Countries (IMF, 2011).

7. Preparation of the derivation tables and bridge tables requires making prior adjustments to the financial statements to conform to *GFSM 2014* classifications. Financial statements frequently include under revenue and expense items that the *GFSM 2014* classifications include elsewhere. Common examples are: (a) the disposals and acquisitions of nonfinancial assets, which the *GFSM 2014* classifies as transactions in nonfinancial assets; (b) loan disbursements and repayments, which the *GFSM 2014* classifies as transactions in financial assets; and (c) profits and losses in the sale of assets, which the *GFSM 2014* classifies as other economic flows. Once the necessary derivation tables and bridge tables have been prepared they can be used to compile GFS for the various subsectors (extrabudgetary units, local governments) and sectors (general government).

8. Several actions can be taken to verify the accuracy of the compilation process. First, the values of the major GFS aggregates should correspond to the values calculated in the derivation tables. This action normally involves iteration between the bridge tables, derivation tables, and detail tables/summary statements. Second, the value for net lending/borrowing should be the same whether calculated as revenue minus expense minus transactions in nonfinancial assets, or as net acquisitions of financial assets minus net incurrence of liabilities. In practice, there is often a difference, which should be recorded as a statistical discrepancy in a separate line. Third, the values for each category of assets and liabilities in the closing balance sheet should be equal to their opening balance sheet value, plus transactions and other economic flows during the period. Fourth, the net change in the financial asset Currency and deposits in the Statement of Government Operations should be equal to the net change in the stock of cash in the Statement of Sources and Uses of Cash (and the institution's cash flow statement).

9. There are two items that will appear regularly in financial statements that require guidance on how to address: provisions and depreciation. Provisions are not an item in the GFS system, which does not consider them liabilities, but only a setting aside of funds for a specific purpose. The flow is recorded only when the actual loss is incurred. Depreciation is also not an item in the GFS system, which uses instead the concept of consumption of fixed capital. Excluding the items for provisions and depreciation of assets when compiling GFS from financial statements would introduce discrepancies, thereby making the task more difficult. It is recommended that the following rules of thumb be used instead: (a) treat provisions as a proxy for a loss, and (b) treat depreciation as a proxy for consumption of fixed capital. In other words, treat provisions as another change in the volume of assets, and depreciation as an expense.

10. A caveat regarding consumption of fixed capital. Compilers should always try first to obtain figures for this item from the entity responsible for compiling national accounts. It is possible that figures would be available quarterly and annually for general government and its subsectors, and perhaps also for public corporations. Only to the extent that these figures are not available should depreciation be used as a proxy for consumption of fixed capital. Also,

depreciation is likely to be a good proxy if assets are valued at fair market prices, but a poor proxy if assets are valued at historical costs.

11. A note of caution concerning the compilation of GFS from financial statements. One of the more challenging aspects of the compilation task is to get the signs right when calculating the major GFS aggregates and balancing items. For example, the financial statements may include under revenue an item with a negative sign, which the GFS system treats as an expense. In the compilation process this item would be moved to expense with a positive sign. Another example concerns holding gains and losses, which can appear with different signs depending on where they are presented in the financial statements. A further example concerns financing items. In the *GFSM 1986* financing is shown with a sign opposite the overall deficit/surplus, whereas in the *GFSM 2014* it is shown with the same sign as the cash surplus/deficit. Briefly stated, keeping track of the signs can be challenging, and getting the signs wrong leads to discrepancies. Therefore, when compiling GFS from financial statements close attention has to be paid to how the item affects a certain aggregate or balancing item to get the signs right.