FOR AGENDA

0401

EBD/90/129

April 30, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Lesotho - Structural Adjustment Facility - Policy Framework Paper, 1990/91-1992/93

Attached for consideration by the Executive Directors is the policy framework paper under the structural adjustment facility for Lesotho, which will be brought to the agenda for discussion on a date to be announced.

Mr. Callender (ext. 8750) or Mr. Nnanna (ext. 7207) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

LESOTHO

Structural Adjustment Facility

Policy Framework Paper, 1990/91-1992/93

Prepared by the Lesotho Government in collaboration with the staffs of the Fund and the World Bank

April 30, 1990

I. Background

Introduction

1. This paper updates the earlier policy framework papers (PFPs) 1988/89-1990/91 and 1989/90-1991/92, and advances the time frame to 1990/91-1992/93. The underlying difficulties facing the economy and progress during the first two years of the program are summarized briefly in the following paragraphs. While the broad thrust of the program remains as before, a number of modifications have been made within individual policy areas. These areas include agriculture, industry, public sector management, labor, and the social sectors. Although greater success was achieved in the implementation of the program during 1989/90 than in the previous year, a continued effort will be required in some policy areas to keep the program on track.

Economic problems and program policies

2. Given limited natural resources and its unique geographical position, Lesotho faces a number of constraints upon its future development. In particular, the economy faces uncertainties arising from political and economic instability in South Africa, especially with respect to future migrant remittances, while continued soil erosion impedes growth in agricultural productivity. Although the Lesotho Highland Water Project (LHWP) 1/ should contribute significantly to both

---

1/ The LHWP consists of two components: water transfer and hydroelectric power. The cost of these components is estimated at approximately US$1.63 billion and US$0.23 billion, respectively, over the period 1988 to 1997 at 1989 prices. The Government of South Africa will service and repay debt incurred by the water transfer component, while the Government of Lesotho will borrow on a concessional basis for the hydroelectic power component. The project started its engineering and preliminary construction phase in 1988, and is due to begin its core components in 1990. For a detailed description of the LHWP, see the first PFP, EBD/88/153 (6/6/88).

economic growth and the external position, it will not be a panacea in terms of its impact upon diversification of the economy and employment creation. Furthermore, the full impact of the project will not be felt for several years. In addition to these constraints, a number of key problem areas have been identified as needing remedial action. These are: (a) an excessive fiscal deficit; (b) weaknesses in public sector administration, the planning process and budgetary control; (c) widespread overgrazing on communal land; (d) a traditional land tenure system that leads to inefficient land utilization; (e) weaknesses in the financial system; and (f) a need for measures (including reforms in industrial policy) to encourage small enterprises, export diversification and employment creation.

3. Economic performance during the mid-1980s was characterized by uneven economic growth and a substantial deterioration in the external current account and the overall balance of payments (Table 1). Following good harvests and a sharp increase in manufacturing and construction activities, real GDP grew at 8.4 percent in 1987/88, in contrast to an annual average rate of only 2.4 percent over the previous two years. The external current account deficit (inclusive of unrequited transfers) also rose to an estimated 13.8 percent of GDP (7.1 percent of GNP), reflecting lower growth in SACU 1/ receipts and grants, and a sharp increase in the fiscal deficit (including grants) to an estimated 20.4 percent of GDP (10.6 percent of GNP).

4. Given this context, the Government, in collaboration with the staffs of the Fund and the World Bank, has designed an appropriate structural adjustment program with supporting policy measures. The implementation of the program began in 1988/89 and will continue through 1992/93. The main components of the program are: (a) a series of measures designed to both restrain government expenditure growth and raise additional revenue; (b) a series of initiatives aimed at raising the efficiency of the civil service, strengthening the planning process, and improving budgetary management; (c) reform of the land tenure system and improvements in range management; and (d) sectoral policy initiatives including measures to stimulate private investment and savings, and improve parastatal efficiency.

5. While growth performance in the first year of the program (1988/89) was very encouraging, there was little improvement in the external position. Provisional estimates indicate that real GDP grew at 9.8 percent. This high level of growth was assisted by good harvests arising from favorable weather conditions and the implementation of the preparatory phase of the LHWP. Despite much lower real growth in migrant workers' remittances, real GNP per capita grew at 3.2 percent, while gross investment, also boosted by the LHWP, rose to 31.4 percent

---

1/ These receipts derive from Lesotho's membership in the Southern African Customs Union (SACU). The other members are Botswana, Swaziland, and South Africa.

of GNP. In contrast, despite very rapid growth in exports, the external current account deficit fell only slightly to 6.6 percent of GNP, as compared with the 3.8 percent originally targeted. The overall balance of payments also remained substantially in deficit, with net official foreign exchange reserves falling to a level equivalent to 4.1 weeks of imports, well short of the targeted 6.6 weeks. Although still low by international standards, the debt service burden increased further to 5 percent of exports of goods and services in 1989/90 as a result of nonconcessional government borrowing.

6. This failure to meet the external current account target was closely associated with an overrun on the fiscal deficit (estimated at 9.7 percent of GNP, compared with 5.9 percent targeted), and domestic credit expansion in excess of the programmed targets. Substantial overexpenditure occurred both on compensation of governmental employees (M 170 million compared with M 136 million targeted) and on purchases of other goods and services (M 170.6 million compared with M 144 million targeted). Capital expenditures and net lending by the Government also exceeded the programmed level by a wide margin (M 200.9 million compared with M 161 million targeted). Although the major source of recurrent overexpenditure arose from the pay award granted during the summer of 1988 and a failure to enforce fully a freeze on vacancies and new posts, these developments were exacerbated by weaknesses in expenditure monitoring and control. While revenue collected by the Government exceeded the targeted level (M 368.4 million compared with M 356.8 million targeted), there were nevertheless some delays in implementing appropriate revenue-raising measures as programmed.

7. Substantial progress was made in the tradable goods sectors during 1988/89. In agriculture, irrigation facilities were expanded, while in industry, the high rate of growth in manufacturing resulted from a healthy level of private investment, supported by both the introduction of an export financing scheme and continued inflows of foreign investment. Domestic savings were encouraged by the adjustment of interest rates to levels close to those prevailing in South Africa.

II. Policy Implementation and Performance in 1989/90

8. In 1989/90, the second year of the program, the Government aimed at a growth rate in real GDP of 6.3 percent, a reduction in the external current account deficit to 3.7 percent of GNP, and, to ensure consistency with this objective, a reduction in the fiscal deficit from an estimated 9.7 percent of GNP (17.2 percent of GDP) in 1988/89 to 4.4 percent of GNP (8.0 percent of GDP) in 1989/90. It was projected that net official reserves would cover 5.4 weeks of imports at the end of March 1990, while domestic credit was programmed to expand by 16.7 percent.

9. Growth performance continued to be encouraging during 1989/90. Despite excessive rainfall during the previous winter and an outbreak of

cutworms, real GDP and real GNP are estimated to have grown by 6.8 percent and 5.5 percent, respectively. Gross investment as a share of GNP is estimated at 37.8 percent. The external position improved significantly during the year, despite lower-than-anticipated export volume growth. The external current account deficit is estimated at 3.9 percent of GNP--close to the level targeted. However, the overall balance of payments surplus is expected to be considerably less than targeted owing to shortfalls in net capital inflows. Net official reserves are estimated to have fallen to a level equivalent to 3.7 weeks of imports, compared with the programmed level of 5.4 weeks. The improvement in the current account deficit is closely associated with both a substantial narrowing of the fiscal deficit, to a projected level of 3.3 percent of GNP, and a fall in the level of domestic credit expansion, to within the programmed targets.

10. The Government has made substantial progress in implementing appropriate revenue-raising measures. The general sales tax rate was increased, as were special rates on some luxury items, and was extended to parastatals in the electricity and telecommunications sectors as programmed. The exemption from company income tax previously enjoyed by parastatals was removed, although no additional revenue has as yet accrued from this measure, as company income tax is assessed on the basis of net earnings in the previous financial year, and cannot be introduced retrospectively. However, with respect to the personal income tax system, the proposed reduction in the number of income tax bands has not yet been effected. Negotiations regarding the extension of the personal income tax to migrant mineworkers in South Africa have also stalled.

11. The Government has introduced and substantially strengthened a number of expenditure control measures, including: (a) a freeze on the growth in the civil service; (b) the introduction of an early retirement scheme for established civil servants; (c) the granting of only within-grade salary increases during 1989/90; (d) the reduction in the number of daily-paid workers by 500 during the year; and (e) improvement in controls at the disbursement stage regarding expenditure on other goods and services. Consequently, recurrent expenditure is expected to fall below the programmed target. Capital expenditure and net lending, however, is likely to exceed the targeted level, mainly on account of the unbudgeted purchase of two military transport aircraft. The implementation of hospital and irrigation projects was faster than planned, although construction of new roads experienced delays.

12. Increased electricity tariffs were implemented as planned. In January 1990, the Lesotho Electricity Corporation (LEC) introduced a 24 percent increase in electricity charges. This compares with a 14 percent increase implemented in South Africa on exports of electricity to Lesotho.

13. The Government, with the assistance of the United Nations Development Program (UNDP), has formulated a program to improve public

sector management. Although funding is still awaited for several components, substantial progress has been made regarding both the installation of a microcomputer-based personnel management system, and the provision of management training to civil servants. In 1989/90, some 500 civil servants attended short management training courses. In the area of budget management, a new computerized accounting system has been successfully introduced in the Ministries of Education, and Water, Energy and Mining, and is currently being extended to other ministries. A unified budget comprising estimates for both recurrent and capital expenditure was presented for the first time in 1989. However, the recurrent cost implications of capital projects are not yet fully taken into account as yet in the budgetary process. As the full benefits of the proposed budget management improvement system will not be felt for several years, the Government has introduced substantial improvements in the existing expenditure control system at the commitment stage.

14. The Government has continued to encourage the retention of savings within Lesotho by adjusting the domestic prime lending rate and the minimum savings deposit rate according to interest rate developments in South Africa. More specifically, the minimum rate on savings deposits increased from 14.5 percent in September 1988 to 15.5 percent by end-December 1989, while the prime lending rate increased from 19 percent to 20 percent over the same period. This compares with an expected inflation rate of 14.9 percent during 1989/90. The differential between Lesotho's prime lending rate and that of South Africa was down to 1 percentage point by end-September 1989. This represents a sharp departure from earlier years when the differential sometimes widened to as much as 3 percentage points. The Board of Trustees for the Miners' Deferred Pay Fund was appointed at the beginning of 1989/90. This body will ensure that more competitive interest rates are paid on migrant workers' deposits, thus stemming leakages from the fund. The export financing scheme, first launched in October 1988 has been maintained as a means of increasing the flow of credit to productive industrial investment and exports by reducing credit risks to commercial banks. Agricultural production and exports are also expected to increase as a result of the introduction of a revolving fund, financed by the United Nations Capital Development Fund (UNCDF), to provide short and long-term credit to farmers through the commercial banks.

15. With respect to sectoral developments, progress was mixed. Although the four grazing associations established under a USAID-funded project now represent about 30 percent of livestock holders, grazing fees have yet to be introduced on a per-animal basis. 1/ The Government, however, has formally recognized the need to introduce such a grazing fee system. The introduction of an amendment to the 1979 Land Act, giving legal recognition to informal land-leasing arrangements, has been delayed. However, as a first step, the Report of the Land Policy

---

1/ USAID, U.S. Agency for International Development.

Review Commission has been translated into Sesotho, and is being distributed at the village level to disseminate the Report's recommendations.

16. As noted above, foreign investment in domestic manufacturing continued to increase during 1989/90, while an acceleration in the implementation of the preliminary phase of the LHWP led to rapid growth in construction.

III. Macroeconomic and Structural Policies 1990/91-1992/93

Medium-term macroeconomic objectives and strategy

17. The Government's objectives during the program period are to sustain domestic growth with a view to expanding employment opportunities and improving living standards, while strengthening the economy's fiscal and external current account position. Over the period 1990/91-1992/93, increased emphasis will be placed upon: (a) raising production in agriculture and industry; (b) increasing both domestic saving and investment; (c) raising the rate of growth of employment; (d) placing more emphasis upon the social sectors within the allocation of future government expenditures; and (e) improving the overall capacity of the system of public administration, with special emphasis upon financial management and associated areas such as external debt management. The projected adjustment path remains broadly similar to that envisaged in the second year of the program, and fully takes into account the impact of the LHWP. The main assumptions regarding developments over the medium term are that: (a) migrant mineworker remittances will remain constant in real terms; (b) the LHWP will be implemented as envisaged at end-December 1989; (c) domestic prices will continue to move in line with price developments in South Africa; and (d) that existing SACU and Common Monetary Area (CMA) arrangements will be maintained. The target for real GDP growth is set at an annual average of 8.0 percent over the period 1990/91 through 1992/93, while gross investment as a share of GNP is targeted at an average of 50.2 percent over the same period, of which LHWP investment would comprise 20.5 percent. Similarly, national savings are targeted at an average of 47.4 percent of GNP. This reflects the substantial transfers to Lesotho associated with the financing of the water component of the LHWP.

18. Given the openness of the Lesotho economy and the lack of exchange rate flexibility vis-à-vis the rand, the scope for conducting independent monetary policy is very limited. Fiscal policy is therefore the primary means available to the Government to control domestic absorption. To consolidate further upon improvements in the external position made during 1989/90, the Government recognizes that to achieve a satisfactory current account position over the medium term, and to achieve a more comfortable level of foreign exchange reserves, it will be necessary to reduce further the fiscal deficit as a proportion of

GDP. This proportion is thus targeted to fall from an estimated 6.1 percent (3.3 percent of GNP) in 1989/90 to a surplus of 5.0 percent (3.0 percent of GNP) in 1992/93. This is fully consistent with the Government's objective of reducing the external current account deficit (including unrequited transfers, and those associated with the LHWP) from an estimated 3.9 percent of GNP in 1989/90 to 1.7 percent in 1992/93. Net official reserves are expected to rise to a level equivalent to 11.3 weeks of imports by the end of the program period. As further nonconcessional borrowing by the public sector is to be strictly limited, debt service expressed as a proportion of exports of goods and services should fall to 3.0 percent by the end of 1992/93.

Fiscal policy

19. The Government will amend three revenue measures in 1990/91. *First, with regard to the company income tax, following the* recommendations of the World Bank study on Fiscal Incentives for Investment in Lesotho, the present system of six-year tax holidays will be abolished, and the present rate of 37.5 percent on manufacturing companies will be replaced by a no-exemptions rate of 15 percent. Present beneficiaries of tax holidays will be given the option of either immediately switching over to the lower tax rate, or maintaining the holiday and then moving to the present rate of 37.5 percent. The present rate will continue to apply to those firms that have benefited from a tax holiday in the past. This will: (a) generate an immediate increase in tax revenues, while leaving revenues as calculated on a present-value basis unchanged; (b) leave intact the net investment incentives provided to foreign-owned companies and indigenous enterprises; and (c) remove the administrative burden associated with the present system of tax holidays. Second, the Government will strengthen the enforcement of individual income tax on self-employed persons, including traders. As an additional safeguard against revenue losses, the Government will increase traders' license fees, which, in the future, will be renewed only upon production of evidence of a tax clearance. Third, the present system of assessing and collecting tax on the preceding year's profits will be replaced by a current basis of assessment, under which companies will be required to pay tax for each quarter on estimated profits with a final adjustment of tax liability based on actual profits. However, in order to ease the liquidity impact of paying the tax on two years' profit within a single year (1990/91), the actual payment of tax for the preceding year (1989/90) will be spread over three years. In the early part of 1990/91, the number of individual income tax bands will be reduced from nine to five with minimal variation in tax revenue. The income tax system will be also further simplified by reducing the number of abatements from seven to two. Cost recovery in health services will be increased from its present level of about 12 percent to 15 percent by mid-1992/93. The Government will continue to pursue the possibility of extending personal income tax to migrant mineworkers in South Africa. Tax administration will be strengthened to ensure that tax obligations arising from the implementation of the LHWP and related activities are fully collected.

While receipts from sumptuary taxes have increased as a result of rate increases implemented in June 1989, there appears to be a slowdown in the rate of growth of production and employment in the beer industry, with an associated increase in smuggling. The sales tax on beer will reviewed in the light of this situation.

20. Policies to restrain the growth of current expenditures remain much the same as in the previous PFP. The Government will continue to limit civil service recruitment and will encourage early retirement of civil servants. However, staff levels will be increased in the essential technical, professional and managerial areas. The wage and salary bill of the Central Government will not increase faster than the targeted growth in nominal GNP over the program period, although real expenditure on salaries of essential technical, professional, and managerial levels should increase over the period. Expenditure on other goods and services will be restrained, to grow at a rate no faster than that targeted for the GNP deflator over the program period.

21. The Government will continue to reduce transfers to parastatals through its efforts to improve efficiency and by ensuring that cost increases are passed on to consumers through higher tariffs. In particular, tariff increases by the South African Electricity Supply Commission will continue to be reflected in corresponding tariff adjustments by the Lesotho Electricity Corporation. Moreover, through appropriate pricing policies, efforts will be made to transfer responsibility for financing capital expenditures to all public enterprises.

Economic and financial management

22. The Government has embarked upon a comprehensive program of remedial measures to improve public sector management and strengthen links between economic planning and public expenditures. The central problems associated with public administration in Lesotho and the various components of the program are described in the previous paper (SecM89-581).

23. The civil service reform component of the program aims to establish basic internal management consulting capabilities (Management Analysis Units) in the Ministry of Public Service and in selected core ministries (Health, Finance, and Agriculture). These functions will be augmented through further development of the computerized Personnel Management Information System, and through further training of managers and support personnel. Although some elements of the civil service reform are already under way with the assistance of the Swedish Agency for International Development (SIDA) and USAID, the remaining components are expected to be financed by the United Nations Management Development Programme and executed by the United Nations Directorate of Technical Cooperation and Development (UNDTCD) with the cooperation of the World

Bank and various donors. The civil service reform, including a full review of grading and classification, should be fully implemented by the middle of 1992.

24. The two remaining components of the overall program are the strengthening of public sector financial management and the development of a parastatal monitoring system. With the assistance of an advance from the World Bank's Special Project Preparation Facility (SPPF), the Government is designing a program with the following aims: (a) to extend the existing pilot budget management program to both the recurrent and development budgets of all ministries; (b) to strengthen ancillary systems, such as debt management, asset management, and internal control and audit; and (c) to improve the technical proficiency of the financial management cadre through the implementation of a suitable training program. The Government will seek donor funding for the financial management improvement component, which should begin during 1990/91. In furthering the preparatory work currently being undertaken at the Central Bank of Lesotho, a parastatal monitoring system will be established no later than end-September 1990.

25. As the impact of the financial management improvement program will not be felt fully until toward the end of the program period and beyond, the Government will take further short-term measures. These are: (a) the maintenance and strengthening of the interim expenditure control system 1/ through a shortening of the time lag incurred in the reporting of budgetary data to no more than six weeks; (b) the preparation and subsequent maintenance over the program period of an annually updated three-year public investment program; and (c) an improvement in the compilation of debt information and in the management of external debt.

26. The Government is concerned about deriving maximum benefit, in terms of the equitable development of Lesotho, from the expected royalty benefits associated with the LHWP. In view of existing weaknesses in the system of budgetary management, the Government therefore intends to set up a special development fund, fully under its own control, within which LHWP-related revenues could be set aside from other government revenues. Both revenues and expenditures associated with the fund would be fully integrated into the budgetary process. With the assistance of a study funded by the European Economic Community (EEC), the Government will examine the relevant guidelines for: (a) setting aside some LHWP-related revenues for development-oriented programs and projects; (b) coordinating expenditure of LHWP revenues with other central budget revenue and expenditure; (c) selecting activities to be funded with LHWP revenues; and (d) external investing of accumulated funds. The Government expects to identify the structure of the development fund early in 1990/91 and to create the fund later in the same year.

1/ This system was described in the previous paper, SecM89-581.

Public sector investment

27. As indicated under the existing public investment program (PIP) covering the period 1986/87-1990/91, the allocation of development expenditure during recent years reflected a heavy focus upon the provision of new economic infrastructure, and this will continue during 1990/91. The Government is preparing a new three-year PIP in which 1990/91 will be the first year. In future, the PIP will be updated annually on a three-year rolling basis, and will be integrated in the Fifth Five-Year Development Plan covering the period 1991/92-1995/96. Expected expenditures associated with the LHWP development fund will be incorporated in the PIP once the fund begins to operate. Although, implementation of construction of the Oxbow-Mokhotlong road will be an important development during 1991/92 and 1992/93, the PIP will otherwise emphasize investments in the social sectors over the construction of new roads. Road maintainance and improvements to existing routes will be given higher priority. Total government investment will grow in real terms at an average annual rate of around 4.5 percent over the program period. In the parastatal sector, capital expenditure will be dominated by investment arising from the implementation of the LHWP. A substantial investment program also will be undertaken by the LEC, which will both support increased private industrial investment and ensure that electricity generated by the LHWP-constructed hydroelectric power installation will be distributed efficiently.

Monetary and financial policies

28. To be consistent with the aim of improving the external current account deficit, the rate of domestic credit creation will be restricted to that compatible with the projected rates of economic growth and inflation, and the targeted increases in net official foreign exchange reserves. To encourage the retention of savings within Lesotho, the Government will continue to adjust appropriately the prime lending rate and minimum savings deposit rate according to interest rate developments in South Africa, while ensuring that interest rates are positive in real terms. Following the recommendations of the World Bank-assisted Financial Sector Review, the authorities will rationalize further the structure of interest rates in Lesotho by: (a) removing all tax exemptions on earnings from lending to the Government, such as interest on government bonds; and (b) using the yield curve prevailing in South Africa as an indicator for establishing the issue yield on government bonds. Setting net-of-tax yields on government bonds at lower and more realistic levels should generate an additional net gain for the Government. To partially counteract the existing oligopolistic structure of the banking system in Lesotho, the Central Bank of Lesotho will require more public disclosure of banks' charges and fees, and implement its proposed strengthening of its on-site supervision capacity. The problem of surplus liquidity in the banking system will be addressed by the encouragement of a higher flow of financial resources from the commercial banking system into productive investment. To this end, the Government will expand the export

financing scheme and encourage the Lesotho National Development Corporation to prepare a program of selling equity in its mature companies.

Agricultural policies

29. The Government's agricultural objectives and policies continue to be the same as described in the last PFP (SecM89-581). The Government's agricultural strategy revolves around improvements in the land use system and range management; forestry development; improvements in marketing and distribution facilities and extension services; increased research aimed at improving farming and land management systems and developing a greater variety of suitable crops, especially high-value crops, and appropriate farming and crop disease control techniques; and greater emphasis on intensive rather than extensive livestock development in the lowlands.

30. Existing law does not recognize informal land-leasing arrangements and, as a result, land tends to be cultivated only by farmers with traditional user rights rather than by those with the greatest farming skills. In light of a recent review of the 1979 Land Act, the Government will give legal content to the evolving practice of land-leasing arrangements under which the traditional allottee of the land maintains title to it while receiving payment for allowing others to farm it. The registration of such informal leasing arrangements will be made by an appointee of the local village development council. With regard to animal husbandry, the Government is preparing legislation that will authorize the village development councils to institute range user (grazing) fees. These fees will be collected annually by the village development councils, and the revenue used to finance improvements on the range. The enabling legislation regarding both the modifications to the 1979 Land Act and the introduction of the grazing fees will be enacted during 1990/91. It is expected that collection of grazing fees will begin in October, 1991.

31. There is currently a lack of awareness on the part of village development councils as to the purpose behind these measures, and a lack of local capacity to implement them. The Government will therefore institute a training program for village council delegates, which will be applied sequentially across rural areas. The legislation can then be implemented in each area as local capacity reaches a satisfactory standard.

32. Under the National Livestock Policy Implementation Plan, the Government aims to reduce overgrazing from its current estimated level of 50 percent to 40 percent by 1994. This is to be achieved through a 3 percent reduction in livestock numbers and a 7-8 percent increase in rangeland carrying capacities. As the introduction of grazing fees has been postponed, alternative activities are immediately required. To address this need, the Government will maintain and strengthen four other existing programs. These are: (a) the culling program, currently

covering 22,000 farmers over three districts, under which substandard sheep and goats are removed from the range after identification by the authorities; (b) the smallstock exchange program, under which two high quality sheep or goats are exchanged for two cull animals; (c) the National Rangelands Adjudication Program, which monitors use of individual areas by cattle-owners and readjudicates on cattlepost grazing rights to specific groups of users; and (d) the National Range Management Area Program, which supports the creation of new grazing associations. The Government also will provide greater infrastructural support for marketing and meat processing. The scope and level of grazing fees will be evaluated in the light of the success of these measures. As a prerequisite to the introduction of such fees, a national livestock inventory will be conducted, under which all livestock owners will be required to register livestock with their respective village development councils on an annual basis.

33. In crop agriculture, as before, the primary emphasis in the medium term will continue to be on promoting production of vegetables and food crops to replace imports, and export of high-value horticultural crops. The Government and the LNDC will also continue to explore the potential for private investment in additional horticultural processing plants. The privatization of agro-based industries will also be explored and encouraged.

Industrial policies

34. The Government's industrial policies will continue to focus on industrial production with an export orientation--e.g., textiles, processed wool, and mohair products--as well as industries and services stimulated by the LHWP construction (see SecM88/153). The Government intends, however, to undertake a series of policy reforms intended to improve the incentives for both private sector industrial and agro-industrial investment. These reforms will include: (a) a streamlining of work permit processing under which the Ministry of Employment would guarantee the approval of permits for key management staff of foreign-owned enterprises; (b) increasing land availability for industrial development by establishing a new unit in the LNDC, the Investment Promotion Centre (IPC), which will facilitate access to land either through the LNDC itself, or independently provided by the Ministry of Trade and Industry for private development on the basis of a 40 year sublease; (c) ensuring that LNDC policies regarding equity participation are totally flexible, and in particular, removing the existing requirement that LNDC retain a majority ownership regarding joint ventures in natural resource-based industries; and (d) regularly reassessing the level of both the sales tax on public utilities and the minimum wage to reduce the impact of large unanticipated increases in labor and other costs, and to protect Lesotho's competitive position in the region. In addition to these measures, the replacement of the tax holiday with a lower no-exemptions tax rate should reduce administrative difficulties associated with the present system. A six-year investment plan has been completed recently by the LEC, which will permit a

substantial expansion in power connections to industrial premises. Future investments in telecommunications infrastructure will also support industrial investment.

35. In addition to its land allocation function, the IPC will promote foreign direct investment by providing investment counselling services, by providing a "one-stop" service center to obtain permits, and by providing post-investment services and assistance to established foreign firms. It will also encourage linkages between foreign businesses and indigenous enterprises. A new Business Advisory and Promotion Service (BAPS) will be established in the Ministry of Industry. The BAPS will promote the development of indigenous investors by both: (a) providing advisory services and coordinating training programs in business skills; and (b) promoting contract linkages taking advantage of opportunities presented by the LHWP. The BAPS will be, therefore, a key institution in assisting the Government's objective of promoting small-scale enterprises. The qualified staffing for both the IPC and the BAPS will be funded initially by the proposed IDA-funded Industrial and Agro-Industries Development Project. The LNDC, the principal industrial sector finance company, is likely to face increased demand for its services, given the growing interest on the part of foreign investors and the stimulated domestic activity in connection with the LHWP. The corporation also faces more pessimistic prospects regarding concessional finance from abroad than before. It is therefore intended that LNDC will assume the role of a venture capital company, both raising and lending funds on commercial terms. The proposed equity issue, discussed above, represents a first step in this direction.

External policies

36. With respect to the external sector, the Government will continue to review periodically the structure of incentives offered to potential investors with a view to promoting import-substitution and export activities, including the recently established export financing scheme for export-oriented firms. Efforts to promote export-oriented and import-substitution investment are constrained by the competition and financial incentives available from its more developed neighbor. However, the Government intends to continue its policy of encouraging industries using domestic raw materials (agro-industries) and assembly-type operations to locate in Lesotho. This policy centers mainly on the provision of factory shells on an economic cost recovery basis, and will be reinforced by the establishment of the IPC and the BAPS. These projects should promote additional net export receipts and, in conjunction with programmed monetary and fiscal policies, should help to improve the external current account. Debt service payments, a further source of pressure on the balance of payments, will be reduced by the imposition throughout the program period of strict limits on new external nonconcessional borrowing contracted by the public sector including parastals, except that which is guaranteed and is to be repaid by South Africa as required for the LHWP water transfer component. Lesotho will continue to avoid recourse to exceptional financing.

Social sector policies

37. In view of the country's limited physical resource base, the Government has given emphasis to human resources as part of its development strategy. This strategy calls for the reform and revitalization of the national education and training system, with the particular aim of developing a better educated and skilled labor force, and also stresses improvements in the population, health and nutrition sectors. While Lesotho's literacy rate and primary school enrollments are among the highest in Africa, as a result of a strong partnership between the Government, nongovernmental organizations (NGOs), and the community, there is concern regarding the quality of primary education, particularly with respect to oversized classes, high dropout rates and high repeat rates. To address these problems, the Government is preparing a program with the assistance of the World Bank, which will: (a) significantly improve the quality of primary education; and (b) increase the relevance of post-secondary education and training to accord better with national development requirements. The implementation of this program will require a significant increase in both real capital and real recurrent expenditures devoted to education over the medium term. To ensure consistency with these objectives, the share of education in recurrent public expenditures (net of interest) will increase from its existing level of about 22 percent to 25 percent by the end of 1992/93. This is consistent with a 4.6 percent real average annual increase in recurrent educational expenditures over the period, 1990/91 to 1992/93.

38. With respect to the areas of population, health, and nutrition, the Government, with the assistance of IDA and numerous other donors, and with extensive support from local NGOs, is implementing a series of active programs. These include: (a) the provision of family planning services through most hospitals and some clinics; (b) improved health care provision, particularly in rural areas; (c) measures to reduce the incidence of major infectious diseases, including tuberculosis, sexually transmitted diseases, and AIDS; and (d) monitoring and clinic-based feeding programs aimed at reducing the rate of infant malnutrition. However, although such services are being expanded substantially, it is intended also that they be provided more efficiently. The share of health in recurrent expenditure (net of interest) by the Government will be increased modestly from its present level of about 9 percent into the range 10-11 percent.

Labor policies

39. Lesotho faces a growing imbalance between the growth in its labor force and its capacity to provide productive employment opportunities. The latest labor force survey, conducted during 1985/86, indicates that the unemployment rate was about 23 percent in both the rural and urban areas. Although the LHWP is expected to mobilize a work force of some 5,500 by 1994, and ancillary service activities will provide more than 2,000 extra jobs, this must be viewed in a context in which about 20,000

persons enter the labor market each year. The Government is very concerned about this problem, and will intensify its efforts to provide both labor-intensive rural development through its agricultural policies, and additional jobs through industrial development. Additional relevant measures to be adopted include: (a) the establishment of a construction workers' training program supervised by the Lesotho Highlands Development Authority aimed at maximizing the employment of Basotho on the LHWP; (b) regular reassessment of legal minimum wage levels in the light of prevailing labor market conditions; (c) the promotion of small-scale enterprises through the extension of credit and the establishment of the BAPS; and (d) through continued provision of training in vocational skills by the Lesotho Opportunities Industrial Center and by the Basotho Enterprises Development Corporation (BEDCO).

40. Skilled labor shortages are appearing as skilled workers are attracted away from government employment and donor-aided projects to jobs related to the LHWP and to employment opportunities in South Africa. The ongoing IDA-funded Fourth Education Project is helping to relieve this situation by providing education abroad in engineering and other technical disciplines for Basotho undergraduates, and by funding temporary expatriate appointments in government ministries. In the medium to longer term, the salaries of highly experienced and skilled government employees will be regularly reviewed as part of the civil service reform.

IV. Environmental Action

41. The Government has recently adopted a National Environmental Action Plan. The Plan identifies the country's main environmental problems as including: (a) overgrazing and poor range management; (b) soil erosion and loss of fertility; (c) loss of unique natural and historical resources; (d) the impact of unplanned urban expansion; and (e) urban pollution. To provide an institutional base from which to address these problems, the Government is considering proposals regarding the establishment of a supervising body that, with the assistance of the World Bank, will review existing legislation regarding environmental protection.

42. Several elements of the Government's policy framework will have positive environmental implications. The implementation of grazing fees and improved land management following the legal recognition of informal leasing arrangements will help both to slow down soil erosion and improve soil fertility. An ongoing IDA-funded Land Management and Conservation Project is also helping local communities to formulate their own land use plans for sustainable agricultural development. Complementary efforts are also being made by other donors. The training programs envisaged for village councillors will not only be an essential prerequisite for the success of these initiatives, but also will increase awareness regarding the implications of local environmental

issues. An important attempt will be made to address the problems of unplanned urban expansion and urban pollution under the IDA-funded Urban Sector Reorientation Project. Finally, the Environmental Action Program to be implemented under the LHWP will include action in the areas of rural development impact, conservation, and cultural heritage, while compensation will be given to those whose homes and agricultural land are displaced by the project.

V. Social Impact

43. The program will help the poorer sections of the population in two ways: by allowing higher consumption per capita growth than would prevail in the absence of the productivity-raising aspects of the program; and by redistributing incremental income more equitably. The adverse effects of the program so far have been felt by a relatively small number of government employees who have been laid off and have not yet found alternative employment. A reduction in the number of government vehicles may also have limited the expansion of health care, particularly in rural areas. The land reforms outlined earlier will offer advantages to some current traditional allottees by allowing them to receive rent on their smallholdings, while working for wages on larger farms. Female heads of households in rural areas are particularly likely to benefit from these new alternatives and will gain greater security from the establishment of the right to land title. Likewise, the emphasis on cost recovery in infrastructural and social sectors should be redistributive as such charges will fall mainly upon urban communities, whose incomes are higher than those in rural areas. Measures proposed for enhanced cost recovery in health services will include continued exemptions for low-income groups. The Government has recognized the need to protect vulnerable groups within the economy from the effects of increased taxation. To this end, the sales tax exempts basic foods and other items that weigh heavily in the budgets of the poor. Food security will be maintained over the program by the continuation of the national food shortage early warning system, which facilitates prompt procurement of regional supplies where they exist. School supplementary feeding programs will be continued in all primary schools and in some secondary schools in highland areas.

VI. External Financing Requirements

44. In view of the existing resource constraints and projected higher levels of investment and imports needed to achieve the Government's growth objective, Lesotho will require larger amounts of foreign financing than in the past. In particular, a substantial increase in concessional lending will be required to finance the hydroelectric component of the LHWP from 1992/93 onward. A portion of this financing will initially need to be allocated to increasing reserves to a more comfortable level of 11.3 weeks of imports by the end of 1992/93, although reserves are projected to rise to 14.5 weeks of imports by the

end of 1994/95, given increased SACU receipts. This is important in light of foreign exchange risk arising from uncertainties about the future value of the rand, the existing liberal trade and payments system, and the dependence of Lesotho's balance of payments on migrants' remittances and SACU compensatory receipts, which are extremely volatile. This liberal trade and payments system is desirable and should be maintained.

45. During the period 1990/91-1992/93, gross capital inflows and official transfers of about SDR 474 million will be required, of which about SDR 130 million is expected from SACU rebates (Table 3). However, as a result of measures that will be introduced during the program period, including policies to attract more private foreign investment, all of the remaining financing requirement is expected to be obtained. In particular, the European Economic Community and the African Development Bank are expected to contribute substantially to the financing of the hydroelectric component of the LHWP. Additional resources could eventually be absorbed as the country's capacity to implement improves. The World Bank (IDA) will provide about SDR 32 million from ongoing projects (including pre-investment expenditures on the Lesotho Highlands Water Project) and the Fund, about SDR 3 million, through the structural adjustment facility. In 1990/91, gross inflows excluding SACU revenues of SDR 97.9 million will be required, of which the World Bank will provide about SDR 15.4 million. Of the remaining amount, some SDR 61.4 million had been committed by other donors at end-March 1990, and about SDR 7.7 million is expected from new commitments; about SDR 10.4 million is expected from private investment, and SDR 3.0 million, from the Fund.

46. Lesotho's external debt service is expected to fall to 4.0 percent of exports of goods and services in 1990/91, and to fall further to 3.0 percent by the end of the program period.

Table 1. Lesotho: Structural Adjustment Facility--Policy Framework Paper Key Indicators, 1984/85-1992/93

(In percent, unless otherwise indicated)

	1984/85	1985/86	1986/87	1987/88 Est.	1988/89 Est.	1989/90 Prov.	1990/91 Proj.	1991/92 Proj.	1992/93 Proj.
GDP growth rate	3.6	2.6	2.3	8.4	9.8	6.8	9.3	8.8	6.9
GNP growth rate	0.8	-3.6	1.5	5.3	5.8	5.5	6.0	5.2	4.3
GNP per capita growth rate	-1.8	-6.1	-1.0	2.6	3.2	2.8	3.3	2.6	1.6
GNY per capita growth rate	-2.6	-6.5	-0.9	2.5	2.9	2.9	3.3	2.5	1.6
Final consumption per capita growth rate	-3.3	-7.6	-4.8	8.3	1.6	-1.2	2.0	1.5	2.1
Of which: private	-3.5	-10.1	-5.1	10.2	0.4	1.2	2.5	1.4	1.9
Debt service (in millions of US$)	23.1	17.8	14.1	15.9	21.2	25.5	23.5	21.5	19.2
Debt service/Exports of goods and services	6.5	6.2	3.7	3.5	4.5	5.0	4.0	3.6	3.0
Debt service/GDP	6.7	6.2	3.7	4.1	5.1	5.3	4.1	3.4	2.7
Gross investment/GNP	24.5	28.1	25.6	26.9	31.4	37.8	53.3	51.2	58.3
Private investment/GNP 1/	17.3	21.1	18.6	19.8	21.5	21.0	20.8	22.0	22.9
Public investment/GNP	7.2	7.0	7.0	7.1	7.2	7.6	7.9	7.9	8.2
LHWP investment/GNP	--	--	--	--	2.8	9.2	24.6	21.3	27.2
National savings/GNP 2/	25.6	25.5	25.5	19.8	24.8	33.9	51.0	48.6	56.0
Private savings/GNP 1/	18.1	19.6	20.8	15.9	17.7	15.8	16.5	17.3	15.7
Public savings/GNP 3/	7.5	5.9	4.7	3.9	4.3	8.9	10.3	10.2	14.8
LHWP transfers/GNP	--	--	--	--	2.8	9.2	24.3	21.2	25.4
Government revenues/GDP 3/	48.8	50.9	52.0	46.0	45.7	49.2	48.2	45.3	50.4
Government expenditures/GDP	52.8	62.9	65.6	66.4	63.5	55.3	51.5	48.6	45.5
Deficit (-) or surplus (+)/GDP 3/	-4.0	-11.9	-13.6	-20.4	-17.8	-6.1	-3.3	-3.3	5.0
Deficit (-) or surplus (+)/GNP 3/	-1.9	-6.2	-6.9	-10.6	-9.7	-3.3	-1.9	-1.9	3.0
Retail price index (1989=100)	54.9	63.2	73.0	81.9	92.0	105.7	120.9	138.7	157.6
Real exchange rate (1985=100)	101.3	99.4	97.6	96.3	95.4	96.3	96.3	96.3	96.3
Export growth rate (real)	-0.1	-0.1	27.8	18.9	40.0	-2.9	9.0	10.0	9.0
Exports of goods and services/GDP	124.3	113.6	121.8	118.2	112.4	106.4	101.6	95.2	90.8
Import growth rate (real) 4/	2.0	-6.4	-5.9	11.4	2.9	2.7	5.4	3.1	2.2
Consumer and intermediate goods imports	-0.3	-9.1	-5.2	11.4	1.1	2.2	5.4	2.5	1.4
Capital goods imports	20.4	11.2	-9.8	11.4	12.7	5.4	5.5	6.4	6.4
Imports of goods and services/GDP	-162.7	-152.3	-146.7	-153.1	-145.0	-145.8	-155.4	-143.8	-149.0
Goods and services balance/GDP	-38.4	-38.7	-24.9	-34.9	-32.6	-39.4	-53.9	-48.6	-58.2
Current account (incl. off. transf.) (in millions of US$)	6.4	-12.7	-1.1	-53.2	-50.8	-33.9	-23.1	-27.9	-27.5
Current account (excl. off. transf.) 5/ (in millions of US$)	-107.7	-95.7	-84.5	-142.8	-142.8	-187.6	-365.2	-358.0	-473.5
Current account (incl. off. transf.)/GDP	2.2	-5.0	-0.3	-13.8	-12.2	-7.1	-4.0	-4.4	-3.9
Current account (incl. off. transf.)/GNP	1.1	-2.6	-0.2	-7.1	-6.6	-3.9	-2.3	-2.6	-2.4
Current account (excl. off. transf.)/GDP	-37.4	-37.8	-27.1	-37.0	-29.1	-22.4	-20.8	-20.5	-25.4
Current account (excl. off. transf.)/GNP	-18.4	-19.6	-13.7	-19.2	-15.8	-12.3	-11.7	-12.0	-15.2
Net off. reserves in weeks of imports 4/	7.6	10.1	8.2	5.6	4.1	3.7	5.4	7.3	11.3

Sources: Data provided by the Lesotho authorities; and staff projections.

1/ Excluding the Lesotho Highlands Water Project (LHWP).
2/ Including unrequited transfers (official, private, and LHWP).
3/ Including grants.
4/ Excluding imports associated with the LHWP.
5/ Exclusive of LHWP and other official transfers.

TABLE 2. LESOTHO: SUMMARY AND TIME FRAME FOR MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1990/91-1992/93

Policy	Objectives and Targets	Strategies and Measures	Timing of Measures
1. Agricultural policy reform	Expand and diversify domestic production.	Improve agricultural extension services to promote the production and marketing of main staple cereals and high-value crops; and encourage use of efficient agricultural management techniques.	Ongoing.
		Determine potential and take steps to attract new investment in horticultural processing plants, satellite refrigerator units, and marketing facilities.	Ongoing.
		To improve livestock productivity by encouraging commercial and controlled production through creation of additional grazing associations.	Ongoing.
		CONDUCT NATIONAL LIVESTOCK INVENTORY.	April to October 1990.
		COMMENCE CATTLEPOST ADJUDICATION.	End-April 1990.
		CONDUCT NATIONAL LIVESTOCK CULLING PROGRAM.	Ongoing.
		CONDUCT SMALLSTOCK EXCHANGE PROGRAM.	Ongoing.
		INTRODUCE GRAZING FEES.	October 1991.

Table 2. (continued) LESOTHO: SUMMARY AND TIME FRAME FOR MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1989/90-1991/92

Policy	Objectives and Targets	Strategies and Measures	Timing of Measures
2. Industrial policy	Expand manufacturing production.	Maintain an export-financing scheme to supplement the existing investment incentives.	Ongoing.
		ESTABLISH AN INVESTMENT PROMOTION CENTER TO PROMOTE FOREIGN INVESTMENT.	1990/91.
		ESTABLISH A SEPARATE SERVICE TO PROMOTE INDIGENOUS INVESTMENT.	1990/91.
		INCREASE LAND AVAILABILITY FOR INDUSTRIAL DEVELOPMENT.	1990/91, onward.
		Streamline procedures for granting work permits to key expatriate staff of foreign-owned enterprises.	1990/91.
		Review minimum wage levels more regularly.	Ongoing.
3. Land policy	Improve system of land allocation and increase efficiency in its utilization.	IMPLEMENT LAND POLICY REVIEW COMMISSION RECOMMENDATIONS BY RECOGNIZING LEGALLY AND ENCOURAGING MORE OPEN LEASING ARRANGEMENTS FOR AGRICULTURAL LAND.	End-December 1990.
		DESIGN AND IMPLEMENT TRAINING PROGRAMS TO ENABLE VILLAGE COUNCILS TO IMPLEMENT GRAZING FEES AND LAND REFORM MEASURES.	1990/91, onward.

Table 2. (continued) LESOTHO: SUMMARY AND TIME FRAME FOR MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1989/90-1991/92

Policy	Objectives and Targets	Strategies and Measures	Timing of Measures
4. External sector	Reduce external debt service.	RESTRICT THE CONTRACTING OR GUARANTEEING OF NONCONCESSIONAL EXTERNAL DEBT BY THE PUBLIC SECTOR (EXCEPT THAT GUARANTEED AND TO BE REPAID BY THE RSA, AS FOR THE LESOTHO HIGHLANDS WATER PROJECT).	Ongoing
5. Parastatal reform	Promote the efficiency of the parastatal and reduce government intervention and subsidies.	Prepare a government policy regarding the parastatal sector, including criteria for decisions regarding retention and divestiture of parastatals and government financing of those to be retained.	1990/91.
		Reduce subsidies to parastatals through improvement of their operations and adjustments to tariffs in order to enable them to cover their current costs and recoup some of their capital costs.	Ongoing.
		DEVELOP THE PARASTATAL MONITORING SYSTEM BY REQUIRING THAT ANNUAL REPORTS APPLYING APPROPRIATE CRITERIA AND PERFORMANCE INDICATORS, BE SUBMITTED ANNUALLY TO THE GOVERNMENT.	1990/91 onward.
		INCREASE TARIFFS TO ENABLE LEC TO HELP COVER FUTURE CAPITAL INVESTMENTS.	Ongoing.

Table 2. (continued) LESOTHO: SUMMARY AND TIME FRAME FOR MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1989/90-1991/92

Policy	Objectives and Targets	Strategies and Measures	Timing of Measures
		Under terms of IDA-financed urban project, rationalize housing sector institutions, and increase private sector financing of housing.	Ongoing.
6. Fiscal policy.	Achieve a substantial improvement in Government's fiscal operations, including grants.	IMPROVE REVENUE PERFORMANCE AND PURSUE A TIGHT CURRENT EXPENDITURE POLICY.	Ongoing.
a. Revenue and cost recovery.	Improve revenue and cost recovery performance.	IMPROVE COLLECTION OF INCOME TAX BY SIMPLIFYING THE INDIVIDUAL INCOME TAX THROUGH A REDUCTION IN THE NUMBER OF TAX BRACKETS.	End-June 1990.
		Improve cost recovery in economic and social services (health, education, housing, and utilities) with offsetting subsidies targetted for lowest income consumers.	Ongoing.
		With respect to company income tax, abolish tax holidays and introduce a lower no-exemptions tax rate.	1990/91.
		Strengthen enforcement of individual income tax on the self-employed.	1990/91.
		Revise system of assessing conmpany income tax.	1990/91.
		Raise rate of cost recovery in health services to 15 percent.	Mid-1992/93.

Table 2. (continued) LESOTHO: SUMMARY AND TIME FRAME FOR MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1989/90-1991/92

Policy	Objectives and Targets	Strategies and Measures	Timing of Measures
b. Expenditure	Pursue a tight current expenditure policy.	Rationalize public expenditure to ensure efficient use of available resources including maintenance of essential infrastructure and social services.	Ongoing.
		RATIONALIZE CIVIL SERVICE WAGE AND EMPLOYMENT STRUCTURE TO ALLOW ESSENTIAL TECHNICAL AND MANAGERIAL POSTS TO BE FILLED.	Throughout the program period.
		INCREASE IN NOMINAL WAGES AND SALARIES IN THE CENTRAL GOVERNMENT TO BE LIMITED TO ANTICIPATED INCREASES IN NOMINAL GNP.	1990/91, onward.
		REDUCE RECURRENT EXPENDITURE BY RESTRAINING THE GROWTH OF THE CIVIL SERVICE AND BY REDUCING EXPENDITURE ON OTHER GOODS AND SERVICES, IN PARTICULAR, TRAVEL EXPENSES, TELEPHONE CHARGES, RENTS, FUEL AND LIGHT, EXPENDABLE AND DURABLE GOODS, AND EQUIPMENT FOR MILITARY PURPOSES.	Ongoing.
7. Civil service improvement	Improve efficiency and effectiveness of the public sector.	Carry out a full inventory of government employees (excluding parastatals) and a review of their functions.	End-December, 1990.
		IMPLEMENT CIVIL SERVICE REFORM PROGRAM.	Ongoing.

Table 2. (continued) LESOTHO: SUMMARY AND TIME FRAME FOR MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1989/90-1991/92

Policy	Objectives and Targets	Strategies and Measures	Timing of Measures
		CONDUCT A REVIEW OF CIVIL SERVICE GRADING AND JOB CLASSIFICATION.	End-March 1992.
		ESTABLISH MANAGEMENT ANALYSIS UNITS IN THE MINISTRIES OF AGRICULTURE, FINANCE, AND HEALTH.	End-December 1990.
8. Economic and financial management policies	Improve capacity to monitor and control public expenditure.	DESIGN AND IMPLEMENT A SYSTEM FOR LINKING SECTOR-SPECIFIC PLANS TO NATIONAL PLANNING AND LINKING NATIONAL PLANNING TO BUDGET PREPARATION. ALSO DESIGN A SYSTEM FOR MONITORING EXPENDITURE IN RELATION TO THE BUDGET.	1990/91, onward.
		MAINTAIN AND STRENGTHEN INTERIM SYSTEM TO SET BUDGETARY PRIORITIES FOR CURRENT EXPENDITURES AND TO MONITOR AND CONTROL SUCH EXPENDITURES.	1990/91.
		Prepare and maintain a rolling three-year government investment program.	1990/91, onward
		Strengthen debt management system.	1990/91, onward
		IDENTIFY STRUCTURE OF DEVELOPMENT FUND TO ADMINISTER LHWP ROYALTY PAYMENTS.	1990/91.
		ESTABLISH LHWP DEVELOPMENT FUND.	1990/91.

Table 2. (concluded) LESOTHO: SUMMARY AND TIME FRAME FOR MACROECONOMIC AND STRUCTURAL ADJUSTMENT POLICIES, 1989/90-1991/92

Policy	Objectives and Targets	Strategies and Measures	Timing of Measures
9. Monetary and credit policies	Increase credit to the private sector, while reducing net government borrowing from the banking system.	Operate export credit facility and remove legal restrictions that inhibit debt recovery with a view to minimizing constraints to bank lending.	Ongoing.
		REMOVE TAX EXEMPTIONS ON EARNINGS FROM GOVERNMENT BONDS.	End-December 1990.
	Discourage short-term capital outflows and mobilize domestic savings.	Maintain minimum deposit and prime lending rates in line with those in South Africa.	Throughout the program period.
		Use yield curve prevailing in South Africa as indicator for establishing issue yield on government bonds.	1990/91, onward.
		Introduce new financial instruments.	1990/91.
10. Social sector policies	Improve quality and efficiency of delivery in education and health.	INCREASE THE SHARES OF EDUCATION AND HEALTH IN RECURRENT GOVERNMENT EXPENDITURE.	Throughout the program period.
11. Labor policies	To expand productive employment.	Implement regular reviews of minimum wages in the light of labor market conditions.	Ongoing.
		Introduce training scheme for indigenous workers on the LHWP.	1990/91.
		Maintain existing vocational training schemes.	1990/91.
12. Environmental policies	To monitor environmental conditions and implement appropriate measures.	Establish a supervisory body to review environmental legislation.	1990/91.

Table 3. Lesotho: External Financing Requirements, 1988/89-1992/93

(In millions of SDRs)

	1988/89 Prov.	1989/90 Est.	1990/91 Proj.	1991/92 Proj.	1992/93 Proj.
Financing requirement					
Current account, excluding net official transfers	-92.6	-82.2	-93.1	-103.8	-142.4
Amortization	-7.2	-10.3	-11.1	-10.4	-8.7
Change in arrears	--	--	--	--	--
Change in reserves 1/	6.7	-1.7	-22.2	-28.0	-54.0
IMF repurchases	-0.8	-0.5	-0.1	--	--
Errors and omissions	--	-4.7	--	--	--
Total financing requirement	-93.8	-99.5	-126.5	-142.2	-204.9
Financing identified					
Private Investment	10.2	7.2	10.4	11.4	12.8
Disbursements from existing commitments (end-March 1990)	83.6	92.2	106.0	102.8	126.4
Official transfers	53.9	56.2	70.0	60.9	91.3
Of which: non-SACU	(37.8)	(38.2)	(41.4)	(27.7)	(23.3)
Loans	29.7	36.0	36.0	41.9	35.0
Bilateral creditors	6.6	7.9	8.3	13.0	11.2
Multilateral creditors	20.1	23.7	24.7	28.9	23.8
Of which: World Bank	(5.6)	(9.9)	(13.0)	(10.8)	(8.4)
Of which: Adjustment lending	--	--	--	--	--
Private creditors	--	--	--	--	--
IMF purchases	--	--	--	--	--
SAF	3.0	4.5	3.0	--	--
Disbursements: expected new commitments	--	--	10.1	28.0	65.7
Official transfers	--	--	5.1	20.5	29.0
Loans	--	--	5.0	7.5	36.7
Bilateral creditors	--	--	1.0	1.9	9.0
Multilateral creditors	--	--	4.0	5.6	27.7
Of which: World Bank	--	--	(2.4)	(3.2)	(5.0)
Of which: adjustment lending	--	--	(--)	(--)	(--)
Private creditors	--	--	--	--	--
Total identified financing	93.8	99.5	126.5	142.2	204.9
Financing gap	--	--	--	--	--

Sources: Data provided by the Lesotho authorities; and staff projections.

1/ Calculated prior to making a valuation adjustment for change in the exchange rate.