

Kingdom of Lesotho: Technical Assistance Report-Government Finance Statistics



KINGDOM OF LESOTHO

TECHNICAL ASSISTANCE REPORT—GOVERNMENT FINANCE STATISTICS

March 2022

This Technical Assistance report on the Kingdom of Lesotho was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in February 2022.

Copies of this report are available to the public from

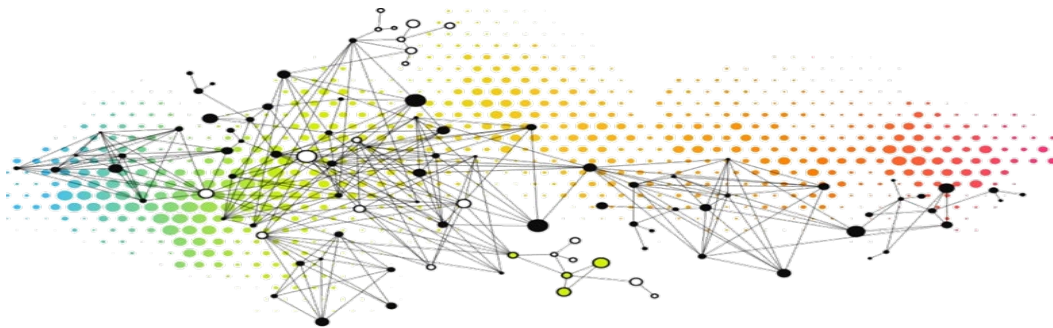
International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090

Telephone: (202) 623-7430 • Fax: (202) 623-7201

E-mail: publications@imf.org Web: <http://www.imf.org>

Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



KINGDOM OF LESOTHO

FEBRUARY
2022

REPORT ON GOVERNMENT FINANCE STATISTICS MISSION (APRIL 5–16, 2021)

Prepared by Clement Ncuti and Naoto Osawa

The contents of this report constitute technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of the Kingdom of Lesotho (the “TA recipient”) in response to their request for technical assistance. This report (in whole or in part) or summaries thereof may be disclosed by the IMF to IMF Executive Directors and members of their staff, as well as to other agencies or instrumentalities of the TA recipient, and upon their request, to World Bank staff, and other technical assistance providers and donors with legitimate interest unless the TA recipient specifically objects to such disclosure (see [Operational Guidelines for the Dissemination of Technical Assistance Information](#)). Publication or Disclosure of this report (in whole or in part) or summaries thereof to parties outside the IMF other than agencies or instrumentalities of the TA recipient, World Bank staff, other technical assistance providers and donors with legitimate interest shall require the explicit consent of the TA recipient and the IMF’s Statistics Department.



CONTENTS

Glossary	<u>3</u>
SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS	<u>4</u>
GFS FOR BROADER INSTITUTIONAL COVERAGE	<u>6</u>
A. Lesotho Public Sector and Data Availability	<u>7</u>
B. GFS Compilation for the Public Sector	<u>12</u>
DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS	<u>19</u>
A. Action Plan for Broadening the Institutional Coverage of GFS and PSDS to Include SOEs and Parastatals	<u>19</u>
B. Officials Met During the Mission	<u>20</u>
TABLES	
1. Priority Recommendations	<u>5</u>
2. SOEs and Parastatals Data Availability and Format	<u>11</u>
3. Statement of Operations for Six Parastatals and SOEs (FY2017/18)	<u>16</u>
4. Balance Sheet for Six Parastatals and SOEs (FY2017/18)	<u>17</u>
5. Illustrative Consolidated GFS for the General Government (FY2017/18)	<u>18</u>
6. Action Plan for Broader GFS and PSDS Institutional Coverage	<u>19</u>
FIGURE	
1. Lesotho Public Sector Institutional Table	<u>8</u>
APPENDICES	
I. Linkages Between Financial Statements Data and GFS	<u>22</u>
II. Suggested Compilation Procedure for Converting Financial Statements Data to GFS	<u>25</u>
III. Illustration of Required Adjustments to Financial Statements Data to Derive GFS	<u>32</u>
IV. GFS Consolidation	<u>40</u>

Glossary

AGO	Accountant General's Office (Lesotho Ministry of Finance)
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
DMO	Debt Management Office
EBU	Extrabudgetary Units
EDDI	Enhanced Data Dissemination Initiative
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
LCA	Lesotho Communications Authority
LHDA	Lesotho Highlands Development Authority
LRA	Lesotho Revenue Authority
LSL	Lesotho Loti (Maloti)
MCC	Maseru City Council
MOF	Lesotho Ministry of Finance
OAG	Office of the Auditor General
OEF	Other Economic Flows
PFMAA	Public Financial Management and Accountability Act
PSD	Private Sector Development Department (Lesotho Ministry of Finance)
PSDS	Public Sector Debt Statistics
<i>PSDSG</i>	<i>Public Sector Debt Statistics Guide for Compilers 2013</i>
QPSDS	World Bank's Quarterly Public Sector Debt Statistics Database
SOE	State Owned Enterprises
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 Data for Decisions (D4D)¹ funded project under the submodule for Fiscal and Debt reporting, a government finance statistics (GFS) technical assistance (TA) mission was held remotely with the Lesotho Ministry of Finance (MOF) during April 5–16, 2021. Previous TA missions under the Enhanced Data Dissemination Initiative (EDDI2) over the period spanning from 2016 to 2020 assisted the MOF to improve GFS compilation and dissemination for the budgetary central government (BCG) and inspired action to broaden data coverage to include local governments and extrabudgetary units (EBUs) with the aim to compile and disseminate consolidated general government GFS. Preliminary local government GFS have now been compiled, and data collected for selected state-owned enterprises (SOEs) and parastatals, including non-market SOEs that can now contribute to preliminary general government GFS to be compiled.

2. The main purpose of the mission was to develop capacity and assist staff at the MOF to improve their fiscal statistics compilation with respect to coverage and scope of GFS and source data to include all significant general government units, including non-market SOEs and parastatals. The mission provided training on the use of SOEs and parastatals' financial statements to derive GFS in an integrated manner allowing compilation of stocks and flows data. The training explained relationships and adjustment needed between financial statements accounting data and GFS and introduced a tool developed in the IMF's Statistics Department (STA) that supports compilation of GFS from accounting financial statements. Using publicly available financial statements for FY2017/18, the mission illustrated data compilation using the tool for six SOEs and parastatals, including five non-market entities and one public corporation. From the existing data for FY2017/18 for the BCG, local governments, and the data derived from the five non-market entities, the mission illustrated consolidation of the three levels of government to obtain consolidated general government GFS.

3. Compilation of general government GFS hinges on addressing data collection, compilation, and consolidation challenges. No structured mechanisms seem to be in place for collecting data from SOEs and parastatals, other than data collected by the private sector development department (PSD) at the MOF for entities with government shareholding. The lack of an institutional set up to steer the work of collecting and compiling GFS for SOEs and parastatals, in the absence of formal arrangements to smoothen interdepartmental and inter-institutional coordination and information exchange mechanisms, will pose a significant risk to progress towards broadening the coverage of GFS. In addition, the manual processing of source data (available for some in PDF form and others in paper form) from financial statements to transcribe them in Excel for GFS compilation requires resource allocation in staff time that is currently unavailable owing to lack of structured mechanisms for collecting and compiling data from SOEs and parastatals. The mission recommended setting up mechanisms, through the GFS

¹ <https://www.imf.org/en/Capacity-Development/D4D>

technical working group, or other arrangements that would better suit departments' individual and shared responsibilities, to collect financial statements for EBU (i.e., non-market SOEs and parastatals) and public corporations that produce them and then build a repository of that information to serve in compilation. Whenever data is collected, and until mechanisms are in place to ensure sustained data availability, the mission recommended that data is compiled in the meantime, using the SOEs Excel-based tool, and consolidated within the respective sectors and sub-sectors of the public sector. The mission further recommended that available consolidated data, even if not comprehensive to cover all institutional units, could be disseminated, including to the IMF, while work continues to further expand the coverage.

4. Consolidated general government GFS should nevertheless be available in a relative short time span following the mission. The MOF has acquired the capacity to replicate compilation of SOEs and parastatals GFS using available financial statements to all other entities not currently covered that produce financial statements, at least for the last few years. Once that work is completed, the next step is to perform consolidation within and across sub-sectors, to compile and disseminate consolidated general government GFS (in the beginning for the most significant entities), and GFS for the nonfinancial public sector. To this end, the mission established that annual reports were readily available that included financial statements from the individual website of a dozen or so entities for periods spanning from FY2010/11 to FY2018/19 and understood the PSD department collects financial statements from SOEs and that there were also financial statements in paper form available from the Office of the Auditor General (OAG). As an immediate priority, the mission encouraged the authorities to input available data from these different sources into Excel and derive GFS for those entities using the SOEs Excel-based tool. It is expected that the work would continue, in parallel, to collecting additional financial statements and compiling data for other entities focusing first on the most significant entities (measured by the relative size of their income and balance sheet).

5. Table 1 provides high priority recommendation for implementation through June 2022. 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. Kingdom of Lesotho: Priority Recommendations

Target Date	Priority Recommendation	Responsible Institutions
September 2021	<i>Establish formal institutional arrangements for collecting and compiling SOEs and parastatals data.</i>	MOF
October 2021	<i>Collect remaining financial statements for at least the last five years, and annually going forward, for the most significant (measured by the relative size of their income and balance sheet) SOEs and parastatals.</i>	MOF

Table 1. Kingdom of Lesotho: Priority Recommendations (continued)

March 2022	<i>Expand compilation of consolidated GFS for the general government, when data becomes available for a representative sample of EBU, the local governments, and BCG for at least the last five years, and annually going forward.</i>	MOF
June 2022	<i>Disseminate compiled annual consolidated GFS for the general government to STA's GFS database for the last five years and annually going forward.</i>	MOF

GFS FOR BROADER INSTITUTIONAL COVERAGE

6. The coverage of GFS compiled and disseminated is currently limited to the BCG. TA missions in the past, under the EDDI2 supported compilation of historical annual and monthly GFS for all significant entities of the BCG. However, there remains about 23 entities legally constituted as autonomous entities (also referred to as statutory bodies), that ought to be included within BCG, for which not all transactions in revenue, expense and assets and liabilities are included in BCG currently compiled as only grant expense to these entities are included. Unlike data for other BCG entities that is drawn from the MOF's Integrated Financial Management Information System (IFMIS), data for BCG entities not currently fully covered is available from their annual financial statements and their status of reporting included in the MOF's annual consolidated financial statements².

7. GFS for local governments has been compiled but is not yet disseminated. Past TA missions supported compilation of annual GFS for the local governments that includes ten district councils and Maseru City Council (MCC) using annual data from a harmonized financial reporting template for the ten district councils and MCC's annual financial statements. However, local government fiscal operations are relatively insignificant, in comparison to BCG. Preliminary aggregated revenue of local governments, including all 10 district councils and MCC were less than 1 percent of GDP in FY 2017/18, and so were aggregated total expenditure. All district councils rely predominantly on grant revenues received from the budget through their parent Ministry, except MCC that also collects some taxes and fees.

8. Compilation and dissemination of GFS for broader institutional coverage requires collecting and compiling data for all other government controlled entities other than BCG and local governments. Much of the work for expanding the GFS institutional coverage will entail collecting data from SOEs and parastatals, distinguishing entities that are considered non-market from a statistics point of view and classified within general government, and market

² The annual consolidated financial statements prepared by the Accountant General's Office include a listing of government controlled entities excluded from consolidation and provides in an appendix, details on the entities' submission of financial statements for audit and the most recent audit opinion.

entities classified as public corporations. Aggregation and then consolidation of the data following data collection and sectorization done in a systematic and consistent way will then ensure broader coverage GFS is compiled and disseminated regularly. The following section discusses the public sector in Lesotho, sectorization of public sector units, and data availability, while the one after discusses data compilation for SOEs and parastatals within and outside general government using a tool allowing GFS compilation from accounting financial statements, and consolidation of GFS for the general government.

A. Lesotho Public Sector and Data Availability

Sectorization of Lesotho Public Sector Units

9. Preliminary sectorization of government controlled entities exists in the form of a public sector institutional table. Previous TA supported review of government controlled entities on the basis of the entities' activities. Detailed assessment on sectorization of the entities to distinguish market and non-market entities has not yet been performed for entities where sectorization was not obvious. The preliminary public sector institutional table developed and reviewed by the technical working group comprising staff from the MOF, the Central Bank of Lesotho (CBL), and the Bureau of Statistics (BOS) comprises 88 general government entities and 13 public corporations (**Figure 1**).

10. While preliminary sectorization was done, it remains to be confirmed, to properly distinguish market entities from non-market entities. Market entities are institutional units that provide all or most of their outputs for free or at prices that are not economically significant while non-market entities are institutional units that provide most or all of their outputs at economically significant prices. Economically significant prices are those having a significant effect on the amounts that producers are willing to supply and on amounts purchasers wish to buy and result when: (i) suppliers adjust their supply aiming to either make a profit in the long run or at least cover their capital and other costs; and (ii) buyers have the freedom to purchase or not and make the choice on the basis of prices charged (see [Government Finance Statistics Manual \(GFSM\) 2014 §2.64 – 2.75](#) for a discussion on delineating general government and public corporations and Appendix II of the [2020 GFS TA report](#) for the decision tree of sector classification of public sector entities).

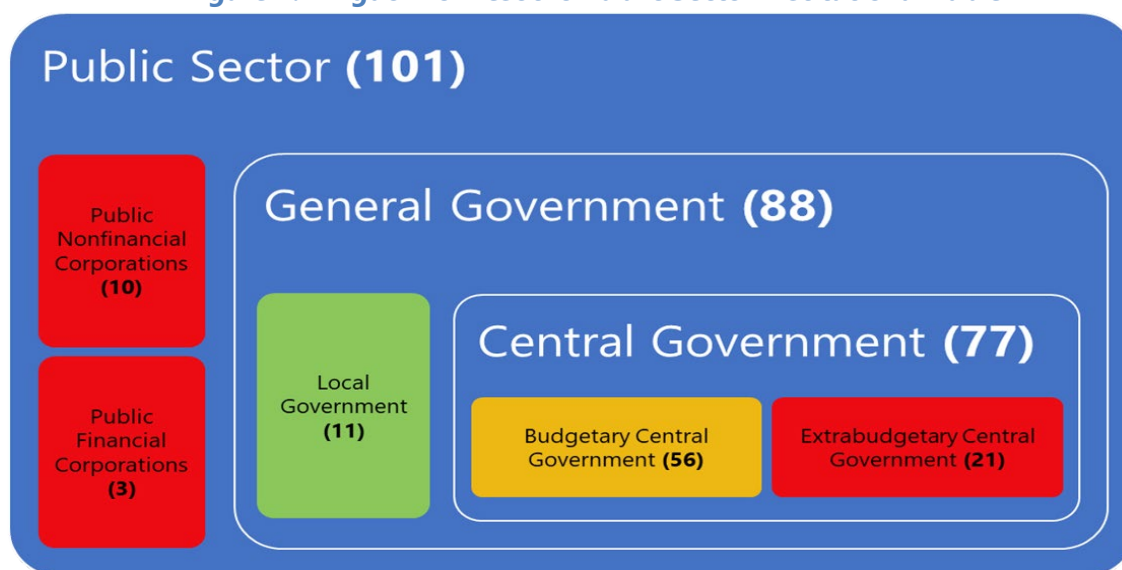
11. The availability of financial statements for SOEs and parastatals would help confirm sectorization of government controlled entities. The mission discussed sectorization of public sector units and application of the "market test" using accounting financial statements data to compare units' sales and production costs. Although not a prescriptive numerical relationship, when the unit's sales cover at least half of the unit's production costs over a sustained multiyear period, it is presumed that prices charged are economically significant and the unit is a market producer and classified within public corporations. Compiling GFS for SOEs and parastatals using available accounting financial statements will allow comparing sales and production costs from

the income statement and help improve sectorization of public sector units that would inform updates to the public sector institutional table.

Recommended Actions:

- Perform the market test using data available from accounting financial statements of SOEs and parastatals to update sectorization of public sector units.

Figure 1. Kingdom of Lesotho Public Sector Institutional Table



Source: Mission and staff from MOF, CBL (color coding – green: full coverage, orange: comprehensive coverage, red: no coverage).

Data Availability for SOEs and Parastatals

12. There exists no formal arrangement for SOEs, and parastatals data collection and no central data repository exists for these entities. While the regulatory framework is being updated, the existing regulatory framework governing financial reporting in the [2014 Public Finance Management and Accountability Act \(PFMAA\)](#) and the [2014 Treasury Regulations](#), require in the PFMAA, that statutory bodies (i.e. spending units legally constituted as a distinct accounting unit producing its own financial statements) and public enterprises prepare and submit to the MOF annual reports including audited financial statements. The PSD department at the MOF receives annual financial statements from some SOEs (i.e., those with government shareholding) and compiles summary financial indicators. The OAG also receives annual financial statements from SOEs and parastatals that are audited with the audit opinion included in the annual audit report under the accounts of statutory bodies section. There are, however, other than these, no other formal institutional arrangements in place to centralize all information from SOEs and parastatals to get a sense of consolidated SOEs and parastatals financial operations.

13. Accounting data from financial statements is publicly available for a number of SOEs and parastatals. The individual internet website of some of the SOEs and parastatals include audited financial statements. Other entities either do not have up to date websites, or do

not publish on their websites their financial statements. Previous TA missions had started downloading publicly available financial statements from entities' websites and organized them in a cloud based shared folder. The shared folder, to which staff from the MOF have access, is meant to be a temporary arrangement to serve as a repository for available financial statements that would be regularly updated as more financial statements become available, either from entities' websites, or from other sources (including the MOF's PSD and OAG). As of April 2021, there were, in the shared folder, more than 90 reports for various publicly controlled entities for various years spanning as far back as 2003 for some.

14. While data for a number of SOEs and parastatals is available, it is not in a format easy to manipulate. All the reports available from the shared folder are in PDF format and hence not easily processable in Excel and have to be manually converted to Excel, through copying and pasting values, to extract information from the financial statements' balance sheet, income statement, cashflow statement, and the notes to the financial statements where available. The mission manually converted data to Excel for a handful of SOEs and parastatals for purposes of illustration (**Table 2**). Although the manual data processing is a time consuming and error prone endeavor, that in the long term would be unsustainable, it nevertheless remains the only available option for now, to compile GFS for broader institutional coverage.

15. The manual data processing of SOEs and parastatals' financial statements will continue to substantially undermine data availability for GFS compilation for broader institutional coverage. In the absence of formal arrangements to collect and compile aggregated data for SOEs and parastatals, the interim arrangements of collecting SOEs and parastatals' financial statement and their manual processing are not sustainable. The lack of formal arrangement also means no resources are allocated to carry out the task, as no specific department within the MOF is designated or has in its mandate, collecting and compiling data for *all* SOEs and parastatals. Different departments within the MOF have different responsibilities specific to their mandates with each covering parts of the universe of SOEs and parastatals. The Accountant General's Office (AGO) as earlier stated includes in their consolidated financial statements the status of reporting of publicly controlled entities but does not include their detailed and aggregated financial information. The PSD on the other hand collects financial statements that it uses for internal financial analysis purposes. While existing arrangements may be leveraged to access financial statements for SOEs and parastatals, more sustainable arrangements need to be put in place to ensure timely and continuous data availability for all SOEs and parastatals, and the establishment of mechanisms to aggregate these data.

Recommended Actions:

- Establish formal institutional arrangements for collecting and compiling SOEs and parastatals data.
- Collect remaining financial statements for at least the last five years, and annually going forward, for the most significant (measured by the relative size of their income and balance sheet) SOEs and parastatals.

- Extract and convert into an Excel data repository information from PDF financial statements of SOEs and parastatals on balance sheets, income statements, cashflow statements, and notes to the financial statements where available.
- Regularly update the Excel data repository as new financial statements become available.

Table 2. Kingdom of Lesotho: SOEs and Parastatals Data Availability and Format

Count	Entities	2014/15		2015/16		2016/17		2017/18		2018/19		2019/20	
		Availability Yes/No	Format PDF/Excel	Availability Yes/No	Format PDF/Excel	Availability Yes/No	Format PDF/Excel	Availability Yes/No	Format PDF/Excel	Availability Yes/No	Format PDF/Excel	Availability Yes/No	Format PDF/Excel
	Central Government Entities												
1	Lesotho Revenue Authority	Yes	PDF	Yes	PDF	Yes	PDF	Yes	Excel	Yes	Yes	Yes	PDF
2	National Aids Commission					Yes	PDF						
3	Lesotho Water and Electricity Authority					Yes	PDF	Yes	Excel	Yes	Yes		
4	Land Administration Authority	Yes	PDF	Yes	PDF								
5	Lesotho Communication Authority	Yes	PDF			Yes	PDF	Yes	Excel	Yes	PDF		
6	Lesotho Council for Higher Education	Yes	PDF	Yes	PDF	Yes	PDF			Yes	PDF		
7	Lesotho Highlands Development Authority	Yes	PDF	Yes	PDF	Yes	PDF	Yes	Excel	Yes	Yes		
8	Road Fund			Yes	PDF			Yes	Excel	Yes	PDF	Yes	PDF
	Public Nonfinancial Corporations												
1	Lesotho Electricity Corporation			Yes	PDF	Yes	PDF						
2	Lesotho Housing and Land Development Corporation												
3	Lesotho National Development Corporation											Yes	PDF
4	Water and Sewerage Company	Yes	PDF	Yes	PDF	Yes	PDF	Yes	Excel				
5	Lesotho News Agency												
6	Maluti Mountain Brewery												
7	Ok Bazaars												
8	National Chick Farms Lesotho												
9	Loti Brick												
10	MHG Lesotho Pty Ltd (Avani Hotels)												
	Public financial Corporations												
1	Central Bank of Lesotho	Yes	PDF	Yes	PDF	Yes	PDF	Yes	PDF	Yes	PDF		
2	Lesotho Post Bank	Yes	PDF	Yes	PDF	Yes	PDF	Yes	PDF				
3	Public Officers Defined Contribution Pension Fund	Yes	PDF	Yes	PDF	Yes	PDF	Yes	PDF				
21		9		10		11		9		7		3	

B. GFS Compilation for the Public Sector

GFS Compilation from Financial Statements

16. The mission introduced and trained staff from the MOF on an Excel tool developed by STA to compile GFS from accounting financial statements. The Excel-based tool allows compilation of integrated GFS statements using accounting data from financial statements. It supports compilation of GFS for a single year for multiple entities, irrespective of whether they are market or non-market entities, provided financial statements used in the compilation process have at a minimum, detailed data on the respective entity's balance sheet and income statement. The tool produces mainly two GFS statements: (i) a statement of operations, and (ii) a balance sheet, but also produces detailed tables on transactions in revenue and expense, transactions in assets and liabilities, and total other economic flows (OEF) in assets and liabilities.

17. The mission presented the conceptual linkages between accounting financial statements and GFS. The mission explained how accounting data from financial statements are conceptually related to GFS (**Appendix 1**). Drawing from the GFS analytical framework, it is expected that the balancing item from transactions in revenue, expense and transactions in nonfinancial assets, also referred to as net lending (GFS surplus) or net borrowing (GFS deficit) is equal to transactions in financial assets and liabilities, also referred to as financing. Still from the GFS analytical framework, the change in stock positions in assets and liabilities provides flows, that distinguish transactions from OEF. In a nutshell, compilation of GFS from financial statements data aims to reproduce the GFS integrated framework that links flows drawn from the financial statements' income statement and changes in the balance sheet; and stock positions drawn from the financial statements' balance sheet while ensuring that GFS consistency is maintained. Achieving GFS consistency requires that nonfinancial transactions (transactions in revenue, expense, and nonfinancial assets) are equal to financial transactions (transactions in financial assets and liabilities) and that the change between closing and opening stock positions in assets and liabilities is the result of transactions and OEF. The former refers to vertical consistency while the latter refers to horizontal consistency. However, achieving GFS consistency using accounting data from financial statements adjustments are necessary to distinguish (i) transactions, and (ii) OEF, from the flows derived from financial statements.

18. The mission presented the procedures and key adjustments needed for converting financial statements data into GFS. The recommended procedure for converting financial statements data to GFS has a number of steps critical in verifying consistency of source data from the financial statements. Once that is accomplished, it is then possible to estimate net flows and separate transactions from OEF and ensure GFS consistency (**Appendix 2**). Illustrations of the required adjustments were also discussed (**Appendix 3**). Strict adherence of the compilation procedure and key adjustments allows derivation of three GFS statements: the statement of

operations, the statement of OEF and the balance sheet for each unit, and GFS consistency is respected.

Recommended Action:

- Populate the SOEs compilation tool with data extracted and converted into the Excel data repository information from PDF financial statements of SOEs and parastatals for at least the last five years, and annually going forward.
- Perform required adjustments, as relevant, to data in the SOEs compilation tool and produce a statement of operations and balance sheet for SOEs and parastatals for at least the last five years, and annually going forward.

GFS Compilation for SOEs and Parastatals

19. The mission illustrated data compilation using the SOEs Excel-based tool for six SOEs and parastatals. The mission used publicly available financial statements for FY2017/18 extracted from the website that were saved in the cloud based shared folder. It populated the SOEs Excel-based tool for six SOEs and parastatals, of which one was classified as a public corporation (Lesotho Water and Sewerage Corporation) and the other five as EBUs (Lesotho Water and Electricity Authority, Lesotho Highlands Development Authority (LHDA), Lesotho Communications Authority (LCA), Road Fund, and Lesotho Revenue Authority (LRA)) from the existing public sector institutional table. A GFS statement of operations (**Table 3**) and balance sheet (**Table 4**) were produced for the six SOEs and parastatals.

20. Further work is needed to refine the preliminary estimates compiled for the six SOEs and parastatals. While the source data for the six SOEs and parastatals is generally of good quality and includes sufficient details to allow compilation, there nevertheless are a few inconsistencies that creep into the GFS statement of operations statistical discrepancies. The inconsistencies primarily relate to summation errors in the source data (e.g., the sum of components does not equal the totals on total funds and liabilities for LCA, and total income for LRA) that if verified and corrected would reduce or eliminate the statistical discrepancies in the statement of operations. However, these are relatively small and may not warrant extensive use of resources to be addressed, if the resources can rather be used in collecting and compiling data for more entities for longer time frames.

21. A broader coverage of SOEs and parastatals would help paint a more accurate picture of the size of their fiscal operations. Preliminary data indicate that aggregate revenue and expenditure for the five EBUs amounted to about 4.1 percent of GDP in FY2017/18 with a net lending (surplus) of about 0.1 percent of GDP, net financial worth of about 0.3 percent of GDP (with debt liabilities of about 2 percent of GDP) and net worth of 31.4 percent of GDP explained mainly by LHDA's holding of nonfinancial assets. A more comprehensive institutional coverage would provide valuable information on the size of SOEs and parastatals, with the added value of

also providing information on their net worth, net financial worth, and debt liabilities that would greatly help assess potential or actual fiscal risks vulnerabilities but also help broaden the institutional coverage of public sector debt statistics (PSDS) currently compiled.

Recommended Action:

- Review and address any *material* source data issues in SOEs and parastatals financial statements in consultation with the respective entities.

GFS Consolidation

22. GFS for broader institutional coverage would only be meaningful for analytical purposes to the extent they are presented on a consolidated basis. Aggregated data include transactions and assets and liabilities positions between entities within the same sub-sector or across sub-sectors of the public sector. Aggregated data double counts these transactions and stock positions and biases fiscal aggregates. Eliminating the reciprocal transactions between the different levels of governments to present data for all the different levels of the public sector put together as if they constituted a single unit is what would be required for analytically meaningful data. Consolidation is therefore necessary to eliminate these internal relationships when thinking about broadening the institutional coverage to include SOEs and parastatals.

23. The mission presented the conceptual underpinning and types of consolidation and practical approaches to identifying reciprocal transactions. It is important to note that consolidation may be possible to the extent source data provide sufficient details to identify reciprocal transactions within and across sectors and sub-sectors. Financial statement of SOEs and parastatals do not necessarily provide the right amount of details to allow consolidation and therefore rules of thumb and assumptions need to guide consolidation (see Appendix V of the [2020 GFS TA report](#) and **Appendix 4** for further details on consolidation).

Recommended Action:

- Collect source data for all subsectors of general government, including non-market SOEs and parastatals including sufficient details to allow intra and intersectoral consolidation.

Compilation of Consolidated GFS for the General Government

24. The mission illustrated compilation of consolidated GFS for the general government. Using available data for FY2017/18 for the BCG, local governments, and data compiled using the SOEs Excel-based tool for the five non-market entities, the mission illustrated consolidation for the three levels of government, first between BCG and EBUs then, between the central government (i.e., consolidation between BCG and EBUs) and local governments. The preliminary consolidated GFS for the general government show revenue and expenditure that is respectively about LSL 947.5 million (3 percent of GDP) and LSL 862.1 million (2.7 percent of

GDP) higher than that of the BCG, and net borrowing (deficit) that is about LSL 85.4 million (0.3 percent of GDP) lower compared to the BCG (**Table 5**).

25. Data dissemination should be initiated when consolidated data has been compiled for the general government. Efforts should be made to start disseminating a new dataset for broader institutional coverage building on the impressive data dissemination track record for BCG data that is currently made publicly available through the STA's GFS annual and high frequency databases, the national summary data page and the World Bank's Quarterly PSDS database (QPSDS). Preliminary consolidated GFS, even for limited EBU coverage, can be disseminated to STA's GFS database fairly soon, with metadata indicating the extent of coverage. Similarly, using balance sheet data compiled from the SOEs Excel-based tool for SOEs and parastatals, debt liabilities of EBUs and public corporations can also be disseminated to the World Bank's QPSDS.

Recommended Action:

- Expand compilation of consolidated GFS for the general government, when data becomes available for a representative sample of EBUs, the local governments, and BCG for at least the last five years, and annually going forward.
- Disseminate compiled annual consolidated GFS for the general government to STA's GFS database for the last five years and annually going forward.

Table 3. Kingdom of Lesotho: Statement of Operations for Six Parastatals and SOEs (FY2017/18)

FY2017/18, in percent of GDP		Total Public Corporations	Total Extrabudgetary Units	Lesotho Water and Electricity Authority	Lesotho Highlands Development Authority	Lesotho Communications Authority	Road Fund	Lesotho Revenue Authority	Lesotho Water and Sewerage Corporation
1	Revenue	0.9	4.1	0.2	1.9	0.3	0.5	1.2	0.9
11	Taxes	0.0	0.8	0.0	0.0	0.2	0.5	0.0	0.0
12	Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Grants	0.0	1.1	0.1	-0.1	0.0	0.0	1.2	0.0
14	Other revenue	0.9	2.2	0.1	2.0	0.0	0.0	0.0	0.9
142	of which sales of goods and services	0.8	2.0	0.1	1.9	0.0	0.0	0.0	0.8
1441	of which current transfers	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
1442	of which capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	Expense	0.8	4.2	0.1	1.9	0.2	0.8	1.2	0.8
21	Compensation of employees	0.3	1.3	0.1	0.4	0.1	0.0	0.7	0.3
22	Use of goods and services	0.4	1.7	0.1	0.3	0.1	0.8	0.5	0.4
23	Consumption of fixed capital	0.1	1.1	0.0	1.1	0.0	0.0	0.0	0.1
24	Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
25	Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
26	Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
27	Social benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
28	Other expense	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
NOB	Net operating balance (1-2)	0.1	-0.1	0.1	0.1	0.1	-0.3	0.1	0.1
31	Net/gross investment in nonfinancial assets	0.2	-0.2	0.0	-0.1	0.0	0.0	-0.1	0.2
2M	Expenditure (2+31)	1.0	4.0	0.1	1.7	0.2	0.9	1.0	1.0
NLB	Net lending (+) / Net borrowing (-) (1-2-31) or (1-2M)	-0.1	0.1	0.1	0.2	0.0	-0.4	0.2	-0.1
FIN	Financing (32-33)	-0.1	0.1	0.1	0.2	0.0	-0.4	0.2	-0.1
32	Net acquisition of financial assets	0.0	0.4	0.1	0.3	0.0	-0.3	0.4	0.0
33	Net incurrence of liabilities	0.0	0.3	0.0	0.1	0.0	0.0	0.2	0.0
NLBz	Overall statistical discrepancy: NLB vs Financing (FIN-NLB)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	of which discrepancy in source data	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 4. Kingdom of Lesotho: Balance Sheet for Six Parastatals and SOEs (FY2017/18)

FY2017/18, in percent of GDP	Total Public Corporations	Total Extrabudgetary Units	Lesotho Water and Electricity Authority	Lesotho Highlands Development Authority	Lesotho Communications Authority	Road Fund	Lesotho Revenue Authority	Lesotho Water and Sewerage Corporation
6 Net worth (61+62-63)	0.1	31.4	0.1	31.0	0.1	0.0	0.1	0.1
61 Nonfinancial assets	4.4	31.1	0.0	29.8	0.4	0.1	0.9	4.4
611 Fixed assets	4.4	31.1	0.0	29.8	0.4	0.1	0.9	4.4
612 Inventories	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
613 Valuables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
614 Nonproduced assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6M2 Net financial worth (62-63)	-4.3	0.3	0.1	1.3	-0.3	-0.1	-0.8	-4.3
62 Financial assets	0.6	2.9	0.2	0.8	0.4	0.7	0.8	0.6
6201 Monetary gold and SDRs [6221]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6202 Currency and deposits [6212+6222]	0.2	2.2	0.2	0.4	0.1	0.6	0.8	0.2
6203 Debt securities [6213+6223]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6204 Loans [6214+6224]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6205 Equity and investment fund shares [6215+6225]	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0
6206 Insurance, pension, and standardized guarantee schemes [6216+6226]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6207 Financial derivatives and employee stock options [6217+6227]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6208 Other accounts receivable [6218+6228]	0.3	0.7	0.0	0.4	0.2	0.1	0.0	0.3
63 Liabilities	4.9	2.7	0.1	-0.4	0.6	0.8	1.6	4.9
6301 Special Drawing Rights (SDRs) [6321]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6302 Currency and deposits [6312+6322]	0.0	0.5	0.0	0.0	0.0	0.0	0.5	0.0
6303 Debt securities [6313+6323]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6304 Loans [6314+6324]	0.6	0.6	0.0	0.4	0.1	0.0	0.0	0.6
6305 Equity and investment fund shares [6315+6325]	4.0	0.8	0.1	-1.2	0.3	0.5	1.0	4.0
6306 Insurance, pension, and standardized guarantee schemes [6316+6326]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6307 Financial derivatives and employee stock options [6317+6327]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6308 Other accounts payable [6318+6328]	0.3	0.8	0.0	0.3	0.2	0.2	0.0	0.3

Table 5. Kingdom of Lesotho: Illustrative Consolidated GFS for the General Government (FY 2017/18)

STATEMENT OF OPERATIONS (percent of GDP)		General Government FY2017/18								
		Central Government (excluding social security funds)				Social Security Funds	State Governments	Local Governments	Consolidation Column	General Government
		Budgetary	Extrabudgetary	Consolidation Column	Central Government					
		BA=GL1	EA	CC	CG	SSF	SG	LG	CT	GG=GL3
TRANSACTIONS AFFECTING NET WORTH:										
1	Revenue	47.8	4.1	-1.1	50.7	NP	NP	1.3	-1.3	50.7
11	Taxes	31.8	0.8	0.0	32.6	NP	NP	0.0	0.0	32.6
12	Social contributions	0.0	0.0	0.0	0.0	NP	NP	0.0	0.0	0.0
13	Grants	10.9	1.1	-1.1	10.9	NP	NP	1.3	-1.3	10.9
14	Other revenue	5.1	2.2	0.0	7.3	NP	NP	0.0	0.0	7.3
2	Expense	38.2	4.2	-1.1	41.3	NP	NP	0.6	-1.3	40.6
21	Compensation of employees	17.0	1.3	0.0	18.3	NP	NP	0.5	0.0	18.9
22	Use of goods and services	8.4	1.7	0.0	10.0	NP	NP	0.0	0.0	10.1
23	Consumption of fixed capital	0.0	1.1	0.0	1.1	NP	NP	0.0	0.0	1.1
24	Interest	1.0	0.0	0.0	1.0	NP	NP	0.0	0.0	1.0
25	Subsidies	1.0	0.0	0.0	1.0	NP	NP	0.0	0.0	1.0
26	Grants	3.8	0.0	-1.1	2.6	NP	NP	0.0	-1.3	1.3
27	Social benefits	4.9	0.0	0.0	4.9	NP	NP	0.0	0.0	4.9
28	Other expense	2.2	0.1	0.0	2.3	NP	NP	0.0	0.0	2.3
GOB	Gross operating balance (1-2+23)	9.5	1.0	0.0	10.5	NP	NP	0.7	0.0	11.3
NOB	Net operating balance (1-2)	NA	-0.1	0.0	9.5	NP	NP	0.7	0.0	10.2
TRANSACTIONS IN NONFINANCIAL ASSETS:										
31	Net/gross investment in nonfinancial assets	11.4	-0.2	0.0	11.2	NP	NP	0.6	0.0	11.8
311	Fixed assets	11.4	NA	NA	NA	NP	NP	NA	NA	NA
312	Inventories	0.0	NA	NA	NA	NP	NP	NA	NA	NA
313	Valuables	0.0	NA	NA	NA	NP	NP	NA	NA	NA
314	Nonproduced assets	0.0	NA	NA	NA	NP	NP	NA	NA	NA
2M	Expenditure (2+31)	49.6	4.0	-1.1	52.5	NP	NP	1.1	-1.3	52.3
NLB	Net lending (+) / Net borrowing (-) (1-2-31) or (1-2M)	-1.9	0.1	0.0	-1.8	NP	NP	0.2	0.0	-1.6
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING)										
32	Net acquisition of financial assets	1.1	0.4	0.0	1.5	NP	NP	0.2	0.0	1.7
321	Domestic debtors	1.1	NA	NA	NA	NP	NP	NA	NA	NA
322	External debtors	0.0	NA	NA	NA	NP	NP	NA	NA	NA
33	Net incurrence of liabilities	2.9	0.3	0.0	3.2	NP	NP	0.0	0.0	3.2
331	Domestic creditors	2.5	NA	NA	NA	NP	NP	NA	NA	NA
332	External creditors	0.4	NA	NA	NA	NP	NP	NA	NA	NA
NLBz	Overall statistical discrepancy: NLB vs Financing (32-33-NLB)	0.0	0.0	0.0	0.0	NP	NP	0.0	0.0	0.1

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

A. Action Plan for Broadening the Institutional Coverage of GFS and PSDS to Include SOEs and Parastatals

26. A workplan is developed to guide broadening the institutional coverage of GFS and PSDS compilation and dissemination. The workplan was developed building on recommendations for the mission, highlighting the priority and target completion date for each action, and the outcome to which the actions contribute to. The workplan is meant to serve as a roadmap for the MOF in organizing and sequencing activities, and providing a framework that allows monitoring of progress.

Table 6. Kingdom of Lesotho: Action Plan for Broader GFS and PSDS Institutional Coverage

Priority	Action/Milestone	Target Completion Date
Outcome: The Legal/institutional environment is conducive to compile and disseminate statistics		
H	Establish formal institutional arrangements for collecting and compiling SOEs and parastatals data.	September 2021
Outcome: Source data are adequate for the compilation of GFS and PSDS		
H	Collect remaining financial statements for at least the last five years, and annually going forward, for the most significant (measured by the relative size of their income and balance sheet) SOEs and parastatals.	October 2021
H	Extract and convert into an Excel data repository information from PDF financial statements of SOEs and parastatals on balance sheets, income statements, cashflow statements, and notes to the financial statements where available.	October 2021
M	Regularly update the Excel data repository as new financial statements become available.	Continuous
L	Review and address any <i>material</i> source data issues in SOEs and parastatals financial statements in consultation with the respective entities.	October 2021

Table 6. Kingdom of Lesotho: Action Plan for Broader GFS and PSDS Institutional Coverage (continued)

M	Collect source data for all subsectors of general government, including non-market SOEs and parastatals including sufficient details to allow intra and intersectoral consolidation.	December 2021
Outcome: Data are compiled and disseminated using the coverage and scope of the latest manual/guide		
H	Populate the SOEs compilation tool with data extracted and converted into the Excel data repository information from PDF financial statements of SOEs and parastatals for at least the last five years, and annually going forward.	December 2021
H	Perform required adjustments, as relevant, to data in the SOEs compilation tool and produce a statement of operations and balance sheet for SOEs and parastatals for at least the last five years, and annually going forward.	December 2021
H	Expand compilation of consolidated GFS for the general government, when data becomes available for a representative sample of EBUs, the local governments, and BCG for at least the last five years, and annually going forward.	March 2022
Outcome: Data are compiled and disseminated using the sectorization of the latest manual/guide		
M	Perform the market test using data available from accounting financial statements of SOEs and parastatals to update sectorization of public sector units.	December 2021
Outcome: A new data set has been compiled and disseminated internally and/or to the public		
H	Disseminate compiled annual consolidated GFS for the general government to STA's GFS database for the last five years and annually going forward.	June 2022

B. Officials Met During the Mission

Name	Department	Institution
Ms. Seriti Mohobeta	Macroeconomic Policy and Management	MOF
Ms. Nthabiseng Tarumbiswa	Macroeconomic Policy and Management	MOF
Mr. Khalane Malie	Macroeconomic Policy and Management	MOF
Mr. Molefi Mokheti	Macroeconomic Policy and Management	MOF
Ms. Mafatima Moshoeshoe	Macroeconomic Policy and Management	MOF
Ms. Senate Mokobocho	Macroeconomic Policy and Management	MOF
Ms. Neo Tau	Macroeconomic Policy and Management	MOF
Mr. Hape Bitsoane	Macroeconomic Policy and Management	MOF
Ms. Thabo Moerane	Treasury	MOF

Mr. Telee Mote	Treasury	MOF
Mr. Bereng Motsoeneng	Treasury	MOF
Ms. Keletso Matsela	Public Debt Management	MOF
Ms. Marethabile Hlaahla	Research	CBL
Ms. Kamohelo Dooda	Research	CBL

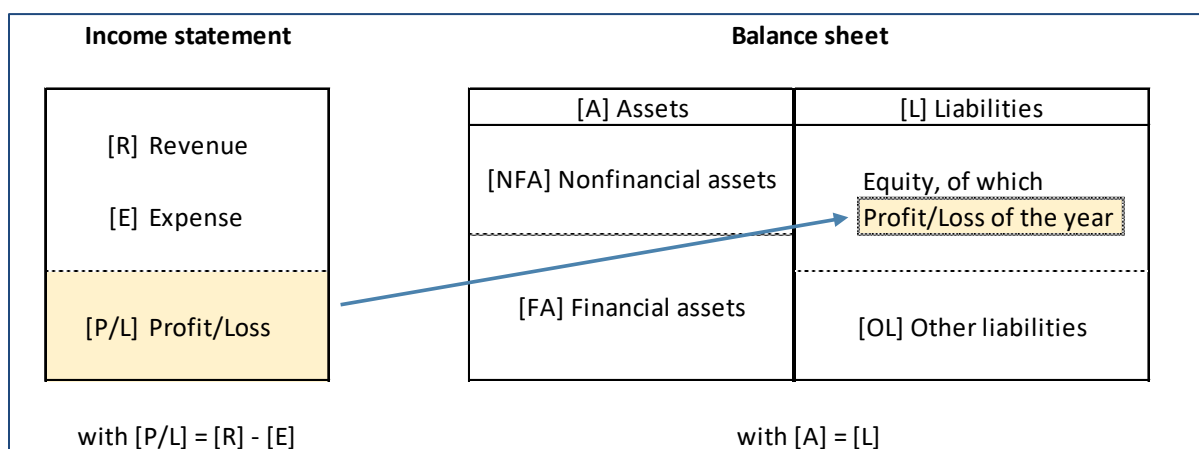
Appendix I. Linkages Between Financial Statements Data and GFS

1. **The compilation of GFS from the financial statements allows GFS consistency to be obtained between transactions above and below the line in the GFS statement of operations.** Accounting source data drawn from financial statements conceptually constitute a closed and balanced framework.

2. **Financial statements always include, at a minimum, the income statement and the balance sheet, and have two essential characteristics:** (i) the annual profit or loss (income minus expense, or revenue minus expense) included in the income statement (also referred to as profit and loss statement) is also included in the shareholders' (owners') equity of the balance sheet; and (ii) on the balance sheet, total assets equal total liabilities, including equity (shareholders' equity). We can formulate this with the following equations (**Figure 2**):

$$\begin{aligned} [P/L] &= [R] - [E] \\ [A] &= [L] \end{aligned}$$

Figure 2. Stylized Financial Statements



3. **Because [A] = [L], the change in assets between the opening and the closing balance sheet equals the change in liabilities.** We can therefore derive that:

$$\Delta[A] = \Delta[L]$$

4. In the shareholders' equity, the profit/loss of the year will generally be the only change between two accounting periods.¹ Therefore, one can write the following two equations (see the graph above for the meaning of the abbreviations):

$$\begin{aligned}\Delta[A] &= [P/L] + \Delta[OL] \\ \Delta[A] &= [R] - [E] + \Delta[OL] \\ \Delta[NFA] + \Delta[FA] &= [R] - [E] + \Delta[OL]\end{aligned}\quad (i)$$

5. In the GFS statement of operations, net lending/net borrowing (the fiscal balance) can be calculated from "above-the-line", as being equal to revenue minus expenses minus transactions in nonfinancial assets, and from "below-the-line", as being equal to transactions in financial assets minus transactions in liabilities (financing transactions). It is this balance that the coherence of GFS denotes. We can therefore write this according to the following equation (see **Figure 3** for the meaning of the codes):

$$[NLB] = [1] - [2] - [31] = [32] - [33] \quad (ii)$$

Figure 3. Stylized GFS Statement of Operations

[1]	Revenue
[2]	Expense
[31]	Transactions in nonfinancial assets
[NLB]	Net lending/net borrowing
[32]	Transactions in financial assets
[33]	Transactions in liabilities

with $[NLB] = [1] - [2] - [31] = [32] - [33]$

6. Before taking into account OEF (i.e., assuming that all changes in assets and liabilities are transactions) and making any adjustments to the data in the income

¹ This is a simplifying assumption but does not detract from the validity of the reasoning. If other changes have taken place, remember to translate them into GFS codes to achieve GFS consistency (see Appendix III on adjustments).

statement (i.e., assuming all income and expense are revenue and expense in GFS), we have the following equivalences between financial statements and GFS:

$$\begin{aligned} [R] &= [1] \\ [E] &= [2] \\ \Delta[NFA] &= [31] \\ \Delta[FA] &= [32] \\ \Delta[OL] &= [33]^2 \end{aligned}$$

7. Therefore, we can replace equation (i) above by the following equation:

$$[31] + [32] = [1] - [2] + [33] \quad \text{(iii)}$$

Rearranging (iii), we obtain equation (ii) above:

$$[1] - [2] - [31] = [32] - [33] = [NLB]$$

8. In conclusion, this means that GFS consistency should be achieved when converting financial statements to GFS without making any adjustments. Then, the necessary adjustments must be made (for example, distinguishing OEF from transactions) while taking care to maintain the consistency obtained initially. The GFS consistency described above assumes that all changes in assets and liabilities are transactions and that all income and expenses in the income statement are revenues and expenses in GFS. This is rarely the case in practice, which means that adjustments must be made to take account of OEF and correctly reflect the GFS concepts of revenue and expense. These adjustments must be made while maintaining the GFS consistency obtained initially.

² As mentioned earlier, we assume no change in the shareholders' equity in the financial statements except for the profit or loss of the year.

Appendix III. Suggested Compilation Procedure for Converting Financial Statements Data to GFS

1. The mission presented a procedure for converting financial statements to GFS that follows a systematic approach to translate income statement and balance sheet entries to the *GFSM 2014* analytical framework. The procedure follows a series of steps summarized below:

- a. Step **[A]** verifies that the profit/loss obtain from the income statement is the same as that shown on the liabilities side of the balance sheet (in shareholders' equity) under a title resembling "profit/loss for the year".¹
- b. Likewise, net lending/net borrowing (NLB) is linked to financing in the *GFSM 2014* analytical framework. Step **[A]** checks that the profit/loss can be traced to the balance sheet (see also **Figure 4** below).
- c. Step **[B]** estimates the net flows by calculating the difference between the closing and opening balances of each balance sheet item (as shown in the financial statements) (see **Figure 5**).
- d. The *GFSM 2014* analytical framework goes further to separate within net flows between, transactions and OEF.
- e. To identify OEF, step **[C]** identifies in particular (i) revaluations, (ii) holding gains and losses and (iii) asset write-downs. In addition, step **[C]** eliminates provisions (which do not exist in GFS, see **Appendix 3**) (see **Figure 6**).
- f. Step **[D]** then classifies all flows and stocks according to the GFS classification, which makes it possible to present the data according to this analytical framework.
- g. In step **[E]**, the NLB is also calculated checking that the GFS consistency is respected (see **Appendix 1**). If the consistency is not respected, we look for the causes of the statistical discrepancy (if significant), which can sometimes be due to an inconsistency in the source data (see **Figure 7** and **8**).

2. The conversion process generally requires looking into the notes to the financial statements. Since the income statement and balance sheet primarily provide a summary view, notes facilitate the process of classifying flows and stock positions at the most detailed level possible. In addition, notes to a financial statement can help provide key information for

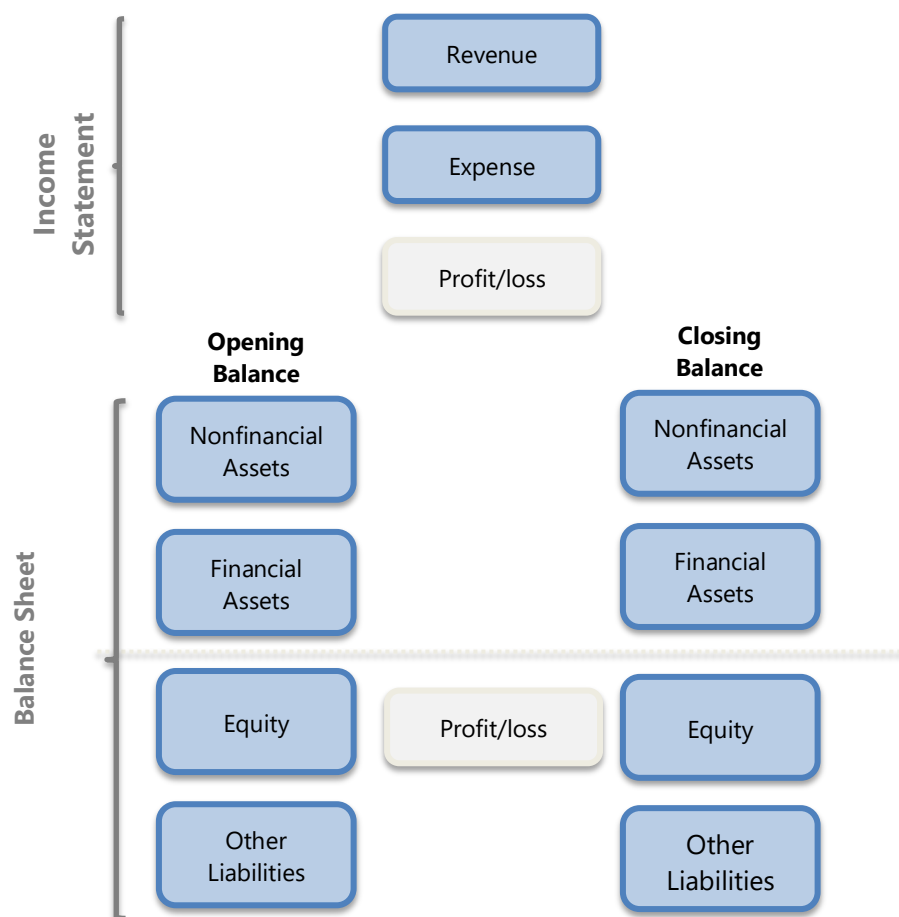
¹ Accounting terminology used in financial statements may vary between companies and countries. Generic terms are used here.

interpreting economic events and thus correctly classifying transactions according to the *GFSM 2014*.

3. In case more detailed information is not available in the financial statements or other administrative documents, the compiler makes assumptions about the economic nature of the transactions. These assumptions are based on the economic activity and/or the objectives of an institutional unit. For example, annual transfers received from the budgetary central government by an extrabudgetary unit are classified as grants; compensation of employees can be prorated into wages and salaries and social contributions – using a similar unit as a reference; and extrabudgetary units generally do not collect tax revenue. The underlying rationale for each assumption should be documented and, if possible, supported by references from the *GFSM 2014*. In general, the larger the unit, the more the compiler should use an evidence-based approach to classify transactions and stock positions rather than making assumptions.

4. Once the indicated steps have been followed, the statement of operations, the statement of OEF and the balance sheet will be available for each unit, and GFS consistency will be respected. These data can be used to compile a wide range of GFS (including for the IMF's annual GFS questionnaire) and related macroeconomic statistics tables. Since the financial statements are compiled according to national business accounting standards, the compiled data will generally follow the accrual basis of recording and valuation of financial assets and liabilities at fair value. This could concurrently serve as the best possible indicator of market and nominal values in the *GFSM 2014* framework and the *Public Sector Debt Statistics Guide*. If the units have a significant impact on certain balance sheet items, additional valuation methods can be considered to better align with reporting standards on a case-by-case basis.

Figure 4. Converting Financial Statements Data into GFS — Step [A] — Checking the Profit/loss



5. **Sometimes a financial income or expense is recorded in the income statement as a result of foreign exchange fluctuations.** In GFS, this is another economic flow and should thus not be recorded as revenue or expense. Instead, another economic flow should be recorded on the relevant asset or liability in the balance sheet. Often, assumptions have to be made as to which asset or liability this foreign exchange fluctuation applies. It is common to assume that it applies to cash or other liquid assets, if this asset category is larger than the holding gains or losses to be applied.

Figure 5. Converting Financial Statements Data into GFS — Step [B] — Computing Net Flows

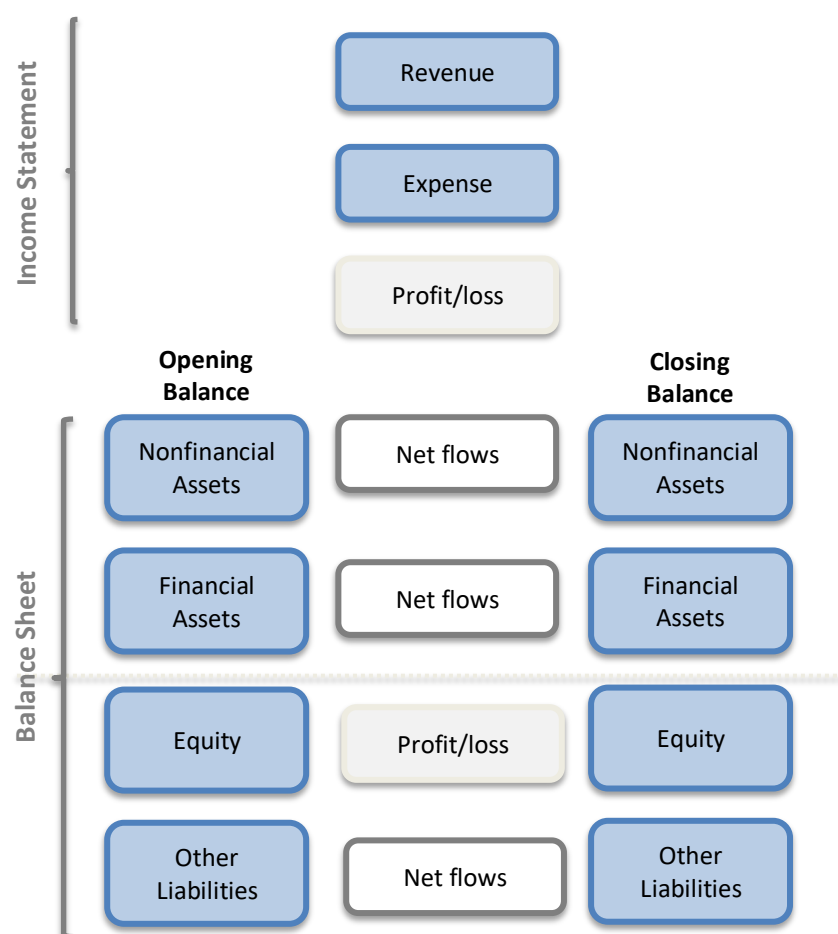


Figure 6. Converting Financial Statements Data into GFS — Step [C] — Computing Other Economic Flows and Eliminating Provisions

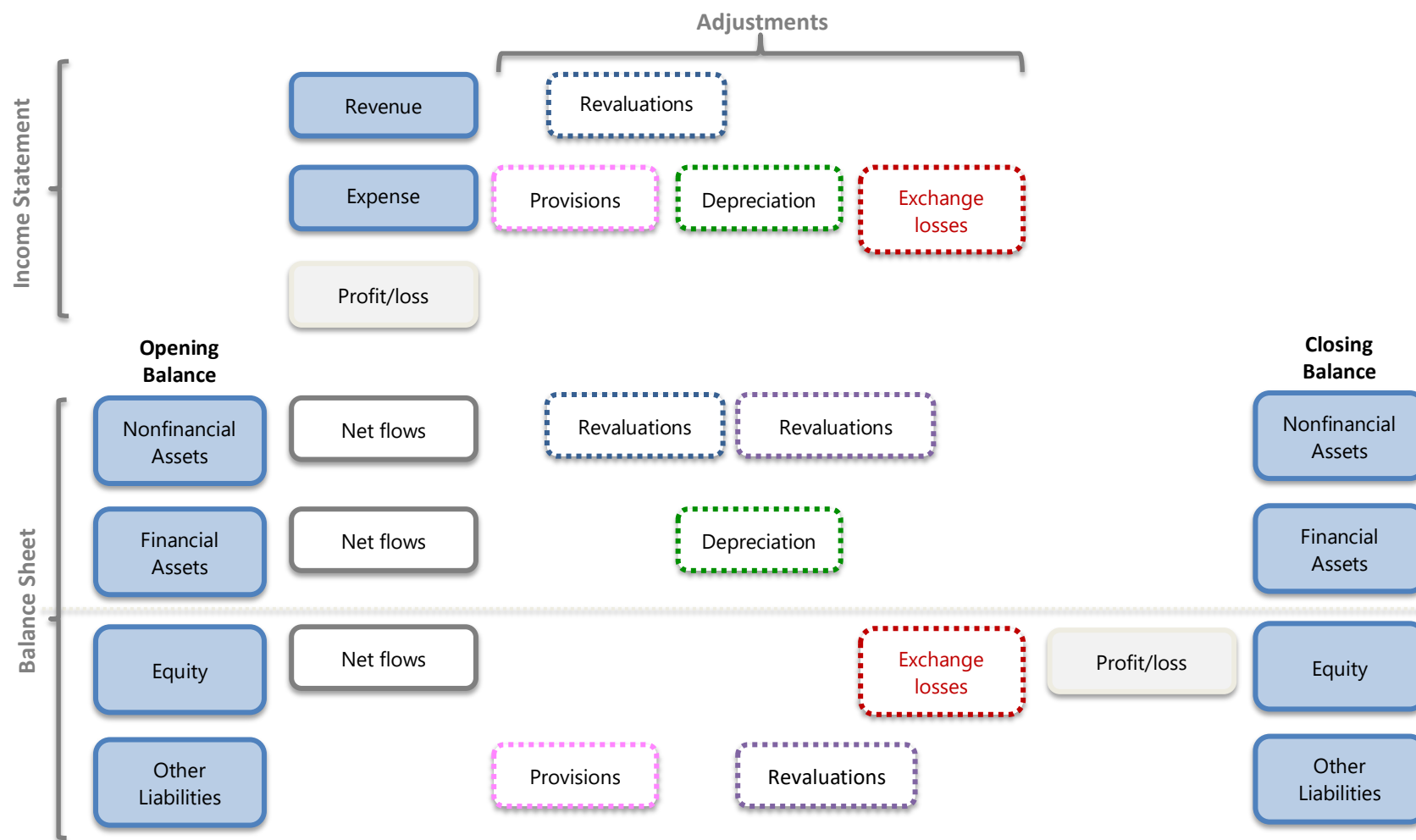


Figure 7. Converting Financial Statements Data into GFS — Step [D] — Classification of Transactions, Other Economic Flows and Stock Positions

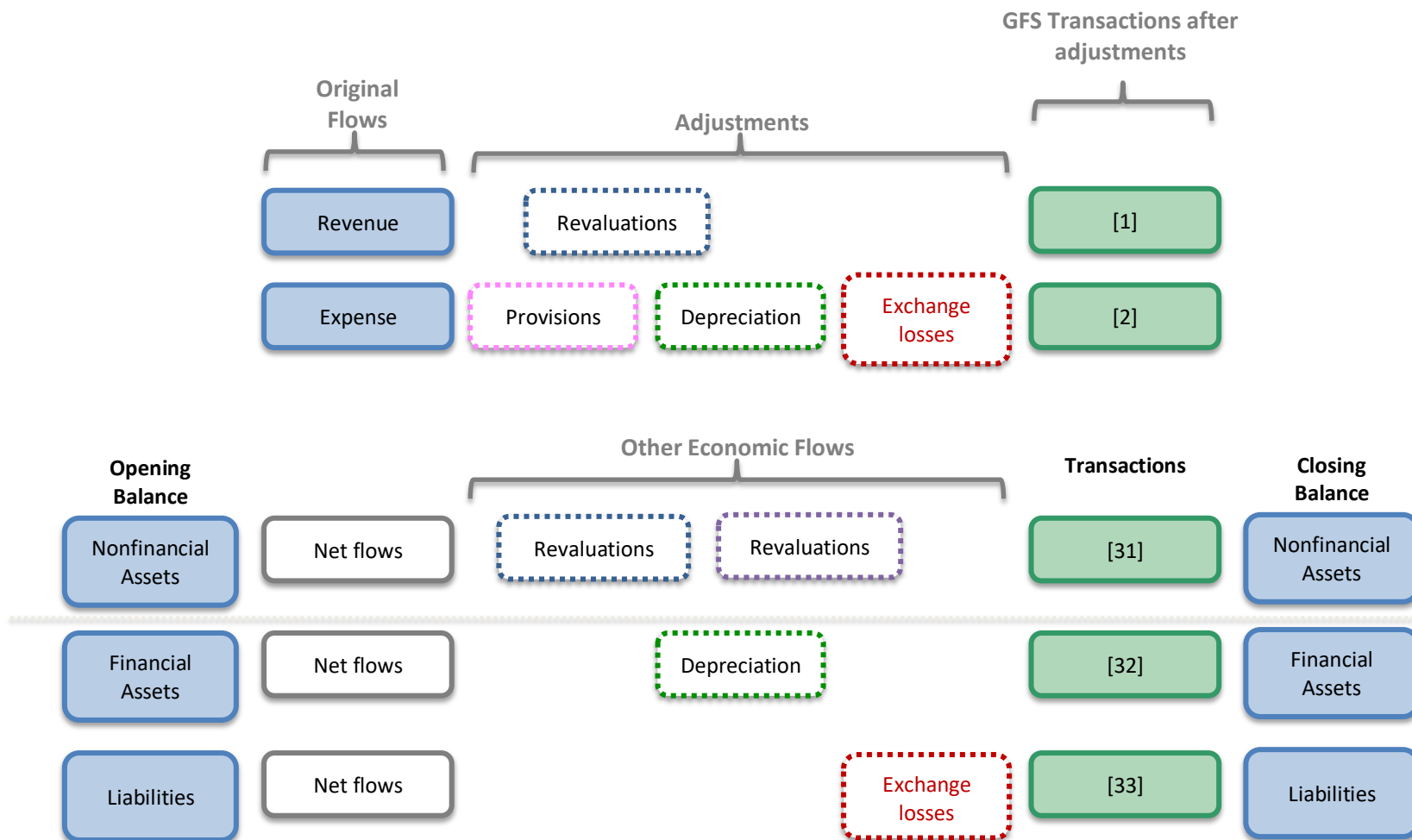
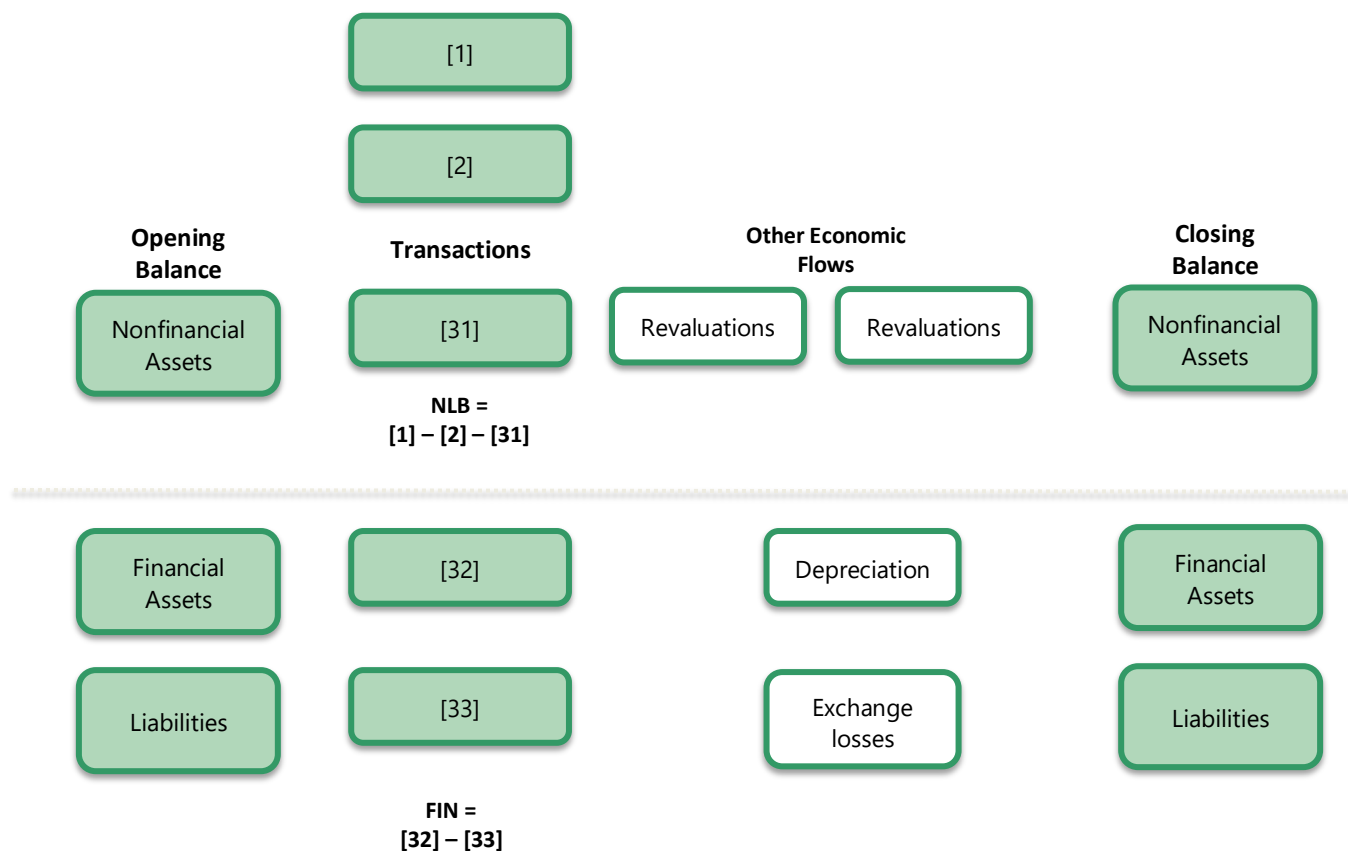


Figure 8. Converting Financial Statements Data into GFS — Step [E] — Finalizing the Analytical Framework and Computing NLB and Financing



Appendix III. Illustration of Required Adjustments to Financial Statements Data to Derive GFS

1. This section provides illustrations of adjustments required to convert financial statements data into GFS. The numerical illustrations below start from a situation where transactions in assets and liabilities are first calculated without adjustments by taking the difference between the closing and opening balance sheet amounts. Adjustments are then made afterwards.

Change in equity from reported profit or loss

2. In the balance sheet, the equity of a unit changes between two accounting periods because of the reported profit or loss of the current year. This is not a transaction in equity (i.e., this is not the result of shareholders injecting or withdrawing capital in/from the unit that would be recorded below the line in GFS). Therefore, if it is not a transaction, it must be an OEF (remember that the GFS framework is integrated in the sense that all changes between opening and closing stock positions are either a transaction or an OEF). It should thus be recorded as another economic flow in equity in GFS (see also *GFSM 2014* para. 10.33).

Figure 9. Illustration for Change in Equity from Reported Profit or Loss

Financial Statements			GFS				
Revenue	10		Revenue		10		
Expense	0		Expense		0		
Profit or loss	10		NOB		10		
Balance sheet			Balance sheet				
	OB	CB		OB	TR	OEF	CB
Assets	100	110					
NFA	0	0	NLB	NFA	0	0	0
FA	100	110		FA	100	10	110
Cash	100	110		Cash	100	10	110
Liabilities	100	110		Liabilities	100	0	10
Equity	100	110		Equity	100	10 - 10 = 0	110
o.w. Reported P/L	0	10	FIN				
Other	0	0					
						10	

Capital withdrawals

3. In some cases, capital is withdrawn from the Equity / Capital / Source of Funds account. Capital withdrawals are recorded as a dividend expense (2811) if the amount is in line with the operating surplus of the year. If the amount is disproportionately large ("super-dividend"), it is recorded as an equity liability financial transaction (3315) (see *GFSM 2014* para. 5.115-116 and 9.49). If relevant, capital withdrawals can be partitioned into a dividend (for the part in line with the operating surplus of the year) and a transaction in equity (for the surplus).

Figure 10. Illustration for Capital Withdrawals

Example 1 – Dividend:

Financial Statements

Revenue10

Expense0

Profit or loss10

Balance sheet

AssetsOB CB

100102

NFA00

FA100102

Liabilities100102

Equity100102

o.w. Reported P/L010

Other00

GFS

Revenue10

Expense8

Dividends0 + 8 = 8

NOB2

Balance sheet

NFAOB TR OEF CB

0000

FA1002102

Liabilities10002102

Equity10002102

FIN2

Example 2 – Transaction in equity:

Financial Statements

Revenue10

Expense0

Profit or loss10

Balance sheet

AssetsOB CB

10080

NFA00

FA10080

Liabilities10080

Equity10080

o.w. Reported P/L010

Other00

GFS

Revenue10

Expense0

NOB10

Balance sheet

NFAOB TR OEF CB

0000

FA100-2080

Liabilities100-301080

Equity100 - 20 - 10 = -30 10 80

FIN10

Example 3 – Partitioning:

Financial Statements

Revenue10

Expense0

Profit or loss10

Balance sheet

AssetsOB CB

10080

NFA00

FA10080

Liabilities10080

Equity10080

o.w. Reported P/L010

Other00

GFS

Revenue10

Expense10

Dividends0 + 10 = 10

NOB0

Balance sheet

NFAOB TR OEF CB

0000

FA100-2080

Liabilities100-2080

Equity100-2080

FIN0

Capital Injections

4. In some cases, we observe an increase in the Equity / Capital / Source of Funds account which is larger than the reported profit of the year, or a decrease which is smaller

than the reported loss of the year. This may indicate that new capital was injected. If this capital injection was made to cover past losses or without a reasonable expectation of a realistic rate of return, it should be recorded as a capital transfer received (1442) if the receiving unit is a public corporation, or a capital grant received (1332) if it is a government unit. If there is a reasonable expectation of a realistic rate of return, it should be recorded as a transaction in equity (3315) below the line. See also *GFSM 2014* para A3.47-53 and Box 6.3.

Figure 11. Illustration for Capital Injections

Financial Statements			GFS				
Revenue	0		Revenue		10		
Expense	10		Capital transfer	0 + 10 =	10		
			Expense		10		
Profit or loss	-10		NOB		0		
Balance sheet			Balance sheet				
	OB	CB		OB	TR	OEF	CB
Assets	100	100	NFA	0		0	0
NFA	0	0	NLB			0	
FA	100	100	FA	100		0	100
Liabilities	100	100	Liabilities	100		0	100
Equity	100	100	Equity	100		0	100
o.w. Reported P/L	0	-10	FIN			0	
Other	0	0					

Financial Statements			GFS				
Revenue	10		Revenue		10		
Expense	0		Expense		0		
Profit or loss	10		NOB		10		
Balance sheet			Balance sheet				
	OB	CB		OB	TR	OEF	CB
Assets	100	115	NFA	0		0	0
NFA	0	0	NLB			10	
FA	100	115	FA	100		15	115
Liabilities	100	115	Liabilities	100		5	10
Equity	100	115	Equity	100	15 - 10 =	5	10
o.w. Reported P/L	0	10	FIN			10	
Other	0	0					

5. To detect capital withdrawals or injections, it is useful to look at the equity part of the balance sheet. Normally, in the absence of any capital injection or withdrawal, the change in equity should be the same as the reported profit or loss. This means that the accumulated profit or loss in the closing balance sheet should be equal to the sum of the accumulated profit or loss

in the opening balance sheet and the profit or loss of the period in the opening balance sheet. In some financial statements, there may be only one line summing up the accumulated profit or loss with the profit or loss of the year. Following the above, the sum of the accumulated profit or loss and the profit or loss of the period in the closing balance sheet minus the sum of the accumulated profit or loss and the profit or loss of the period in the opening balance sheet should be equal to the profit or loss of the period in the closing balance sheet.

Revaluation Reserves

6. When an asset is revalued, in some cases a corresponding entry is made in “revaluation reserves”, which is part of equity. In GFS, revaluations are recorded as holding gains or losses, which are a type of OEF. Both entries (on the asset and the liability sides of the balance sheet) should therefore be recorded as OEF and not as transactions.

Figure 12. Illustration for Revaluation Reserves

Financial Statements			GFS					
Revenue	0		Revenue	0				
Expense	0		Expense	0				
Profit or loss	0		NOB	0				
Balance sheet			Balance sheet					
	OB	CB		OB	TR	OEF	CB	
Assets	100	110	NFA	100	10 - 10 =	0	10	110
NFA	100	110	NLB			0		
FA	0	0	FA	0		0		0
			Liabilities	100		0	10	110
Liabilities	100	110	Equity	100	10 - 10 =	0	10	110
Equity	100	110						
o.w. Revaluation reserves	0	10	FIN	0				
o.w. Reported P/L	0	0						
Other	0	0						

Bad Debt Expense

7. These are recorded as expense in the income statement and reflect a unilateral writing off of debt not expected to be repaid. Because no bilateral agreement with debtors underlies this provision, this is recorded in GFS as another economic flow under the asset corresponding to the relevant debt instrument being adjusted.

Figure 13. Illustration for Bad Debt Expense

Financial Statements			GFS				
Revenue	0		Revenue			0	
Expense	10		Expense	10 - 10 =		0	
Bad debt expense	10						
Profit or loss	-10		NOB			0	
Balance sheet			Balance sheet				
	OB	CB		OB	TR	OEF	CB
Assets	100	90					
NFA	0	0	NFA	0		0	0
FA	100	90	NLB	FA	100	0	-10
Trade receivables	100	90		OAR	100 - 10 + 10 =	0	-10
				Liabilities	100	0	-10
Liabilities	100	90		Equity	100	0	-10
Equity	100	90					
o.w. Reported P/L	0	-10	FIN			0	
Other	0	0					

Foreign Exchange Gains and Losses

Figure 14. Illustration for Holding Gains/Losses

Financial Statements			GFS				
Revenue	0		Revenue			0	
Expense	10		Expense	10 - 10 =		0	
FX loss	10						
Profit or loss	-10		NOB			0	
Balance sheet			Balance sheet				
	OB	CB		OB	TR	OEF	CB
Assets	100	100					
NFA	0	0	NFA	0		0	0
FA	100	100	NLB	FA	100	0	100
				Liabilities	100	0	0
Liabilities	100	100		Loans	30	10 - 10 =	0
Equity	70	60		Equity	70	0	-10
o.w. Reported P/L	0	-10	FIN			0	
Other	30	40					
Loans	30	40					

Investment Grants

8. Sometimes nonfinancial assets are received as in-kind grants or capital grants received in cash are conditional on the acquisition of nonfinancial assets. To smooth out the duration of the grant received over the economic life of the assets, the grant is recorded in the financial statements in line with the depreciation of the asset. In the balance sheet, as the corresponding asset is reduced due to its depreciation, the grant is written down on a liability item akin to "deferred income". In the income statement, a grant income is recorded (sometimes under other income), matching the related depreciation expense. However, in GFS, the reporting unit is the unconditional owner from the moment the asset is transferred. An equal

capital transfer received should be recorded at the same time. More concretely, the capital transfer to be recorded in GFS will be the sum of the change in the "deferred grant" (or similar name) liability in the balance sheet and the corresponding grant income recorded in the income statement (which may be included in other income). The capital transfer can thus never be negative. If there is a decrease in the "deferred grant" item in the balance sheet over the accounting period, this means that a corresponding grant income for at least the same amount will be recorded in the income statement.

Figure 15. Illustration for Investment Grants

Example 1 – No grants received over the period:

Financial Statements		
Revenue	10	
Grant income	10	
Expense	10	
Depreciation	10	
Profit or loss	0	
Balance sheet		
	OB	CB
Assets	100	90
NFA	100	90
FA	0	0
Liabilities	100	90
Equity	70	70
o.w. Reported P/L	0	0
Other	30	20
Deferred grants	30	20

GFS				
Revenue				0
Capital transfer	10 + (-10) =			0
Expense				10
CFC				10
NOB				-10
Balance sheet				
	OB	TR	OEF	CB
NFA	100		-10	90
NLB			0	
FA	0		0	0
Liabilities	70		0	70
Equity	70		0	70
Other	30		-10	20
FIN			0	

Example 2 – New grants received over the period:

Financial Statements		
Revenue	10	
Grant income	10	
Expense	10	
Depreciation	10	
Profit or loss	0	
Balance sheet		
	OB	CB
Assets	100	105
NFA	100	105
FA	0	0
Liabilities	100	105
Equity	70	70
o.w. Reported P/L	0	0
Other	30	35
Deferred grants	30	35

GFS				
Revenue				15
Capital transfer	10 + 5 =			15
Expense				10
CFC				10
NOB				5
Balance sheet				
	OB	TR	OEF	CB
NFA	100		5	105
NLB			0	
FA	0		0	0
Liabilities	70		0	70
Equity	70		0	70
Other	30		5	35
FIN			0	

Income from Change in Tax Liabilities

9. Sometimes an income is recorded in the income statement when the tax liabilities were reduced in the balance sheet (for example because of the revaluation of an asset giving rise to a tax deduction). This should be recorded as another volume change under Other Accounts Payables (3318).

Figure 16. Illustration for Income from Change in Tax Liabilities

Financial Statements			GFS					
Revenue	10		Revenue	10 - 10 =	0			
Change in deferred taxes	10							
Expense	0		Expense		0			
Profit or loss	10		NOB		0			
Balance sheet			Balance sheet					
	OB	CB		OB	TR	OEF	CB	
Assets	100	100						
NFA	0	0	NLB	NFA	0	0	0	
FA	100	100		FA	100	0	100	
Liabilities	100	100		Liabilities	100	0	0	100
Equity	80	90		Equity	80	0	10	90
o.w. Reported P/L	0	10		OAP	20 - 10 + 10 =	0	-10	10
Other	20	10	FIN					
Deferred taxes	20	10						

Provisions

10. In accounting, provisions are recorded as follows (this may vary in some countries):

- Expense is accrued in the year when probability that the expense will occur is known. The timing and amount are unknown when provisions are made but an amount is estimated based on relevant information.
- A counter-transaction is recorded in the "provisions" line item in the liability side of the balance sheet.
- When actual expense event takes place, an outflow is recorded from the "provisions" account in the balance sheet (impacts only the balance sheet).
- Income is accrued when provisions are "released" – i.e., it is no longer likely the "provisioned" expense will be spent.
- In GFS, we only record the expense when the actual even takes place, which is the outflow described above. Therefore, the expense to be recorded will be estimated as follows:
- $\text{GFS expense} = \text{outflows} = -[\text{provision liability in the closing balance sheet} - \text{provision liability in the opening balance sheet} - \text{provisions accrued in the income statement} + \text{provisions releases in the income statement}]$.

Figure 17. Illustration for Provisions

Financial Statements			GFS		
Revenue	8		Revenue	= 8 - 8	0
Expense	15		Expense	= 15 - 15 + 27	27
Profit or loss	-7		NOB		-27
Balance sheet			Balance sheet		-27
Opening balance	125		Opening balance		
Accrued	15		Accrued		
Outflows	-27		Outflows		
Releases	-8		Releases		
Closing balance	105		Closing balance		
			FIN		-27
Expense to be recorded in GFS = outflows = -[105 - 125 - 15 + 8] = 27					

Gains or Losses from Asset Sales

11. When an asset is sold (therefore leaves the balance sheet) at a higher or lower value than its book value (value at which the asset was recorded in the balance sheet before the sale), a gain or loss on the disposal of the asset is recorded in the income statement. In GFS, this is another economic flow (holding gain or loss) because it corresponds to a revaluation of the asset at market price, information which becomes available due to the sale at market conditions (assuming the sale took place at market price, otherwise a transfer component also needs to be recorded) (see also *GFSM 2014* para. 10.20).

Figure 18. Illustration for Gains or Losses from Sales

Financial Statements			GFS				
Revenue	10		Revenue	10 - 10 =	0		
Gain from asset sale	10						
Expense	0		Expense		0		
Profit or loss	10		NOB		0		
Balance sheet			Balance sheet				
	OB	CB		OB	TR	OEF	CB
Assets	100	110	NFA	100	100 - 10 =	-110	10
NFA	100	0	NLB			110	
FA	0	110	FA	0		110	110
Cash	0	110	Cash	0		110	110
Liabilities	100	110	Liabilities	100		0	10
Equity	100	110	Equity	100		0	10
o.w. Reported P/L	0	10	FIN			110	
Other	0	0					

Appendix IV. GFS Consolidation

Introduction

1. **Consolidation is a method of presenting statistics for a group of entities as if they constituted a single unit.** This means that we must eliminate all significant flows and stock positions (debtor-creditor relationships) among consolidated entities. In other words, consolidation excludes economic interactions among all entities within a group of units. Consolidated statistics present only flows and stocks that involve interactions between the consolidated group, on the one hand, and all the other institutional units in the domestic economy and the rest of the world, on the other. In the GFS framework, the data for all sectors and subsectors should be presented on a consolidated basis.
2. **The GFS framework presents statistics in a consolidated manner because it provides a more effective way of assessing the overall impact of government activity on the total economy.** Consolidation eliminates the double counting of transactions or stock positions within a group of units; it produces aggregates that remain unaffected by internal interactions. We can say that consolidation increases the analytical value of statistics.

Types of Consolidation

3. **Consolidation takes place both within a given subsector (intra-sectoral) and between subsectors under a given sector (intersectoral).** Intra-sectoral consolidation is consolidation within a particular subsector to produce consolidated statistics for that particular subsector. For example, within the central government subsector or within the public nonfinancial corporations subsector. Intersectoral consolidation is consolidation between subsectors of the public sector to produce consolidated statistics for a particular grouping of public sector units. For example, consolidation among central, state, and local governments produces the consolidated general government sector. Consolidation between the general government sector and public nonfinancial corporations produces the consolidated nonfinancial public sector. Or consolidation between the general government and public corporation sectors produces the overall consolidated public sector. Intra-sectoral consolidation is always performed before intersectoral consolidation.

Figure 19. Types of Consolidation

Public Sector Units	Intrasectoral consolidation	Intersectoral consolidation
General government sector		✓
Central government subsector	✓	
Budgetary central government	✓	
Extrabudgetary central government	✓	
Social security funds	✓	
State governments subsector	✓	
Local governments subsector	✓	
Public corporations		
Public nonfinancial corporations	✓	
Nonfinancial public sector		✓
Public financial corporations	✓	
Public sector		✓

Consolidation of Transactions

4. There are two main approaches to consolidating transactions of the general government sector with those of the public nonfinancial corporations subsector. Data availability and analytical needs determine which one is used. Thus:

- If detailed data are available and an analytical need exists for such aggregates, consolidate appropriate revenues and expenses, net/gross operating balances, net acquisitions of nonfinancial assets, net lending/net borrowing balances, net acquisitions of financial assets and net incurrence of liabilities of the general government and public nonfinancial corporations.
- If detailed data are not available for consolidating the appropriate revenue and expense transactions, or analytical needs do not require such aggregates, simply consolidate net/gross operating balances, net acquisition of nonfinancial assets, net lending/net borrowing balances, net acquisition of financial assets and the net incurrence of liabilities of the general government and public nonfinancial corporations.

5. When compiling statistics for the public nonfinancial corporations sub-sector or nonfinancial public sector, priority should be given to identifying the following potential items for intra- and intersectoral consolidation:

- For revenue and expense transactions, prioritize the following: (i) dividends receivable/payable and withdrawals of income from quasi corporations; (ii) subsidies receivable/payable; and (iii) current and capital transfers receivable and/or payable. Only when intra-sectoral and/or intersectoral current and capital transfers are known to be large, should effort be made to identify and consolidate these transactions.
- For assets and liabilities, prioritize the following: (a) Flows and stocks of nonfinancial assets: (i) gross acquisitions and disposals of nonfinancial assets. However, if only the aggregate net acquisition of nonfinancial assets is compiled, there is no need for any consolidation of this aggregate. There is never any need for any consolidation of OEF or stocks of nonfinancial assets because nonfinancial assets only appear on the balance sheet of one public sector unit; (b) Flows and stocks of financial assets and liabilities: (i) equity and investment fund shares; (ii) loans; and (iii) debt securities. Other accounts payable may also be a priority, but there may be difficulty in obtaining the necessary source data.