FOR AGENDA

EBD/91/122

April 24, 1991

To: Members of the Executive Board

From: The Secretary

Subject: Lesotho - Enhanced Structural Adjustment Facility - Policy Framework Paper, 1991/92-1993/94

Attached for consideration by the Executive Directors is the policy framework paper under the enhanced structural adjustment facility for Lesotho, which will be brought to the agenda for discussion on Wednesday, May 22, 1991.

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

Government of Lesotho

Policy Framework Paper, 1991/92-1993/94

Enhanced Structural Adjustment Facility

April 23, 1991

Background

Introduction

1. This paper updates the earlier policy framework papers (PFPs) for 1988/89-1990/91, 1989/90-1991/92, and 1990/91-1992/93, and advances the time frame to 1991/92-1993/94. The program has been supported since 1988/89 by arrangements under the IMF structural adjustment facility (SAF) and IDA loans and economic sector work and technical assistance from the World Bank, and support will be requested under the enhanced structural adjustment facility (ESAF) over the next three years. Although considerable success has been achieved in implementing the policy framework over the first three-year period, a substantial effort will be needed to maintain momentum over the coming years. While the broad thrust of the program remains as before, further improvements have been made within individual policy areas. In particular, these areas include financial sector reform, public sector management, parastatal reform, and environmental policy.

Economic problems and program policies

2. Given its limited natural resources and 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. There is also a growing imbalance between domestic labor supply and the labor-absorptive capacity of the economy. Although the Lesotho Highland Water Project (LHWP) 1/ should contribute significantly to both economic growth and

---

1/ The LHWP consists of two components: water transfer and hydroelectric power. The cost of these components is estimated at approximately US$ 2.3 billion and US$ 0.24 billion, respectively, over the period 1988 to 1997 at 1990 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 hydroelectric power component. The project started its engineering and preliminary construction phase in 1988, and has recently begun its core components. For a detailed description of the LHWP, see the first PFP (EBD/88/153).

the external position, its favorable impact upon the diversification of the economy and employment creation will be more limited. In addition to these constraints, a number of key problem areas have been identified as needing remedial action. These are (a) weaknesses in public sector administration and parastatal management, the planning process, and budgetary control and accountability of public funds; (b) widespread overgrazing on communal land; (c) a traditional land tenure system that leads to inefficient land utilization; (d) weaknesses in the financial system; and (e) 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 8.3 percent in 1987/88 and 10.8 percent in 1988/89, in contrast to an annual average rate of only 2.4 percent during the previous two years. 1/ The external current account deficit (inclusive of unrequited transfers) also rose to an estimated 13.4 percent of GDP (7.0 percent of GNP), reflecting lower growth in SACU 2/ receipts and grants, and a sharp increase in the fiscal deficit (including grants) to an estimated 19.8 percent of GDP (10.4 percent of GNP).

4. Growth performance during 1988/89, the first year of the program, was very encouraging, and it is estimated that real GDP grew at 10.8 percent. This high level of growth was assisted by favorable weather conditions for agriculture, and the implementation of the preparatory phase of the LHWP. In contrast, despite very rapid growth in exports, the external current account deficit in 1988/89 fell only slightly to 7.6 percent of GNP, compared with the 3.8 percent originally targeted. This failure to meet the external current account target was closely associated with an overrun of the fiscal deficit target (estimated at 9.5 percent of GNP, compared with 5.9 percent targeted), and domestic credit expansion in excess of the programmed targets. These developments were closely related to policy slippages regarding Government expenditure.

5. Growth continued to be encouraging during 1989/90, despite excessive rainfall during the previous winter and an outbreak of cutworms. The share of gross investment in GNP also rose from 31.9 percent in 1988/89 to 43.6 percent in 1989/90. These developments were closely related to an acceleration in the preparatory phase of the LHWP. In

---

1/ Lesotho's GNP is nearly twice its GDP given the overwhelming importance of migrant worker remittances from South Africa.

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

contrast to the previous year, the external current account deficit fell to 5.2 percent of GNP. However, the improvement in the overall balance of payments in 1989/90 was less than targeted owing to shortfalls in net capital inflows and net official reserves fell to a level equivalent to 3.9 weeks of imports, compared with the programmed level of 5.4 weeks. The improvement in the current account deficit during 1989/90 was associated correspondingly with both a substantial narrowing of the fiscal deficit, to an estimated level of 4.5 percent of GNP, and a fall in the level of domestic credit expansion, to within the programmed targets.

6. During 1989/90, the Government made substantial progress in introducing 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, while the exemption from company income tax previously enjoyed by parastatals was removed. The Government also 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.

7. Considerable progress was made in other areas during both 1988/89 and 1989/90. In agriculture, irrigation facilities were expanded, while agricultural production and exports were encouraged by 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. In industry, a 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. Substantial progress also was made in the areas of civil service and budgetary management. In particular, major developments included the installation of a microcomputer-based personnel management system in the Ministry of Public Service; the provision of management training to civil servants; and the introduction of a new accounting system in the Ministries of Education, and Water, Energy and Mining.

II. Policy Implementation and Performance in 1990/91

8. In 1990/91, the last year of the SAF-supported program, the Government aimed at a real GDP growth rate of 9.3 percent, a reduction in the external current account deficit to 2.3 percent of GNP, and to ensure consistency with this objective, a reduction in the fiscal deficit from an estimated 4.5 percent of GNP in 1989/90 to 1.9 percent

in 1990/91. Net official foreign exchange reserves were projected to be equivalent to 5.4 weeks of imports at end-March 1991, while domestic credit was programmed to grow by 8 percent.

9. Overall growth performance was less encouraging during 1990/91, given drought conditions that reduced agricultural sector growth to below 2 percent. LHWP-related activity and the manufacturing sector continued to be the main sources of growth in the economy. Real GDP and real GNP are estimated to have grown by 7.7 percent and 2.3 percent, respectively, against program targets of 9.3 percent and 6.0 percent. Gross investment, reflecting the implementation of the LHWP project, is estimated at 52.4 percent of GNP. A combination of significant shortfalls in migrant workers' remittances, a decline in the value of merchandise exports (reflecting depressed world prices for wool and mohair), and the increased price of oil led to a deterioration in the external current account deficit from a program target of 2.3 percent of GNP to 3.3 percent of GNP. Of this, about 1 percentage point may be attributed to the oil price increase. Nonetheless, mainly on account of significant inflows of short-term capital, the overall balance of payments surplus is estimated to reach SDR 12.6 million, exclusive of SAF purchases compared with the program target of SDR 15.3 million.

10. The fiscal deficit for 1990/91 is estimated at 1.2 percent of GNP, and was financed almost entirely by external concessional borrowing. Measures to improve the collection of income tax by simplifying individual income tax through a reduction in the number of tax brackets were implemented. With respect to company tax, tax holidays, as previously enjoyed by newly established manufacturing establishments, were abolished and a single tax rate of 15 percent was introduced. The company income tax assessment basis was changed from the preceding-year to the current year. Progress in implementing revenue-raising measures was disappointing, however, and apart from SACU-related receipts, other revenue items generally stagnated and fell in real terms. The lowering of the general sales tax on various items such as tobacco, beer, liquor, motor vehicles, and utility services, together with difficulties experienced both in collecting the company tax from previously exempt parastatals, and in implementing the changed method of assessing company tax, led to a deterioration in the level of tax receipts from these sources. Consequently, revenue in 1990/91 remained stagnant at the preceding year's level of 23.0 percent of GNP. On the expenditure side, as a result of measures introduced in 1989/90 and further strengthening of expenditure control measures, performance in limiting recurrent expenditure was more than satisfactory. Recurrent expenditure is estimated at 16.6 percent of GNP, about 1 percentage point below the targeted level. In contrast, capital expenditure and net lending at M 411 million, significantly exceeded the program target of M 335 million. However, this did not affect the overall fiscal deficit, as the additional capital outlays were covered by grants.

11. The Government has continued to encourage the retention of savings within Lesotho by adjusting the domestic prime lending and domestic

savings deposit interest rates to minimize the interest differential between Lesotho and South Africa. In the light of increased dissatisfaction among the migrant mine workers, the Government reduced the compulsory deposit made by miners into the Miners' Deferred Pay Fund from 60 percent to 30 percent of wages, and revised the rate of interest on deposits from 6 percent to 13 percent to stem leakages from the fund. Tax exemptions on earnings from government bonds were removed as programmed.

12. With regard to sectoral developments, construction of the water transfer component of LHWP began on January 11, 1991 and funding for the hydroelectric power component is being sought. In the area of agricultural and land reform policy, apart from the postponement of the national livestock inventory, all scheduled programs designed to combat overgrazing operated as programmed. The Government has given approval for the drafting of an amendment to the Land Act extending formal recognition to informal leasing arrangements and to allow Village Development Councils to register such leases. The right of widows to title was also established. With respect to industrial policy, all relevant formalities relating to the establishment of the Lesotho Investment Promotion Center (LIPC) and the Business Advisory and Promotion Service (BAPS) were completed. The Government also took steps to make land available for industrial development other than through the Lesotho National Development Corporation (LNDC). Procedures for granting work permits to key expatriate staff of foreign-owned enterprises were streamlined as programmed, and the Government reversed its earlier policy of requiring the LNDC to have a majority shareholding in resource-based industries. Minimum wages were raised by 13 percent in August 1990. This compares with an inflation rate of 14 percent over the previous year, and follows an earlier review undertaken in August 1989.

13. The Civil Service Reform Program was launched in November 1990, and a full inventory of civil servants was completed. A Management Consulting Unit has been established in the Ministry of the Public Service and additional units will be established in the Ministries of Finance, Health, and Agriculture. The Civil Service Salaries Review Commission finished its review and presented its salary increase recommendations to Government. As described in later sections, a pay rise was implemented in April 1991 along with integration of teachers' conditions of employment into the general civil service scheme. A development fund, which will manage eligible LHWP-associated revenues, is being established with the assistance of the European Economic Community (EEC). The fund is described in more detail below. The tariff on electricity was increased by 18 percent effective January 1, 1991.

III. Macroeconomic and Structural Policies, 1991/92-1993/94

Medium-term macroeconomic objectives and strategy

14. 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 1991/92-1993/94, 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 recurrent expenditure; (e) improving the overall capacity of the system of public administration, with special emphasis upon financial management; (f) improving parastatal performance; and (g) conserving natural resources. The projected adjustment path fully takes into account the impact of the LHWP. The main assumptions regarding developments over the medium term are that: (a) migrant mine workers' remittances will decline in real terms at an annual average of about 2 percent; (b) the LHWP will be implemented as envisaged at end-December 1990; (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 7.6 percent over the period 1991/92 through 1993/94, while gross investment as a share of GNP is targeted to average 55 percent over the same period, of which LHWP investment would constitute 21 percent. The ratio of national savings (including transfers) to GNP is targeted to rise from 49.1 percent in 1990/91 to 53.7 percent by 1993/94. If transfers are excluded, the savings ratio is lower but the rising trend remains similar. The savings/investment gap for the economy is projected to narrow. This reflects the strong increase of private sector savings (excluding transfers) and the projected improvement in public sector savings (excluding grants). The latter, accompanied by a slight decrease in public sector investment, will lead to a reduction in the fiscal deficit. This will be achieved through the adoption of financial and structural measures to restrain the growth of consumption, mobilize a larger amount of domestic savings and enhance financial intermediation (see paragraphs 18-21 and 28-30).

15. Over the program period, the expected fall in workers' remittances --which was not foreseen in the previous PFPs--will obviously affect the level of consumption. Given the importance of these remittances in Lesotho's national income, the level of private per capita consumption in 1991/92 and 1992/93 is expected to fall by about 2.1 percent per year on average, thus compounding the effects of the measures aiming at controlling domestic absorption. The fall in per capita consumption, however, is expected to be limited to a transitional period of two years after which it is expected to pick up. Furthermore, this temporary fall in per capita consumption will be cushioned by the increase in social expenditures that the Government is undertaking (see section V of this

paper): the social sectors (particularly education and health) will be given an increasing real share of both the capital and the recurrent budgets (see also paragraph 39).

16. In the external sector, the aim is to achieve external viability by limiting the external current account deficit (including unrequited transfers and those associated with the LHWP) to less than 3 percent of GNP by 1993/94; raising the net official foreign exchange reserves from a level equivalent to 5.6 weeks of imports at the end of 1990/91 to one equivalent to 13.6 weeks of imports by the end of 1993/94; and reducing debt service expressed as a proportion of exports of goods and services from 4.7 percent at end-1990/91 to 3.6 percent by the end of 1993/94. 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. The Government recognizes that over the medium term it will be necessary to reduce the fiscal deficit further as a proportion of GNP. 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 3.6 percent by the end of 1993/94. Exports are expected to grow at an average annual rate of 9.3 percent over the program period, given good export prospects for textiles, footwear, electronics, light manufactures, and horticultural products. Overall imports are expected to fall over the period of the program at an average annual rate of 1.9 percent. Though imports of capital goods will continue to grow, imports of consumer/intermediate goods will decline as a result of the combined effect of a substitution between imported consumer/intermediate goods and domestically produced goods and a lower level of domestic demand, resulting from the continuing decline in workers' remittances.

Fiscal policy

17. Over the period 1991/92-1993/94, the Government will reduce its overall fiscal deficit further by means of a combination of revenue raising and expenditure restraining measures. Specifically, the Government's medium-term fiscal objective will be to reduce the overall deficit from an estimated 2.2 percent of GDP (1.2 percent of GNP) in 1990/91 to a surplus of 0.3 percent of GDP (0.4 percent of GNP) in 1993/94. Government savings (including grants) should grow from 5.6 percent of GNP in 1991/92 to 7.0 percent in 1993/94.

18. In view of the fact that customs union receipts are expected to decline over the medium-term (from 13.3 percent of GNP in 1990/91 to 11.8 percent in 1993/94), revenue measures will aim at diversifying and increasing non-customs revenue as a proportion of GNP. This will entail an improvement in enforcing existing taxes, full implementation of measures adopted in 1990/91 (especially with respect to company taxation), and the introduction of additional taxes. Improvement in the enforcement of existing taxes will concentrate mainly upon income tax

applicable to self-employed persons, noncorporate business entities, and companies. The main instrument for improving tax collection will be improved audit and investigation of activities of such individuals and entities. To achieve this, well-qualified and experienced tax officers will be engaged. Improved tax collection will be essential if the Government is to receive its full legally entitled revenues associated with the LHWP. The Government will enforce fully the implementation of measures already adopted, in particular: (a) the switchover of the collection of company taxation and income taxes on self-employed from the preceding year's income to the current year's income; (b) the collection of the company tax from certain parastatals hitherto exempt from it; and (c) the collection of the company tax at the reduced rate (15 percent) from companies opting to forgo existing tax holidays. New measures to be adopted would include (a) the review and revision of existing rates of taxation on certain commodities such as beer and tobacco; (b) the review and revision of existing general sales tax rates in the light of the imminent switchover in South Africa to a value-added tax (VAT), effective October 1991; (c) the imposition of an annual recruitment levy payable by miners at the time of signing an employment contract; and (d) increases in official rents, license fees, etc.

19. Expenditure restraint will be strengthened by the imposition of controls at both the commitment stage, through prior verification of the availability of voted funds for which the expenditure is being incurred, and at the payment stage, through the audit and scrutiny of payment vouchers. In addition, expenditure on wages and salaries will be limited through the following measures: (a) a limit on the size of the civil service, which will allow staff levels to be increased in essential technical, professional, and managerial areas; and (b) a limit on the annual salary increase to a rate no greater than the expected rate of inflation over the last two years of the program period. In 1991/92, it will be in line with the recommendations of the Civil Service Salaries Review Commission. The reform of the civil service, including the processes of job regrading, redesign of salary scales and structure, and redeployment and retrenchment of existing staff will take fully into account the restraints imposed by the program. Restraint on expenditure on other goods and services will entail tight control over certain main categories of spending, such as official travel, usage of Government vehicles, and procurement methods applied in the purchase of materials and supplies. The purpose of this restraint will be to limit the growth of spending on other goods and services to a rate lower than that of nominal GNP.

20. The success of these fiscal efforts will be ensured through the regular and timely reporting of the Government's fiscal operations, rigorous monitoring, and the institution of corrective measures if the actual fiscal outturn at any stage diverges from the expected path. This requirement will inevitably entail a gradual reduction in the time taken to produce Treasury accounts from six weeks to less than four weeks. This will require the recruitment of additional professional accounting staff and data processing analysts. It will also necessitate

punctual reorganization and assembly of Treasury Accounts and other relevant data, including those programs funded directly by donors, in the form of summary data on the operations of the Government's activities and their analytical interpretation within four weeks.

Economic and financial management

21. 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 last two policy framework papers (EBD/88/153 and EBD/89/143).

22. For the civil service reform component of the program, an internal management consulting capability has been created by establishing a central Management Services Unit in the Ministry of Public Service and two auxiliary units (Management Consulting Units (MCUs)) in selected core ministries (Health and Finance). Preparations are already well in hand to establish an additional MCU in the Ministry of Agriculture during 1991/92. The functions of these units will be augmented by: further development of the computerized Personnel Management Information System; further training of managers and support personnel; the establishment of an interministerial system of coordination and cooperation across the units; and a systematic upgrading of both the staffing and facilities of the Management Services Unit. The Ministry of Public Service will be reorganized in the light of its expanded functions. A full review of job grading and a process of job reclassification will be undertaken for the civil service as a whole during 1991/92, and these activities are being assisted by a number of donors.

23. Over recent years, it has become increasingly difficult to recruit and retain skilled and experienced personnel in civil service posts. In contrast, unskilled labor is plentiful in Lesotho. In view of this, the civil service pay increase introduced on April 1, 1991 adjusted the pay differentials, by providing pay increases ranging from 17 percent to 45 percent for the least-skilled and highest-skilled employees, respectively. This compares with an average increase of 22 percent. From 1991/92 onward, civil service pay reviews will be conducted on an annual basis. This will both allow civil service pay levels to be set more responsively to changing labor market conditions, and make it easier for the pay structure to be revised in the light of the job reclassification.

24. Aided by the World Bank's Special Project Preparation Facility (SPPF) and technical assistance from the Fund, the Government has made good progress in strengthening the budgetary process and in improving the technical proficiency of the financial cadre. Significant improvements have been made in recurrent budgeting and monitoring, and in the shortening of the time lag in the reporting of budgetary data.

The Government recognizes, however, that much remains to be accomplished. While continuing its efforts in existing areas, the Government will place special emphasis upon: (a) expanding the relevant central offices in the Ministries of Finance and Planning to strengthen the capital budgeting and programming functions; (b) reviewing the structure of personnel in the Budget and Finance Offices with the aim of coordinating their functions and assessing trained staff requirements; (c) strengthening the Bureau of Statistics and improving computer facilities used in financial and budgetary management; and (d) more regularly revising information used in updating the Public Sector Investment Program (PSIP). The interim expenditure control system 1/ will be maintained during 1991/92.

25. The Government intends to derive maximum benefit, in terms of the equitable development of Lesotho, from the expected royalty benefits associated with the LHWP. 2/ A special development fund, fully under the Government's control, has been set up, within which eligible LHWP-related revenues are being deposited. The amount to be deposited inthe fund in 1991/92 is M 5 million. Expected expenditures associated with the LHWP development fund will be linked to the PSIP as the fund begins to operate. The fund will be maintained over the program period. The Government will seek to improve its project appraisal capacity to ensure that the objectives of the fund are achieved.

26. The Government believes that rationalization of the parastatal sector is necessary for eliminating the sector's reliance on the budget and for the realization of its development objectives. To achieve this objective, the Parastatal Monitoring Unit will continue to collate data on the financial operations of Lesotho's public enterprises. Furthermore, the Government will establish a policymaking committee in 1991/92 that will classify public enterprises as follows: a "strategic" category warranting complete public ownership, but whose operations will need to be scrutinized to ensure efficiency; a second category, consisting of nonstrategic parastatals, whose operations deserve to be privatized, commercialized, or liquidated. The Government is determined to make privatization a major feature of its economic policy, and will therefore encourage the LNDC to reduce its shareholding in its mature subsidiaries. The Government has made legal provisions to reduce its shareholding in the LNDC from 90 percent to 60 percent. The Government will ensure that unit cost increases in providing electricity, water, and telecommunications are passed on to consumers.

1/ This system was described in the second PFP (EBD/89/143).

2/ The estimated size of revenues coming from the LHWP in the form of royalties and project related SACU payments would produce an average annual increase of Lesotho's GDP, export revenues and public revenues, of 5 percent, 25 percent, and about 14 percent respectively between 1990 and 2044.

Public sector investment

27. The Public Sector Investment Program (PSIP) is being updated annually on a three-year rolling basis, and is being integrated in the Fifth Five-Year Development Plan covering the period 1991/92-1995/96. The PSIP covering the period 1987/88-1990/91 reflected a heavy focus upon the provision of new economic infrastructure; roads represented about 18.5 percent of the Government's capital budget compared with 11.5 percent for Education and Health, and about 12 percent for Agriculture. The PSIP for 1991/92-1993/94 will emphasize investments in the productive and social sectors (the share of the social sectors in the Government's capital expenditures will grow by 5.5 percentage points) and ensure proper balance between the rehabilitation of infrastructure and the construction of new roads. Total government investment will grow in real terms 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 Lesotho Electricity Corporation (LEC), which will both support increased private industrial investment and ensure that electricity generated by the LHWP-constructed hydro-electric power installation will be distributed efficiently.

Monetary and financial policies

28. The banking system is continuing to experience the excess liquidity that has characterized Lesotho's banking system since 1987/88. This stems mainly from the lack of bankable projects, but also from the undeveloped state of the money market and the absence of a capital market in the country. To minimize the impact of this excess liquidity on the balance of payments, the rate of growth in net domestic credit of the banking system will be restricted to that consistent with the targets set for economic growth, inflation, and net official foreign exchange reserves.

29. To encourage financial intermediation in the economy, and discourage short-term capital out flows from Lesotho, the Government will change the composition of its debt, with new treasury bills replacing commercial bank borrowing, and, in particular, direct government overdraft facilities. The expanded treasury bill market will encourage the transfer of such bills from the banks to the nonbank public. The objective of this measure is not to raise additional domestic finance for the Government, but to prevent short-term capital outflows, and to develop an alternative market-oriented instrument for controlling bank credit and domestic liquidity. The Government believes that the development of a treasury bill market will make Lesotho's interest rate structure more competitive, and will align it more closely with the rates operating within the Common Monetary Area--especially rates in South Africa.

30. The Government will actively promote shareholding by Basotho nationals in domestic corporate entities by channeling their savings

through an equity finance scheme. It is envisaged that the Lesotho Investment Holdings--which will soon be reactivated by the Government--will assume the critical role of a venture capital company (capital market), and will accordingly raise and lend funds on commercial terms.

Agricultural policies

31. The Government's agricultural objectives and policies continue to be the same as described in the last PFP (EBD/90/129). 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.

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. To address this need, the Government will introduce new measures, and will maintain and strengthen existing programs. The measures and programs are (a) the introduction of grazing fees; (b) the National 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; (c) the National Smallstock Exchange Program, under which two high-quality sheep or goats are exchanged for three cull animals; (d) 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; (e) the National Range Management Area Program, which supports the creation of new grazing associations; and (f) greater infrastructural support for marketing and meat processing.

33. The collection of grazing fees will be supervised and coordinated by the Grazing Fee Administration Unit, which will be fully operational before the end of September 1991. As a prerequisite to the introduction of grazing 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 (VDCs) on an annual basis. This inventory was postponed from 1990/91 to ensure maximum relevance at the time of the implementation of the grazing fee. The Government has agreed annual fee levels with the VDCs of: M 5.0 per equine; M 3.0 per bovine; and M 0.5 per sheep or goat. While these fee levels are low relative to earlier proposals, it must be remembered that the successful introduction of grazing fees requires social acceptance, and that existing productivity levels among livestock producers in Lesotho are very low. As the existence of grazing fees gains social

acceptance, the Government intends to review fee levels regularly and to adjust them upward in real terms over future years. A first upward revision in the grazing fees will be introduced by end-March 1992.

34. In the interim while grazing fees are being adjusted, the Government will focus on other measures to combat overgrazing, and adopt its multiprogram strategy according to the results obtained. The culling program has been strongly implemented, but has run into difficulties regarding an insufficiency of marketing facilities. To remedy this, the Government will seek a permit to export meat from the abattoir to South Africa. The management and operation of the abattoir will be strengthened with assistance under the IDA-funded Industrial and Agro-industries Development Project. The existing ratio of two high-quality animals to three culls, as applied under the smallstock exchange program, has proved to be too attractive to livestock farmers. It is intended that lower ratios will be tried during 1991/92. The adjudication program has successfully completed cattlepost inventories covering three districts; however, it has become clear that additional manpower will be needed to carry out the adjudication process. Donor support will be sought in this regard. The four range management areas (RMAs) currently in operation are proving very successful in raising participant income levels, despite lower numbers of animals per unit grazing area. As part of the LHWP-related Rural Development Plan, two additional RMAs will be established during 1991/92, and it is envisaged that under the proposed USAID-supported Community Natural Resource Management Project, six further RMAs will be established during the decade. If this plan is successful, then 25 percent of the grazing land would be occupied by RMAs.

35. There is currently insufficient awareness on the part of Village Development Councils as to the purpose behind the grazing fees and the recently enacted land reform measures, and a lack of local capacity to implement them. The Government has already embarked upon a training program for VDC delegates regarding the collection of grazing fees, and it is intended that training programs in other areas will be introduced. This will be particularly important in view of the central role envisaged for the VDCs in implementing local development initiatives.

36. 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

37. 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 (EBD/90/129). Much emphasis will be placed upon developing the activities of two nascent institutions: the Lesotho Investment Promotion Center (LIPC) and the Business Advisory Promotion Services (BAPS). These institutions offer support to foreign investors and indigenous entrepreneurs, respectively, and will be assisted during their early years by the IDA-funded Industrial and Agro-industries Development Project. Over the period 1991/92-1993/94, the LIPC will have a technical assistance agreement with an experienced investment promotion organization, and training will be provided in investment promotion techniques and management. It is expected that through LIPC's activities, about 3,500 new jobs will be created over the next five years. Progress in these activities will be reviewed annually. The BAPS will receive similar support and staff training, and will develop a comprehensive data base regarding the resource requirements of activities relating to the LHWP, large-scale companies, and the LIPC. To further encourage industrial development, and to improve the environment within which these two institutions will operate, the Government will maintain its policies of: (a) streamlining work permit processing, (b) increasing land availability for industrial development, and (c) 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. The activities of the equity fund, discussed above, will offer significant encouragement to the development of small-scale industry. The Basotho Enterprises Development Corporation (BEDCO) has ceased its lending operations, but will continue to provide industrial and workshop space, and will assist entrepreneurs in preparing bankable projects. A six-year investment plan has been initiated 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.

External policies

38. As the balance of payments remains fragile, strengthening of the current account and of the external reserve positions should continue to be pursued through policies of import substitution and of export promotion, with an emphasis on diversification. Progress in these areas has been encouraging so far and the Government will expand the export-financing scheme through additional nonconcessional borrowing and ensure that the structure of incentives--including wage levels faced by foreign investors--remains competitive, especially in the context of new political and economic developments in South Africa. Foreign investment prospects will continue to depend on developments in the agro-industrial and light manufacturing industries and should be strengthened by the recent reduction in the corporate tax rate for manufacturing companies and by the launching in early 1991, within the LNDC, of the complementary investment program (LIPC) and the Business Advisory Promotion Services (BAPS). To relieve debt-servicing pressures on the balance of

payments, foreign borrowing by the public sector should continue to be restricted to highly concessional credits and consequently a ceiling on nonconcessional borrowing by the public sector (including parastatals) will be imposed, except on borrowing related to the water transfer component of the LHWP, which is guaranteed and serviced by South Africa. Recourse to exceptional financing will continue to be avoided. The Government is aware that the recent increases in world oil prices and retrenchment of Basotho miners in South Africa could adversely affect the economy, and in particular the balance of payments, and is prepared to take additional measures to prevent an undesirable deterioration in the external current account position.

Social sector policies

39. In view of the country's limited physical resource base, the Government has given emphasis to human resources as part of its development strategy. The country's problems with respect to education, notably, primary education, and its activities in improving health-care provision were described in the previous PFPs. One particularly serious problem that has developed over recent years has been the erosion of school teachers' salaries which has resulted in an ongoing loss of experienced teachers from Lesotho. To remedy this, under the pay rise implemented in April 1991, school teachers' pay was raised to levels comparable with those of civil servants given similar qualifications and experience. The average pay rise given to schoolteachers was 67 percent. This compares with the 22 percent granted to civil servants. All additional non salary benefits to be given to civil servants, will not also be given to schoolteachers. Under the education component of its Fifth Five-Year Plan (1991/92-1995/96), the Government will: (a) focus recurrent and capital expenditure upon improving the quality of primary education by lowering pupil/teacher ratios, increasing teaching materials per pupil, and initiating improvements in curricula and teaching materials; (b) increase efficiency at the secondary level through the closure and consolidation of small secondary schools, and by a review of teacher requirements; (c) review nonteaching overhead costs at the National University; and (d) reorganize and decentralize the Ministry of Education with the aim of rationalizing school management and resources across the educational system as a whole (i.e. state and church-managed schools), and encouraging greater parental and community participation in school management. The implementation of the first part of this program will require a significant increase in both real capital and real recurrent expenditures devoted to education over the medium term. As education is a high-priority area, recurrent expenditure on education will grow in real terms over each year of the program, with a consequent increase in education's share in the recurrent budget. With respect to health care, although such services are being expanded substantially, it is intended also that they will be provided more efficiently. Real recurrent expenditure will not be allowed to fall over the program period, and it is intended that the share of health in the recurrent budget will be expanded modestly. With respect to the areas of population and nutrition, the Government with

the assistance of IDA and numerous other donors, and the extensive support from local NGOs, is--inter alia--providing family planning services and monitoring clinic-based feeding programs aimed at reducing the rate of infant malnutrition.

Labor policies

40. The Government will maintain four policy measures already adopted: (a) the provision of training by the Lesotho Highlands Development Authority to construction workers, 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 labor-intensive, small-scale enterprises through the extension of credit and the establishment of the BAPS; and (d) continued provision of training in vocational skills by the Lesotho Opportunities Industrial Center and by the Basotho Enterprises Development Corporation (BEDCO).

41. 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. The decompression in the civil service pay scale, implemented in April 1991, should also help to reduce this problem.

IV. Environmental Action

42. The Government has adopted a National Environmental Action Plan, and more recently has endorsed a set of implementation proposals. The conclusions of the Plan and the environmental impact of ongoing activities were described in EBD/90/129. All of these activities, including measures to improve land management and combat overgrazing, and the implementation of the environmental program of the LHWP, will be accelerated over the program period. The main proposals to be adopted over the program period are (a) to establish a supervisory body at ministerial level, along with a coordinating body or secretariat and a broadly based advisory group; (b) to develop and implement a program for training members of VDCs in functions other than collecting grazing fees, such as keeping accounts and registering subleases; (c) to design and implement a program for introducing basic conservation technologies at the grassroots level; (d) to prescribe the program for the regional dispersion of industries, in accordance with the impending Industrial Licensing Act; and (e) to review the adequacy of petroleum taxes to minimize pollution and adjust tax levels accordingly from time to time. The Government will prepare a paper on population policy to be

discussed, first by the National Constituent Assembly, and then at various levels throughout Lesotho. A policy designed to limit population growth will then be prepared.

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 have been felt thus far 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. The Government will at all times keep reviewing the existing mix of tax and expenditure measures oriented toward protecting the poor and making appropriate revisions to these measures. The Government will also intensify existing coordination of arrangements with NGOs, with a view to improving the extent to which their programs augment its own efforts. Finally, the Government will pay specific attention to welfare programs for handicapped persons, pregnant women and lactating mothers, and infants, by increasing outlays through both budgetary allocations and solicitation of further donor assistance.

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 13.6 weeks of imports by the end of 1993/94. 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 uncertain. This liberal trade and payments system is desirable and should be maintained.

45. During the period 1991/92-1993/94, gross capital inflows and official transfers of about SDR 533.4 million will be required, of which about SDR 118.8 million is expected from SACU rebates (Table 3). However, as a result of measures that will be introduced during the program period, 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, which amounts to a total of SDR 44.3 million during that period. Additional resources could eventually be absorbed as the country increases its capacity to implement projects. The World Bank (IDA) will provide about SDR 31.3 million from ongoing projects and the Fund, about SDR 18.1 million, from the ESAF. In 1991/92, gross inflows excluding SACU revenues of SDR 106.9 million will be required. Some SDR 44.3 million in non-SACU official transfers and about SDR 17.0 million from private investment is expected. A projected ESAF disbursement of SDR 4.2 million would supplement existing lending commitments at end-March 1991 of SDR 40.4 million, of which SDR 10.9 million is expected from the World Bank.

Table 1. Lesotho: Structural Adjustment Facility--Policy Framework Paper Key Indicators, 1986/87-1993/94
(In percent; unless otherwise indicated)

13-Apr-91 11:20 AM	1985/86	1986/87	1987/88	1988/89	1989/90 Prov.	1990/91 Proj.	1991/92 Proj.	1992/93 Proj.	1993/94 Proj.
Output and Income									
GDP growth rate	2.6	2.3	8.3	10.8	8.9	7.7	7.1	7.6	8.0
GNP growth rate	-3.6	1.5	5.7	6.1	5.3	2.3	0.9	3.1	4.2
Net Factor Income from abroad	-7.6	2.5	-1.3	3.5	1.8	-3.5	-3.0	-2.7	-1.0
o/w Workers' remittances:	--	6.2	-0.4	4.0	2.0	-2.7	-2.8	-2.8	-2.1
GNP/Capita growth rate	-6.1	-1.0	3.1	3.4	2.6	-0.3	-1.7	0.5	1.5
GNY/Capita growth rate	-6.5	-0.9	2.5	4.8	2.9	-0.2	-1.8	0.5	1.5
Domestic absorption									
Final consumption/capita growth rate	-7.6	-6.3	10.4	5.0	3.1	-2.1	-0.6	-1.4	2.4
o/w private consumption	-10.1	-8.2	10.7	4.9	6.5	-1.5	-1.7	-2.6	2.7
Gross fixed capit. formation growth rate	14.2	-7.7	14.0	22.7	41.3	23.7	-6.2	13.0	10.0
o/w LHWP	--	--	--	--	427.8	57.9	-19.0	26.0	13.7
Government revenues/GDP 3/	50.9	52.0	44.7	44.6	53.5	53.1	51.3	50.7	49.2
Government expenditures/GDP	62.9	65.6	64.6	62.0	61.7	55.2	52.4	52.3	48.9
Deficit (-) or surplus (+)/GDP 3/	-11.9	-13.6	-19.8	-17.4	-8.2	-2.2	-1.2	-1.6	0.3
Deficit (-) or surplus (+)/GNP 3/	-6.2	-6.9	-10.4	-9.5	-4.5	-1.2	-0.7	-1.0	0.2
Resource Balance In percent of GNP									
Gross investment/GNP 6/	28.1	25.9	28.0	31.9	43.6	52.4	48.8	53.9	56.8
Private investment/GNP 1/	21.1	19.0	21.1	22.2	21.9	23.0	25.1	25.7	26.5
Public investment/GNP	7.0	6.9	6.9	7.0	7.6	7.7	6.3	6.7	6.9
LHWP investment/GNP	--	--	--	2.8	14.1	21.7	17.5	21.5	23.4
Savings including unreq. transfers:									
National savings/GNP 6/	25.5	25.7	20.9	24.3	38.4	49.1	45.6	50.6	53.7
National savings/GNP 1/	25.5	25.7	20.9	21.6	24.3	27.4	28.4	31.6	32.5
Private savings/GNP 1/	24.7	25.7	24.5	24.1	21.2	20.9	22.8	25.4	25.5
Public savings/GNP 3/	0.8	0.0	-3.6	-2.6	3.1	6.5	5.6	6.2	7.0
LHWP transfers/GNP	--	--	--	2.8	14.1	21.6	17.2	19.0	21.2
Savings excluding unreq. transfers:									
National savings/GNP 1/ & 2/	8.6	12.0	8.9	12.1	10.4	14.6	16.8	19.8	21.2
Private savings/GNP 2/	24.2	25.5	24.3	23.7	20.6	20.4	22.2	24.9	26.0
Public savings/GNP 5/	-15.0	-16.4	-21.9	-21.4	-18.7	-16.5	-12.4	-14.8	-13.7
LHWP transfers/GNP	--	--	--	--	14.1	21.6	17.2	19.0	21.2
Resource Balance = Current Account Deficit (CAD)									
CAD incl. unreq. transfers/GNP	-2.6	-0.2	-7.6	-7.6	-5.2	-3.3	-3.2	-3.3	-3.1
CAD excl. unreq. transfers/GNP	-20.1	-13.9	-19.1	-19.8	-33.2	-37.7	-32.1	-34.0	-35.6
CAD excl. official transfers/GNP	-19.6	-13.7	-18.9	-16.6	-18.6	-15.6	-14.3	-14.5	-13.9
Current account (incl. off. transf.) (in millions of USD)	-14.0	-1.1	-51.0	-56.4	-44.9	-34.3	-36.0	-39.8	-41.8
Current account (excl. off. transf.) (in millions of USD)	-105.6	-86.7	-136.8	-123.7	-159.7	-162.4	-159.7	-177.6	-189.1
External Sector									
Export growth rate (real)	-14.8	27.8	18.9	40.0	-16.1	-8.2	10.0	9.0	9.0
Exports of goods and services/GDP	113.6	121.8	114.9	107.6	101.6	92.6	89.5	84.1	78.9
Import growth rate (real)	-7.1	-5.9	11.4	3.8	7.5	-3.9	-2.7	-1.4	0.3
Consumer & intermediate goods imports	-10.7	-4.1	11.4	2.7	7.9	-5.7	-3.9	-3.1	-1.3
Capital goods imports	17.2	-15.0	11.3	10.1	5.4	6.1	2.6	5.9	6.9
Imports of goods and services/GDP	-152.3	-146.7	-148.9	-141.5	-150.9	-147.5	-135.6	-130.7	-126.0
Goods and services balance/GDP	-38.7	-24.9	-33.9	-33.9	-49.2	-54.9	-46.0	-46.6	-47.1
Debt									
Debt Service (in millions of USD)	19.2	14.1	16.0	22.0	21.7	26.1	26.8	26.6	24.9
Debt service/Exports of goods and services	6.2	3.7	3.5	4.7	4.5	4.7	4.4	4.1	3.6
Debt service/GDP	6.2	3.7	4.0	5.0	4.5	4.3	3.9	3.5	2.8
Price & Exchange Rate									
Retail price index (1985=100)	104.5	121.5	135.7	152.3	155.9	173.2	196.2	220.9	249.2
Real exchange rate (1985=100)	102.5	99.6	97.7	95.0	94.2	94.1	94.1	94.1	94.1
Net off. reserves in weeks of imports 4/	10.1	8.2	5.6	4.2	3.9	5.6	7.0	11.1	13.6

Sources: Data provided by the Lesotho authorities; and staff projections.
1/ Excluding the Lesotho Highlands Water Project (LHWP).
2/ Excluding unrequited transfers (official, private, and LHWP).
3/ Including grants.
4/ Excluding imports associated with the LHWP.
5/ Excluding grants
6/ Including the Lesotho Highlands Water Project (LHWP)

TABLE 2. LESOTHO: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1991/1992-1993/94

Policy Objectives and Targets	Strategies and Measures	Timing of Measures
1. Fiscal Policy		
Achieve a substantial improvement in Government's fiscal operations:	IMPROVE REVENUE BUOYANCY AND PURSUE A TIGHT CURRENT EXPENDITURE POLICY.	
a. Revenue and Cost Recovery		
Improve revenue and cost recovery performance.	* a. UNDERTAKE REVIEW OF GENERAL SALES TAX IN VIEW OF THE IMMINENT INTRODUCTION OF VAT IN SOUTH AFRICA.	End-September, 1991
	* b. IMPROVE INCOME TAX COLLECTION THROUGH GREATER ENFORCEMENT, PARTICULARLY BY STRENGTHENING DEPARTMENTAL CAPACITY THROUGH RECRUITMENT OF QUALIFIED PERSONNEL AS TAX INSPECTORS.	1991/92.
	* c. STRENGTHEN ENFORCEMENT OF INDIVIDUAL INCOME TAX ON THE SELF-EMPLOYED.	Ongoing.
	* d. ESTABLISH SPECIALIZED TAX-COLLECTION SECTION TO DEAL WITH FOREIGN COMPANIES.	1991/92.
	* e. RAISE RENTS ON ACCOMMODATION PROVIDED TO GOVERNMENT EMPLOYEES BY 70 PERCENT.	April, 1991.

1. Fiscal Policy

a. Revenue and Cost Recovery (Cont'd.)	*f. INCREASE LICENSE FEES, AND CHARGES ON SPECIAL ITEMS.	Throughout the program period.
	*g. Improve cost recovery in economic and social services (health, education, housing, and utilities) with offsetting subsidies targeted for lowest income consumers.	Ongoing.
	*h. INTRODUCE RECRUITMENT LEVY TO BE PAID BY MINE WORKERS.	End-June, 1991.
b. Expenditure		
Pursue a controlled recurrent expenditure policy.	a. RATIONALIZE PUBLIC EMPLOYMENT TO ALLOW ESSENTIAL TECHNICAL AND MANAGERIAL POSTS TO BE FILLED, WHILE AT THE SAME TIME CURTAILING CONTRACT AND DAILY PAID EMPLOYMENT.	Ongoing.
	* b. REDUCE RECURRENT EXPENDITURE BY RESTRAINING THE GROWTH OF THE CIVIL SERVICE AND BY REDUCING EXPENDITURE ON OTHER GOODS AND SERVICES; IN PARTICULAR, TRAVEL EXPENSES.	Ongoing.
	* c. IMPLEMENT INCREASE IN WAGES AND SALARIES AND OTHER EMPLOYMENT BENEFITS FOR GOVERNMENT EMPLOYEES *INCLUDING SCHOOLTEACHERS*.	April, 1991.
	* d. INCREASE TOTAL REAL RECURRENT EXPENDITURE ON HEALTH, EDUCATION, AND ROAD MAINTENANCE.	1991/92 to 1993/94.
c. Fiscal Reporting	* a. REDUCE TIME LAG IN REPORTING FISCAL DATA TO FOUR WEEKS.	Ongoing.

2. Monetary and Credit Policies

Increase credit to the private sector, while reducing net government borrowing from the banking system, discouraging short-term capital outflows, and mobilizing domestic savings.	*a. Operate export credit facility.	Ongoing.
	*b. Maintain minimum deposit and prime lending rates in line with those in South Africa. Ensure that rates are positive in real terms.	Ongoing.
	c. Use yield curve prevailing in South Africa as indicator for establishing issue yield on government bonds.	Ongoing.
	*d. WIDEN THE MARKET FOR TREASURY BILLS TO ALLOW PARTICIPATION BY THE NON-BANKING PUBLIC.	End-December, 1991.
	*e. INVESTIGATE OTHER WAYS OF MOBILIZING NON-BANK FINANCIAL RESOURCES.	End-December, 1991.
	*f. ESTABLISH AN EQUITY FUND TO BE REINVESTED IN THE EQUITY OF ELIGIBLE SMALL AND MEDIUM-SCALE ENTERPRISES.	End-June, 1992.

3. External sector

Reduce external debt service.	*RESTRICT THE CONTRACTING OF NONCONCESSIONAL EXTERNAL DEBT BY THE PUBLIC SECTOR. (EXCEPT THAT GUARANTEED AND TO BE REPAID BY THE RSA AS FOR THE LHWP).	Ongoing.

4. <u>Economic and Financial Management Policies</u>

Improve capacity to monitor and control public expenditure.	*a. MAINTAIN SYSTEM TO SET BUDGETARY PRIORITIES FOR RECURRENT EXPENDITURES AND TO MONITOR AND CONTROL SUCH EXPENDITURES.	Ongoing.
	b. MAINTAIN A ROLLING THREE-YEAR GOVERNMENT INVESTMENT PROGRAM.	Ongoing.
	*c. EXPAND THE RELEVANT CENTRAL OFFICES IN THE MINISTRIES OF FINANCE AND PLANNING TO STRENGTHEN THE CAPITAL BUDGETTING AND PROGRAMMING FUNCTIONS AND TO COORDINATE CAPITAL AND RECURRENT BUDGETTING.	1991/92.
	d. REVIEW THE STRUCTURE OF PERSONNEL IN THE BUDGET AND FINANCE OFFICES WITH A VIEW TO INTEGRATING THEIR FUNCTIONS AND ASSESSING TRAINED STAFF REQUIREMENTS.	End-December, 1991.
	e. STRENGTHEN COMPUTER FACILITIES AVAILABLE TO THE MINISTRIES OF FINANCE AND PLANNING.	1991/92 onward.
	f. ESTABLISH LHWP DEVELOPMENT FUND.	End-April, 1991.

5. Civil Service Improvement

Improve efficiency and effectiveness of the public sector.	a. CONDUCT A REVIEW OF CIVIL SERVICE GRADING AND JOB CLASSIFICATION.	End-August, 1991.
	b. IMPLEMENT REVISED JOB CLASSIFICATION SCHEME FOR SELECTED OCCUPATIONAL GROUPINGS.	End-December, 1991.
	c. COMPLETE ESTABLISHMENT OF A MANAGEMENT CONSULTING UNIT IN THE MINISTRY OF AGRICULTURE.	End-March, 1992.
	d. UPGRADE MANAGEMENT SERVICE UNIT IN THE MINISTRY OF PUBLIC SERVICE.	End-June, 1993.
	e. IMPLEMENT A PROGRAM FOR TRAINING PERSONNEL MANAGERS.	End-March, 1992.
	f. UNDERTAKE CIVIL SERVICE ORGANIZATIONAL STRENGTHEN-ING, STARTING WITH THE MINISTRY OF PUBLIC SERVICE.	End-September, 1992.
	g. DECOMPRESS CIVIL SERVICE WAGE AND SALARY STRUCTURE.	April, 1991.
	* h. CONDUCT ANNUAL CIVIL SERVICE WAGE AND SALARY REVIEWS.	ongoing
	i. STRENGTHEN THE BUREAU OF STATISTICS.	1991/92.

6. Agriculture and Land Policy		
Expand and diversify domestic production. Improve system of land allocation and increase efficiency in its utilization.	a. 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.
	b. Determine potential and take steps to attract new investment in horticultural processing plants, satellite refrigerator units, and marketing facilities.	Ongoing.
	c. ESTABLISH TWO NEW RANGE MANAGEMENT ASSOCIATIONS.	1991/92.
	d. CONTINUE INVENTORIES OF CATTLEPOST USERS.	Ongoing.
	e. COMMENCE CATTLEPOST ADJUDICATION.	1991/92.
	f. CONDUCT NATIONAL LIVE-STOCK CULLING PROGRAM.	Ongoing.
	g. CONDUCT SMALLSTOCK EXCHANGE PROGRAM.	Ongoing.
	h. INTRODUCE GRAZING FEES.	End-October, 1991.
	i. ESTABLISH GRAZING FEE ADMINISTRATION UNIT.	End-September, 1991.
	j. UNDERTAKE NATIONAL LIVESTOCK INVENTORY.	End-August, 1991.
	k. IMPLEMENT TRAINING PROGRAMS TO ENABLE VILLAGE COUNCIL'S TO IMPLEMENT GRAZING FEES.	Ongoing.

7. Industrial Policy

Expand manufacturing production.	* a. Maintain an export-financing scheme to supplement the existing investment incentives.	Ongoing.
	b. Maintain streamlined procedures for granting work permits to key expatriate staff of foreign-owned enterprises, and continue to make land available for industrial development other than through the LNDC.	Ongoing.
	* c. Review minimum wage levels on an annual basis.	Ongoing.
	d. FULLY OPERATIONALIZE THE ACTIVITIES OF THE LIPC AND THE BAPS.	1991/92.
	e. EXPAND THE PROVISION OF TRAINING FOR INDUSTRIAL EMPLOYEES AND SMALL-SCALE ENTREPRENEURS.	1992/93.

8. Parastatal Reform

Promote the efficiency of the parastatal and reduce government intervention and subsidies.	* a. 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.	1991/92.
	* b. ELIMINATE GOVERNMENT GRANTS AND BUDGETARY TRANSFERS APPLYING TO BASOTHO PRIDE AND NATIONAL ABATTOIR/FEEDLOT.	End-October, 1991.

8.	Parastatal Reform (Cont'd.)	c. INTRODUCE GRADEWISE PRICING AND A REJECT-GRADE FOR INPUTS PURCHASED BY AGRO-INDUSTRIAL PARASTATALS.	End-October, 1992.
		d. CHANGE THE LEGAL STATUS OF AGRO-INDUSTRIAL PARASTATALS FROM MINISTERIAL TRADING ACCOUNTS TO LEGAL CORPORATE BODIES.	End-June, 1991.
		e. ALLOW PRIVATE SECTOR PARTICIPATION IN AGRO-INDUSTRIAL PARASTATALS ON A MAJORITY BASIS.	End-March, 1993.
		* f. DEVELOP THE PARASTATAL MONITORING SYSTEM BY REQUIRING THAT ANNUAL REPORTS APPLYING APPROPRIATE CRITERIA AND PERFORMANCE INDICATORS, BE SUBMITTED TO THE GOVERNMENT.	1991/92 onward.
		g. ADJUST TARIFFS ACCORDING TO COST INCREASES FOR ELECTRICITY, WATER AND TELECOMMUNICATIONS.	Ongoing.
		h. Rationalize housing sector institutions, and increase private sector financing of housing.	Ongoing.

9. <u>Social sector policies</u>

Improve quality and efficiency of delivery in education and health.	a. IMPLEMENT TEACHERS' PAY INCREASE.	April, 1991.
	b. INCREASE REAL RECURRENT EXPENDITURE ON EDUCATION PARTICULARLY,PRIMARY, TECHNICAL AND VOCATIONAL EDUCATION AND HEALTH.	Throughout the program period.

10. <u>Labor Policies</u>

To expand productive employment.	a. Implement regular reviews of minimum wages in the light of labor market conditions.	Ongoing.
	b. Maintain training scheme for indigenous workers on the LHWP.	Ongoing.
	c. Upgrade and expand existing vocational training schemes.	Ongoing.

11. Environmental and Population Policies

To monitor environmental conditions, implement appropriate measures, and design a population policy.	a. CREATE THE INSTITUTIONAL FRAMEWORK FOR IMPLEMENTING THE NATIONAL ENVIRONMENTAL ACTION PLAN, NAMELY: AN OVERSEEING BODY AT MINISTERIAL LEVEL; A SECRETARIAT; AND A BROADLY-REPRESENTED ADVISORY GROUP.	End-July, 1991
	b. IMPLEMENT VDC TRAINING PROGRAMS RELATING TO SUB-LEASE REGISTRATION AND OTHER LEGALLY DEFINED DUTIES.	End-December, 1991.
	c. IMPLEMENT PROGRAM OF INTRODUCING BASIC CONSERVATION TECHNOLOGIES AT LOCAL LEVEL WITH ASSOCIATED TRAINING PROGRAMS FOR EXTENSION WORKERS.	End-February, 1993.
	* d. PRESCRIBE A PROGRAM FOR REGIONAL DISPERSION UNDER THE INDUSTRIAL LICENSES ACT.	End-March, 1992.
	* e. REVIEW AND REVISE PETROLEUM TAXES PERIODICALLY TO LEVELS ADEQUATE TO MINIMIZE POLLUTION.	Ongoing.
	f. DESIGN AND FINALIZE A POLICY TO LIMIT POPULATION GROWTH.	End-March, 1992.

12. Social Impact

To improve existing measures to protect the poorest segment of society more effectively.	* a. REVIEW AND REVISE EXISTING MIX OF TAX AND EXPENDITURE MEASURES TO PROTECT THE POOREST MORE EFFECTIVELY.	Ongoing.
	* b. INTENSIFY COORDINATION WITH NGOS TO IMPROVE COMPLEMENTARITY OF THEIR PROGRAMS WITH THOSE OF THE GOVERNMENT.	Ongoing.
	* c. INCREASE OUTLAYS ON WELFARE OF HANDICAPPED PERSONS, PREGNANT WOMEN LACTATING MOTHERS AND INFANTS THROUGH BOTH BUDGETARY APPROPRIATIONS AND SOLICITATION OF DONOR SUPPORT TO BOTH GOVERNMENT AND NGOS.	Ongoing.

Table 3. Lesotho: External Financing Requirements, 1989/90-1993/94

(In millions of SDRs)

	1989/90	1990/91 Est.	1991/92 Proj.	1992/93 Proj.	1993/94 Proj.
Financing requirement					
Current account, excluding net official transfers	-116.1	-117.2	-115.4	-127.2	-134.6
Amortization	-10.5	-11.0	-10.5	-10.0	-8.7
IMF repurchases	-0.5	-0.1	--	--	--
Errors and omissions	-23.8	-22.5	--	--	--
Valuation changes	-3.2	-5.7	-8.1	-10.6	-14.5
Change in reserves	-2.1	-15.6	-17.1	-43.1	-33.4
Total financing requirement	-156.2	-172.1	-151.2	-190.9	-191.3
Financing identified					
Private investment	15.0	19.1	17.0	15.5	14.7
Official transfers	89.8	92.3	89.4	98.7	104.8
Of which: non-SACU	(60.0)	(57.7)	(45.1)	(59.6)	(69.4)
Disbursements from existing commitments (end-December 1990)	51.4	60.6	38.9	21.5	11.3
Loans	51.4	60.6	38.9	21.5	11.3
Bilateral creditors	10.6	9.1	9.7	5.4	2.8
Multilateral creditors	24.3	27.7	29.2	16.1	8.5
Of which: World Bank	(9.9)	(9.5)	(10.9)	(11.4)	(9.0)
Short term capital	12.0	20.8	--	--	--
IMF purchases (SAF)	4.5	3.0	--	--	--
Disbursements: expected new commitments	--	--	5.9	55.2	60.5
Loans 1/	--	--	5.9	55.2	60.5
Bilateral creditors	--	--	0.6	17.1	16.3
Multilateral creditors	--	--	1.1	31.9	36.6
Of which: World Bank	(--)	(--)	(--)	(1.4)	(4.8)
IMF purchases (ESAF)	--	--	4.2	6.2	7.6
Total identified financing	156.2	172.1	151.2	190.9	191.3
Financing gap	--	--	--	--	--

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

1/ Including expected financing commitments for the hydroelectric component of the LHWP.