International Monetary Fund

Kingdom of Lesotho
and the IMF

Press Release:
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November 27, 2012

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Kingdom of Lesotho: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

November 12, 2012

The Kingdom of Lesotho: Letter of Intent

November 12, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Dear Ms. Lagarde:

The government of the Kingdom of Lesotho, led by the Right Honorable Prime Minister Dr. Thomas Motsoahae Thabane, is determined to successfully implement the economic and financial program supported by the Extended Credit Facility (ECF) of the International Monetary Fund (IMF), which was approved by the Executive Board in June 2010.

Lesotho weathered well the unfavorable external environment resulting from a fall in revenues from the Southern African Customs Union (SACU), high international commodity prices and floods in early 2011. Lesotho's macroeconomic prospects, however, remain challenging, in view of the recent drought and uncertain global economic outlook. We remain firmly committed to the reform program aimed at achieving macroeconomic stability consistent with sustained growth and poverty reduction.

Our performance under the program supported under the ECF has remained generally favorable (Table 1). All but one performance criteria through end-March 2012 were met. We breached the continuous performance criterion on the ceiling of newly contracted nonconcessional external debt, owing to inadequate internal controls. The indicative target for the floor on social spending was also met. Two structural benchmarks (SBs) due for the completion of the fourth review were implemented on time (Table 2).

Following our discussions and consultations with the IMF staff, we hereby transmit this Letter of Intent and the attached Memorandum of Economic and Financial Policies, in which we review the implementation of the program in 2011/12 and set out the government policy commitments in 2012/13 and beyond.

To avoid future breaches of the continuous performance criterion on the ceiling of newly contracted nonconcessional external debt we have taken the appropriate corrective measures, including the resuscitation of the Debt Management Committee and steps to review the legislation regarding government loans and guarantees, and the latter is proposed as end-March 2013 structural benchmark (structural benchmark, Table 3). We have also been sharing with the Fund staff draft loan contracts under negotiations. We, therefore, request a waiver for the non-observance of the performance criterion and the completion of the fourth review of the ECF-supported program based on overall performance under the program and the Government's policy intentions going forward. We also request modification of the performance criteria for end-March 2013 to reflect the better-than-programmed fiscal performance for 2012/13 and higher-than expected recovery of international reserves through mid-2012.

We believe that the policies set forth herein are adequate to achieve the objectives of our program, notwithstanding the new macroeconomic challenges we face. The Government is committed to ensuring that the program remains on track and will continue to monitor implementation. We will continue to consult with the IMF on any new measures and/or revisions to the policies described in this letter. We will also continue to provide the IMF with timely information required to monitor progress in program implementation. We consent to the publication, including on the IMF website, of this Letter of Intent, the attached MEFP, and the accompanying staff report.

Yours sincerely,

/s/	/s/
Hon. Dr. Leketekete Victor Ketso, Minister of Finance	Dr. Rets'elisitsoe Matlanyane Governor of the Central Bank of Lesotho

Attachments

Attachment I. Memorandum of Economic and Financial Policies

I. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Lesotho has been resilient to shocks, including a decline in the SACU revenues, high international commodity prices and floods in early 2011. Nonetheless, it maintained robust growth in 2011/12, mainly driven by the mining and construction sectors. Meanwhile, inflation—though steadily rising throughout 2011—has recently subsided, consistent with regional trend. However, international reserves continued to decline, reaching US$827million, equivalent to 3.3 months of imports by end-June 2012.

We continued our fiscal consolidation efforts in 2011/12. The core SACU fiscal deficit (excluding externally financed capital projects), estimated at 8½ percent of GDP, was broadly in line with that agreed to under the third review.[1] We accommodated flood-related capital outlays and priority social spending (2.2 percent of GDP). Notwithstanding significant capital spending, we kept recurrent spending consistent with the program, while revenue collection from the mining sector further increased.

Lesotho's macroeconomic prospects remain challenging, owing to the recent severe drought and the uncertain global economic outlook. Steady economic growth is expected, with the expansion of mining activities and the implementation of large infrastructure projects (including the Metolong dam), but downside risks are heightened, with the drought. International reserves remain low, and the uncertain global economic outlook poses risks to future SACU revenues and external demand for Lesotho's key exports—diamonds and textiles.

We have stepped up our efforts to seek additional external support to address recent weather-related shocks (floods in early 2011 and the recent drought). The Disaster Risks Reduction Fund (DRRF), established in late 2011, has so far secured the total pledge of US$3 million by the UN Central Emergency Response, UNDP, Ireland, People's Republic of China, and OCHA. The Government fully expended its commitment of 2.2 percent of GDP to help mitigate the disaster.

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[1] The core SACU fiscal balance—defined as the fiscal balance excluding the volatile component of SACU revenues and foreign-financed project loans—is the key policy anchor for fiscal consolidation efforts. The volatile component of SACU revenues is defined as the total SACU revenues minus the core component equivalent to 15 percent of GDP, which is the lowest annual SACU receipt in the last two decades.

Owing to continued poor weather conditions, including drought and early frost in 2012, Lesotho's food insecurity situation has worsened. Over 70 percent reduction in domestic agricultural production is now expected to affect 725,000 people (over a third of the population) between September 2012 and mid 2013. Following an international appeal, the United Nations has announced funding of US$6.2 million to respond to the mounting humanitarian crisis. These funds will be allocated from the UN Central Emergency Response Fund (CERF).

II. PERFORMANCE UNDER THE PROGRAM

Performance under the program remained generally favorable. We have met all performance criteria for end-March 2012 and indicative targets for end-June 2012, with the exception of the ceiling on newly contracted nonconcessional external debt (Table 1). The indicative target for the floor on social spending was also met. Structural reforms are progressing. Two out of three structural benchmarks (SBs) through June 2012 were implemented on time, namely the front office revenue receipting system in three pilot ministries and one sub-accountancy, and the audit of domestic arrears. A comprehensive inventory of Government accounts was completed in September 2012 (Table 2).

The ceiling on the contracting of nonconcessional external loans was missed, owing to the lapse of proper internal control over contracting external debt. In light of this, we are committed to sharing future loan contracts with the IMF staff before signing. Furthermore, we have been taking corrective measures to improve the monitoring of external borrowing. Those measures include: (i) resuscitating the Debt Management Committee (comprising the Principal Secretaries of the Ministries of Finance and Development Planning, the Attorney General and the Governor), which undertakes due diligence for all new loans and guarantees and advises the Minister of Finance accordingly; (ii) strictly adhering to the legal requirements for contracting external borrowing and guarantee set out in the 2011 Public Financial Management and Accountability Act (e.g., prior cabinet approval for all external borrowing); and (iii) modernizing the debt management legal framework and bringing it in line with best international practices with the assistance of our development partners, including the IMF (structural benchmark, Table 3).

III. MACROECONOMIC POLICIES UNDER THE PROGRAM

We remain committed to a program aimed at achieving fiscal and external sustainability over the medium term while addressing our development and social needs. In light of the current uncertainty surrounding global economic outlook, we will step up fiscal consolidation efforts to restore macroeconomic stability. We consider it to be critical for accumulating an adequate level of international reserves and supporting our exchange rate peg. To prepare for future shocks, we will rebuild international reserves buffer, raising its level above five months of imports in the medium term. The current account imbalance is expected to narrow over the medium-term, in line with fiscal consolidation, supported by strong performance in the mining sector.

We will promote private sector development to achieve our objective of sustainable economic growth as the most effective route for poverty reduction. Accordingly, we will continue to enhance access to credit and improve the business climate with a view to expanding employment opportunities. In this regard, the government has committed to implementing a set of comprehensive reforms under the National Strategic Development Plan (NSDP).

Maintaining fiscal consolidation

We will step up our fiscal consolidation efforts in 2012/13, through enhanced revenue collection, while protecting spending for vulnerable groups and some priority infrastructure and ensuring efficiency in public service delivery. We are targeting an overall fiscal surplus of 2⅓ percent of GDP, and a core SACU fiscal deficit (excluding externally financed capital projects) of 8¼ percent of GDP. This target, which exceeds our earlier program commitments, is consistent with restoring macroeconomic stability. We will achieve these objectives by reducing non-priority outlays through stricter expenditure control and enhancing revenue collection efforts.

In 2012/13 we will keep the original budget envelope and accommodate any new spending needs, including the cost of addressing emergency response needs for the drought (providing M 117 million for agricultural inputs, in addition to the already budgeted subsidy of M 18 million) and setting up the three new ministries, by reallocating spending within the existing 2012/13 budget envelope. Any revenue over-performance this fiscal year, compared with our program projection, will be saved to build up deposits at the CBL. We will take additional adjustment measures, should pressures on international reserves intensify. If warranted, such measures would include the postponement of less priority projects and containing recurrent expenditure, where possible.
To aid in our fiscal consolidation objectives, we are pressing forward with comprehensive structural reforms.

- Revenue administration. A full restructuring of the Lesotho Revenue Authority (LRA) is currently underway and will be completed by December 2012, including the operationalization of a full-service Large Tax Payer Unit (structural benchmark, Table 3). Furthermore, the LRA is undertaking further efforts to improve recovery of unpaid taxes, expand the taxpayer's registration, and strengthen compliance and service delivery. A circular will be issued to ensure that all the government revenues will be properly recorded and paid into a single government's revenue account. We plan to expand the front office revenue receipting system to all ministries by December 2012. In light of relatively low level of tax revenues collected from mining sector, we will review the mining taxation regime, with technical assistance from the IMF.

- PFM reforms. A comprehensive inventory of all government accounts, including those at commercial banks, has been completed. However, the incompatible CBL and Treasury systems made it difficult to undertake timely reconciliation of accounts. Stepped-up efforts, including enhanced coordination with the CBL and commercial banks, are being undertaken to ensure monthly reconciliation of all Treasury accounts starting from November 2012.
- Elimination of arrears. An audit of domestic arrears has been completed. The arrears, amounting to M65 million at end March 2012, were mostly cleared by end-September 2012. Furthermore, to help prevent the emergence of new domestic arrears, outstanding payables are now reported on a monthly basis. To improve the cash management system, circulars have been issued to ensure that line ministries properly record expenditures in the system and submit monthly reports to the Ministry of Finance on time.
- Debt management. We aim to review our outdated legal debt management framework with a view to proposing legislative reforms to ensure debt sustainability and sound debt management. Based on the forthcoming DEMPA report, we will develop a reform plan and a medium-term debt management strategy, with the assistance from the World Bank. In view of our moderate risk of debt distress, we will continue to seek external financing through grants and concessional loans to support the implementation of the National Strategic Development Plan (NSDP). In light of additional financing needs for the Metolong Dam Project, we have been negotiating a financial package loans and grant from several sources, with a view to making the overall package concessional. Looking forward, we are assessing options for the medium-term financing of the second phase of the Lesotho Highlands Water Project, which may not be available on concessional terms.

Supporting financial sector development

We will continue our efforts to strengthen the legal and regulatory frameworks of the financial sector. The new Financial Institutions Act (FIA) has empowered the CBL to deal effectively with unlawful business practices, including Ponzi schemes, and to regulate and supervise nonbank financial institutions (money lenders, foreign exchange bureaus, microfinance, and cooperative banks). To effectively implement the FIA, work is underway to prepare regulations for nonbank financial institutions by December 2012. Based on technical assistance from the IMF, we will improve supervision and regulation of the insurance sector and formulate a new Insurance Bill, in line with international standards (structural benchmark, Table 3). In addition, the Credit Reporting Act and the

Data Protection Act have been enacted. In accordance with the NSDP, we aim to review and improve other related legal frameworks, including pension legislation; bankruptcy; and leasing laws. These measures will help improve confidence in the financial system, and further spur financial sector development. To deepen financial intermediation and promote private sector development and inclusive growth, the CBL, with assistance from the IMF and World Bank, is also undertaking a comprehensive diagnostic assessment of the financial sector to formulate the Financial Sector Strategic Development Plan (FSSDP).

Improving investment climate

The implementation of strategies spelt out in the NSDP will help improve the business climate and facilitate private sector development. Partial Credit Guarantee Scheme was launched in August 2011, with a view to allowing greater access to credit by small and medium enterprises. The Companies Act 1967 has been amended and the new Companies Act 2011 has come into operation since June 2012; the new Act has introduced a short, simple and cost effective mechanism for incorporation and registration of companies. Reform efforts have been paying back as indicated by the Doing Business ranking for Lesotho which has moved up to the 136th place, from the 153rd place last year. We are determined to make faster progress in this area (e.g., creating an overarching investment policy, fully implementing the 2010 Land Act and the new Companies Act). Furthermore, we submitted the Industrial Licensing Bill to Parliament in early November 2012 (structural benchmark, Table 3), which would streamline the process of granting manufacturing/industrial licenses.

IV. PROGRAM ISSUES

Safeguard assessment. The CBL remains committed to implementing all the 2010 safeguards recommendations and those from the 2012 update assessment that was conducted in connection with the augmentation of the ECF arrangement. To address the weaknesses in the external audit identified in 2010, Deloitte (South Africa) was appointed to audit 2010-2012. We commit to continue the appointment of international audit firms with experience in auditing central banks for the duration of the program and any successor arrangements and thereafter for as long as Fund credit remains outstanding. We also commit to publish the audited annual financial statements within one month after audit completion and introduce the recommended internal audits of the monetary program data as an additional safeguard. Finally, resources will be earmarked in the 2013 budget to strengthen internal audit capacity in the near term.

Program monitoring. Completion of the fourth, fifth and sixth reviews of the arrangement, by November 30, 2012 and March 20, 2013, and May 20, 2013, respectively, will be based on the observance of quantitative performance criteria through end-March 2012, end-September 2012, and end-March 2013, respectively (Table 1). The targets for end-December 2012 will be indicative. The definitions of the variables monitored as quantitative performance criteria are provided in the Technical Memorandum of Understanding (TMU).

Table 1. Lesotho: Quantitative Performance Criteria, Benchmarks, and Indicative Targets, March 2011–March 2013

	2011						2012								2013	
	March		Status	Sep.		Status	March		Status	Jun.		Sep.	Dec.		Mar.	
	PC	Act.		PC	Act.		PC	Act.		IT	Act.	PC	IT	Proposed IT	PC	Proposed PC
Ceiling on the domestic financing requirement of the central government [1, 2]	1,453			1,435			1,629			148		227	-81	-1,002	-891	-966
Adjusted benchmark [3]	1,670	1,231	Met	1,385	482	Met	1,564	1,284	Met	139	-581					
Ceiling on the net domestic assets of the Central Bank of Lesotho [1, 2]	1,335			1,314			1,275			-43		118	-260	-284	-652	-499
Adjusted benchmark [3]	1,551	1,397	Met	1,264	9	Met	1,210	515	Met	-52	-315					
				(US$ millions)												
Floor on the stock of net international reserves of the Central Bank of Lesotho [2]	805			634			736			722		723	754	920	911	987
Adjusted benchmark [3]	776	897	Met	641	892	Met	745	851	Met	723	876					
Ceiling on the stock of external payments arrears [4]	0	0	Met	0	0	Met	0	0	Met	0	0	0	0	0	0	0
Ceiling on the amount of new non-concessional external debt contracted or guaranteed by the public sector (cumulative from end-March 2010) [2, 4]																
Maturity of less than one year	0	0	Met	0	0	Met	0	0	Met	0	0	0	0	0	0	0
Maturity of one year or more	182	242	Not Met [6]	182	242	Not Met [6]	182	274	Not Met [6,7]	182	274 [6,7]	182	182	274	182	274
				(Maloti millions)												
Indicative targets:																
Floor on the central government social expenditures[5]	170	205	…	170	170	…	170	170	…	183	184	183	183	183	183	183
***Memorandum items*:**																
Net disbursements [1,2]	304	272	…	-18	32	…	-122	-57	…	-88	-79	-65	-129	-104	-157	-104
General budget support	552	530	…	154	162	…	207	302	…	0	0	120	180	180	300	300
Debt service payments	249	258	…	172	131	…	329	359	…	88	79	185	309	284	457	404
SACU receipts [1]	2,628	2,628	…	1,376	1,376	…	2,752	2,752	…	1,492	1,492	2,983	4,475	4,475	5,966	5,966

Sources: Ministry of Finance; Central Bank of Lesotho; and Fund staff estimates.

[1] Values are cumulative from April 1st (beginning of the fiscal year).

[2] Definitions and program adjusters are specified in the TMU.

[3] Adjusted for lower budget support.

[4] Continuous performance criteria.

[5] Includes spending on school feeding program, old age pension and HIV/AIDS.

[6] Includes a USD 60 million nonconcessional loan for which wavers have been requested.

[7] Includes a USD 32 million nonconcessional loan for which wavers have been requested.

Table 2. Structural Benchmarks for June 2012

Benchmarks	Test date	Status
Implement the front office revenue receipting system in 3 pilot ministries and 1 sub accountancy	End-March 2012	Met
Complete an audit of domestic arrears and prepare a time bound plan for elimination	End-March 2012	Met
Undertake a comprehensive inventory of Government accounts, including those in commercial banks	End-June 2012	Met with delay

Table 3. Structural Benchmarks through March 2013

Benchmarks	Test date	Macroeconomic rationale
I. Public Financial Management		
Reconcile all Treasury (Revenue and Expenditure) Accounts on a monthly basis and produce a monthly monitoring report.	End-November 2012	Support expenditure efficiency and medium-term fiscal consolidation
Establish a Cash Management Unit in the Treasury.	End-December 2012	Support expenditure efficiency and medium-term fiscal consolidation
II. Debt management		
Submit to Parliament the amendments of the Loans and Guarantees Act	End-March 2013	Strengthen debt management
II. Revenue Collection		
A full-service Large Tax Payers Unit established, which provides the full range of tax administration functions.	End-December 2012	Support revenue collection and medium-term fiscal consolidation
III. Financial Sector Regulation		
Submit to Parliament the Insurance Bill.	End-December 2012	Strengthen financial sector stability
IV. Other Structural Reforms		
Submit to Parliament the Industrial Licensing Bill, which will improve the process of licensing industrial enterprises [1]	End-September 2012	Improve the business climate to facilitate private sector-led growth, and enhance competitiveness

[1] Previously end-March 2011 structural benchmark.

Attachment II: The Kingdom of Lesotho—Technical Memorandum of Understanding

1. This memorandum sets forth the understandings between the government of Lesotho and the IMF staff regarding the definitions of the quantitative performance criteria and benchmarks for the second, third and fourth reviews of its arrangement under the ECF-supported program, as well as the respective reporting requirements. These performance criteria and benchmarks are reported in Table 1 of the government's Memorandum of Economic and Financial Policies (MEFP).

A. Ceiling on the Domestic Financing Requirement (DFR) of the Central Government

2. Definition. The central government includes the central administration and all district administrations. The domestic financing requirement of the central government is defined as net credit to the government from the banking system (that is, the Central Bank of Lesotho and the commercial banks) plus holdings of treasury bills and other government securities by the nonbank sector. For program monitoring purposes, the domestic financing requirement will be calculated as the change from the end of the previous fiscal year (which runs from April 1 to March 31) of net credit to the government by the banking system and of holdings of treasury bills and other government securities by the nonbank sector. In particular, the calculation of the domestic financing requirement shall include changes in (i) balances held in the privatization account or balances of other accounts into which proceeds from the sale of public enterprises are deposited; (ii) the amount of outstanding treasury bills issued by the Central Bank of Lesotho for monetary policy purposes and held in the balance of the blocked government deposit account used by the Central Bank of Lesotho to sterilize reserve money absorbed by monetary policy operations. The calculation of the domestic financing requirement shall exclude changes in balances held in any account into which revenues collected by the customs department are held pending their transfer to the SACU revenues pool. External debt service, amortization, disbursements and external grants will be calculated at current exchange rates.

3. Supporting material. The Central Bank of Lesotho will provide the monetary survey and other monthly monetary statistics, as well as a table showing the details of all government financing operations from the nonbank public, on a monthly basis and within 30 days of the end of the month. The following information will be presented as memorandum items in the monetary survey: (i) the outstanding balances in the privatization account or accounts; and (ii) details of any monetary operations with treasury bills, including changes in government deposits as a result of such operations. The Central Bank of Lesotho will also provide a table showing the

details of government debt by type and holder. The Ministry of Finance will provide detailed monthly budget operation reports and tax arrears reports.

B. Ceiling on the Stock of Net Domestic Assets of the Central Bank of Lesotho

4. Definition. The net domestic assets (NDA) of the Central Bank of Lesotho are defined as the difference between reserve money (currency in circulation plus total bank deposits at the central bank) and NFA (as defined in paragraph 5). For program monitoring purposes, the NDA will be calculated as the change from the end of the previous fiscal year (which runs from April 1 to March 31). The NDA thus includes net claims by the Central Bank of Lesotho on the government (loans and treasury bills purchased less government deposits), claims on banks, and "other items net" (other assets, other liabilities, and the capital account).

5. Definition. The net foreign assets (NFA) of the Central Bank of Lesotho are defined as foreign assets minus foreign liabilities, and include all foreign claims and liabilities of the central bank. The values of all foreign assets and liabilities will be calculated in U.S. dollars at the end of each quarter using the program exchange rates.

6. Supporting material. The Central Bank of Lesotho will provide detailed data on its balance sheet on a monthly basis within 21 days of the end of the month. The central bank will also provide a table of selected monetary indicators covering the major elements of its balance sheet on a weekly basis.

C. Floor on the Stock of Net International Reserves of the Central Bank of Lesotho

7. Definition. The net international reserves (NIR) are defined as the Central Bank of Lesotho's liquid, convertible foreign assets minus its short-term foreign liabilities. Pledged or otherwise encumbered assets, including, but not limited to, assets used as collateral or as guarantee for third-party external liabilities are excluded from reserve assets. Reserve assets include cash and balances held with banks, bankers' acceptances, investments, foreign notes and coins held by the Central Bank of Lesotho, Lesotho's reserve position in the Fund, and SDR holdings. Reserve liabilities include nonresident deposits at the Central Bank of Lesotho, use of IMF credit, and any other short term liabilities of the central bank to nonresidents. The stock of

NIR at the end of each quarter is defined in U.S. dollars and will be calculated using the program exchange rates.[2]

8. Supporting material. The Central Bank of Lesotho will provide data on its NIR on a monthly basis within three weeks of the end of the month. The NIR data will be provided in a table showing the currency breakdown of the reserve assets and reserve liabilities of the Central Bank of Lesotho converted into U.S. dollars and maloti at the program exchange rates.

D. Ceiling on the Amount of New Nonconcessional External Debt Contracted or Guaranteed by the Public Sector, with Original Maturity of One Year or More

9. Definition. For purposes of the ECF arrangement, concessionality requirements will be applied to foreign-currency denominated debt regardless of the residency of the creditor. The public sector comprises the central government, the Central Bank of Lesotho, and all public enterprises and other official sector entities with majority state ownership. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, adopted by Decision No. 6230-(79/140), as revised on August 24, 2000, as amended effective December 1, 2009, but also to commitments contracted or guaranteed for which value has not been received. Included in this performance criterion are all current liabilities that are created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and that require the public sector (obligor) to make one or more payments in the form of assets (including currency) at some future point(s) in time to discharge principal and/or interest liabilities incurred under the contract. In effect, all instruments that share the characteristics of debt as described above (including loans, suppliers' credits, and leases) will be subject to the ceiling. The performance criterion will be evaluated on a continuous basis as the cumulative change in the amount of new nonconcessional debt contracted or guaranteed from end-March 2010 onward.

10. Definition. A loan is concessional if its grant element is at least 35 percent of the value of the loan, calculated using a discount rate based on commercial interest reference rates (CIRRs) reported by the OECD. For loans of maturity of at least 15 years, the grant element will be based on the ten-year average of OECD CIRRs. For loans of maturity of less than 15 years, the grant element will be based on the six-month average of OECD CIRRs. Margins for differing repayment

[2] Program cross exchange rates are: South African rand per U.S. dollar: 7.3; U.S. dollars per pound sterling: 1.5; U.S. dollars per euro: 1.3; Swiss francs per U.S. dollar: 1.1; Swedish kronor per U.S. dollar: 7.3; and Botswana pula per U.S. dollar: 6.8. SDR per U.S. dollar: 0.648; Program maloti per U.S. dollar exchange rate: 7.3.

periods would be added to the CIRRs: 0.75 percent for repayment periods of less than 15 years, 1 percent for repayment periods of 15 to 19 years, 1.15 percent for repayment periods of 20 to 29 years, and 1.25 percent for repayment periods of 30 years or more.

11. Supporting material. Details of all new commitments and government guarantees for external borrowing, with detailed explanations, will be provided by the Ministry of Finance on a monthly basis within 30 days of the end of the month.

E. Ceiling on the Amount of New External Debt Contracted or Guaranteed by the Public Sector, with Original Maturity of Less than One Year

12. Definition. The public sector comprises the central government, the Central Bank of Lesotho, and all enterprises with majority state ownership. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, adopted by Decision No. 6230-(79/140), as revised on August 24, 2000, as amended effective December 1, 2009, but also to commitments contracted or guaranteed for which value has not been received. Included in this performance criterion are all current liabilities that are created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and that require the public sector (obligor) to make one or more payments in the form of assets (including currency) at some future point(s) in time to discharge principal and/or interest liabilities incurred under the contract. In effect, all instruments that share the characteristics of debt as described above (including loans, suppliers' credits, and leases) will be subject to the ceiling. Excluded from this performance criterion are normal short-term import credits. The performance criterion will be evaluated on a continuous basis as the cumulative change in the amount of new nonconcessional debt contracted or guaranteed from the end of the previous fiscal year (March 31).

13. Supporting material. Details of all new commitments and government guarantees for external borrowing, with detailed explanations, will be provided by the Ministry of Finance on a monthly basis within 30 days of the end of the month.

F. Ceiling on the Stock of External Payments Arrears

14. Definition. During the period of the arrangement, the stock of external payments arrears of the public sector (central government, Central Bank of Lesotho, and all enterprises with majority state ownership) will continually remain zero. Arrears on external debt-service

obligations include any nonpayment of interest and/or principal in full and on time falling due to all creditors, including the IMF and the World Bank.

15. Supporting material. Details of arrears accumulated on interest and principal payments to creditors will be reported within one week from the date of the missed payment.

G. Floor on the Central Government Social Expenditures

16. Definition: There will be a floor on the central government social expenditures from domestic resources. The observance of this floor is an indicative target. Social expenditures comprise spending on the following: school feeding program, old age pension, war veterans and HIV/AIDS.

17. Supporting material: Data on social spending will be compiled by the Ministry of Finance and will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each reporting period.

H. Adjusters

18. The quantitative performance criteria specified under the program are subject to the following adjusters:

A. Southern African Customs Union Revenues

- The program targets for the NDA in any quarter will be adjusted downward (upward) by the full amount of any excess (shortfall) in receipts from the Southern Africa Customs Union (SACU) relative to the programmed levels specified in Table 1 of the MEFP as well as any SACU advance receipts in that quarter, where such advance receipts constitute amounts that would otherwise have been received in a subsequent quarter.
- The program targets for the DFR in any quarter will be adjusted downward (upward) by the full amount of any excess (shortfall) in receipts from the Southern Africa Customs Union (SACU) relative to the programmed levels specified in Table 1 of the MEFP as well as any SACU advance receipts in that quarter, where such advance receipts constitute amounts that would otherwise have been received in a subsequent quarter.
- The program targets for the NIR in any quarter will be adjusted upward (downward) by the full amount of any excess (shortfall) in receipts from the Southern Africa Customs Union (SACU) relative to the programmed levels specified in Table 1 of the MEFP as well as any

SACU advance receipts in that quarter, where such advance receipts constitute amounts that would otherwise have been received in a subsequent quarter.

19. Supporting material: The Central Bank of Lesotho will provide data on SACU receipts on a quarterly basis within the first month of the quarter.

B. Budgetary Support net of Debt Service[3]

- The ceiling on the NDA will be adjusted downward (upward) by the full amount of the excess (shortfall) in budgetary support net of external debt service relative to the programmed levels specified in Table 1 of the MEFP.
- The ceiling on the DFR will be adjusted downward (upward) by the full amount of the excess (shortfall) in budgetary support net of external debt service relative to the programmed levels specified in Table 1 of the MEFP.
- The floor on the NIR of the Central Bank of Lesotho will be adjusted upward (downward) by the full amount of the excess (shortfall) in budgetary support net of external debt service relative to the programmed levels specified in Table 1 of the MEFP.

20. Supporting material: Data on budget support and debt service will be compiled by the Ministry of Finance and will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each reporting period.

C. Unused Metolong loan balance

- The ceiling on the NDA will be adjusted downward (upward) by the full amount of the excess (shortfall) in budgetary support net of external debt service relative to the programmed levels specified in Table 1 of the MEFP.
- The ceiling on the DFR will be adjusted downward (upward) by the full amount of the excess (shortfall) in budgetary support net of external debt service relative to the programmed levels specified in Table 1 of the MEFP.

[3] General budget support consists of grants and loans received by the Central Government for financing its overall policy and budget priorities.

- The floor on the NIR of the Central Bank of Lesotho will be adjusted upward (downward) by the full amount of the excess (shortfall) in budgetary support net of external debt service relative to the programmed levels specified in Table 1 of the MEFP.

21. Supporting material: Data on the Metolong project loan balance under the government's accounts will be compiled by the Central Bank of Lesotho and will be provided on a quarterly basis, to be submitted no later than six weeks after the end of each reporting period.

22. The above supporting data and reports required for program monitoring by IMF staff will be transmitted by the authorities to the IMF Resident Representative to Lesotho.