International Monetary Fund

Kingdom of Lesotho
and the IMF

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

Press Release:
IMF Executive Board Completes Fifth Review Under ECF Arrangement for Lesotho, and Approves US$8.6 Million Disbursement and Extension of Arrangement
May 9, 2013

April 20, 2013

The following item is a Letter of Intent of the government of the Kingdom of Lesotho, which describes the policies that the Kingdom of Lesotho intends to implement in the context of its request for financial support from the IMF. The document, which is the property of the Kingdom of Lesotho, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Country's Policy Intentions Documents

KINGDOM OF LESOTHO—LETTER OF INTENT

April 20, 2013

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

Dear Ms. Lagarde:

This letter and the attached Memorandum of Economic and Financial Policies (MEFP) update and supplement my communication of November 12, 2012, describe performance under the government's economic program, and outline our economic policies for 2012/13 and 2013/14.

Last year Lesotho experienced severe drought. Agricultural production declined significantly, and our government declared an Emergency Food Crisis in August 2012 and subsequently launched an appeal for international assistance. Thus far, the pledges from our development partners have been strong, amounting to US$40 million, and have fully covered estimated immediate needs. Thanks to this support, we are able to sustain our fiscal adjustment program and gradually rebuild our international reserve buffer, without undermining Lesotho's medium term economic growth prospects. We are 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 arrangement has remained strong. We met all the performance criteria through end-September 2012 and the indicative targets for end-December 2012, except for the indicative target on social spending for September 2012, which was missed by a small margin (Table 1, MEFP). Although we are fully committed to our structural reforms under the program, administrative setbacks resulted in a delay in the completion of some structural benchmarks (SBs), with only three SBs out of six completed (Table 2, MEFP). These include (i) the submission of the Industrial Licensing Bill to Parliament; (ii) the submission of the Insurance Bill to Parliament, and (iii) the establishment of a full-service large taxpayer unit (LTU). For the remaining three SBs, we are committed to implementing them by end-May 2013, as set forth in Table 3. The reconciliation of all treasury accounts (revenue and expenditure) is set to start by end-May 2013, owing to the inability of line ministries and agencies to provide necessary information for completing the reconciliation. Although the administrative structure of the CMU was approved, there has been some delay in the recruitment of all staff for that unit. We are aiming to complete this by end-May 2013. To allow more time for stakeholder consultations on the public debt legislation, a draft of which is being prepared with IMF TA, we plan to submit the amendments of the Loans and Guarantees Act to Parliament by end-May 2013.

We therefore request completion of the fifth review of the ECF-supported program and associated disbursement, based on overall performance under the program and the government's policy intentions going forward. Performance criteria and structural benchmarks for 2012–13 are included in Tables 1 and 3, MEFP.

We believe that the policies set forth herein are adequate to achieve the objectives of our program, notwithstanding the drought-related food crisis. 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.

In light of our successes under the current ECF arrangement and remaining challenges we are facing, particularly in respect of public financial management and a civil service reform, we are interested in continuing program relations with the Fund through a successor three-year arrangement. We believe that a successor Fund arrangement would support continued macroeconomic stability and sustainable growth. Structural reforms would also be facilitated, in collaboration with the World Bank and other international partners. Thus we welcome discussions on a possible follow-up program in coming months.

To ensure that there is sufficient time to complete the sixth review under the three-year arrangement, which will be based on performance at end-March 2013, we request that the arrangement be extended until September 30, 2013 with rephasing of the remaining disbursement.

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

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Despite the recent drought, Lesotho has maintained robust growth, largely driven by its expanding mining sector. Annual inflation has subsided to 5.1 percent in February 2013 in response to the continued easing of international commodity prices. Supported by the progress in fiscal consolidation, the external balances are steadily recovering, with gross international reserves reaching US$1 billion, equivalent to about 4 months of imports, by end-February 2013, up from 3½ months of imports in March 2012.

Although Lesotho is expected to maintain robust growth, its macroeconomic prospects remain challenging, owing to the recent drought, susceptibility to natural disasters, and the uncertain global economic outlook. The uncertain global economic outlook poses risks to the regional economy and future Southern African Customs Union (SACU) revenues, as well as external demand for Lesotho's key exports—diamonds and textiles. Exports of textiles are likely to be affected by the expectation of the African Growth and Opportunity Act (AGOA) trade preferences being phased out in 2015/16

Owing to cumulative adverse weather in recent years exacerbated by the drought in 2012, Lesotho's food security situation has worsened and could affect the pace of our medium term fiscal consolidation efforts. According to the latest estimates by the Lesotho Vulnerability Assessment Committee, domestic agricultural production is expected to decline by 70 percent in 2012/13. Our international appeal launched in September 2012 has so far generated $40 million, covering most of our immediate needs.

PERFORMANCE UNDER THE PROGRAM

Overall performance under the ECF-supported program has been strong. We have continued to meet all quantitative performance criteria through end-September 2012 and indicative targets through end-December 2012 (Table 1), except for the indicative target on social spending for September 2012, which was missed by a small margin. This is associated with lower-than-estimated cost for a school feeding program, owing to the school holidays. Structural reforms are also progressing, albeit with delays in some areas. Three out of six structural benchmarks (SBs) through March 2013 were implemented (Table 2), namely: the submission of the Industrial Licensing Bill to the Parliament; the submission of the Insurance Bill to Parliament; and (iii) the establishment of a full service LTU. The reconciliation of all treasury accounts (revenue and expenditure) was further delayed, owing to the failure of chief accounting officers of line ministries and agencies to furnish necessary information. To facilitate the reconciliation, the Minister of Finance called for support from all ministers at a cabinet meeting in January 2013, and the Accountant General issued a circular to the chief accounting officers to complete the exercise by March 2013. The administrative structure of the cash management unit was approved by the cabinet, there has been some delay in the recruitment of staff for that unit, and the unit is expected to be fully established by end-May 2013, with all staff deployed and an operational manual prepared. The large tax payers unit was established at the end of March as a part of the broader restructuring program in the Lesotho Revenue Authority (LRA). To allow more time for stakeholder consultations on the public debt legislation, a draft of which is being prepared with IMF TA, we plan to submit the amendments of the Loans and Guarantees Act to Parliament by end-May 2013.

MACROECONOMIC POLICIES UNDER THE PROGRAM

We remain committed to achieving fiscal and external sustainability over the medium term, while addressing our development and social needs. As a small open economy, Lesotho is prone to exogenous shocks. We are therefore committed to rebuilding an adequate level of international reserves cushion for such future shocks (equivalent to above five months of imports), through fiscal consolidation over 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 are conscious of the need for, and are committed to promote private sector development as the most effective route to achieving sustainable growth and poverty reduction. Accordingly, we will continue to streamline government activities and size, while enhancing private sector access to credit and the business climate. The recently formulated National Strategic Development Plan (NSDP) lays out a set of comprehensive reforms. To facilitate the implementation of the NSDP the government plans to finalize the *Public Sector Investment Programme* (PSIP), the Implementation Plan, and the Monitoring and Evaluation Framework by end-May 2013. Subsequently, the government aims to initiate a dialogue with international partners to mobilize resources to assist the implementation of the NSDP.

A. Macroeconomic Policies for 2012/13

We were able to achieve an estimated fiscal surplus of 4¾ percent of GDP, compared with a budgeted surplus of 0.2 percent of GDP, partly due to delayed execution of some capital projects, while pursuing external grant financing for immediate drought-related costs and spending for vulnerable groups and some priority infrastructure. A core SACU fiscal deficit (excluding externally financed capital projects) is estimated to have further improved to 5 percent of GDP,[1] helping to restore macroeconomic stability and further improve international reserves. We achieved these objectives by reducing non-priority outlays through stricter expenditure control and enhancing revenue collection.

To secure financing for the drought-related costs, the government managed to mobilize donor supports and accommodate spending needs within the current budget envelope. The international appeal (launched in September 2012) has so far generated $40 million, apparently covering most immediate needs. We have also accommodated other immediate spending needs, including the cost of addressing emergency response needs for the drought (providing M117 million for agricultural inputs, in addition to the already budgeted subsidy of M18 million), by reallocating spending within the 2012/13 budget envelope.

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

B. Macroeconomic Policies for 2013/14 and Beyond

To achieve our medium-term objective of rebuilding international reserves in support of our exchange rate peg to the South African Rand, we will maintain our fiscal consolidation efforts, while supporting economic growth and employment, protecting vulnerable groups and proceeding with priority infrastructure projects under the NSDP. Though SACU revenue is projected to increase further in 2013/14, we will refrain from expanding government spending by saving the increase and targeting a deficit limit in the core SACU fiscal of 4⅓ percent of GDP for 2013/14. This target would facilitate adequate capital spending for growth, while we pursue further rationalization and efficiencies in recurrent spending (particularly on goods and services), and strengthen revenue administration. Specifically, we intend to (i) limit the filling of vacant posts and contain creation of new positions to a few posts, intended to create capacity for newly created ministries),[2] (ii) conduct a review of the civil service with the assistance of the World Bank to determine the optimal size of the civil service and restructuring needs, with a view to improving efficiency and helping to achieve the goals of the NSDP, (iii) reduce non-priority outlays through stricter expenditure control, (iv) limit contingency spending to emergencies, and (iv) implement revenue administration measures following the completion of the LRA restructuring. While we continue to contain the overall wage bill, we intend to restrict the filling of vacancies to priority posts. We provided a modest increase in wages and salaries to retain technically skilled workers, regularized the wage structure and brought wages and salaries closer to the minimum income level for the lower grades. With the assistance of the World Bank the government intends to undertake a full civil service audit, which would determine the exact number of public servants and assist in the clean-up of the payroll. With these consolidation efforts, our economic growth is expected to remain robust, the external balances are expected to further improve, and gross international reserves would reach US$1.1 billion, equal to 4⅔ months of imports by March 2014.

C. Structural Reforms

Enhancing Revenue Administration

To improve domestic revenue collection, we will continue to strengthen tax administration and broaden the tax base. As a part of restructuring of LRA, a full-service Large Tax Payer Unit has been established. Furthermore, the LRA has been undertaking further efforts to improve recovery of unpaid taxes, expand the taxpayer's registration, and strengthen compliance and service delivery. The government has been considering a comprehensive review of the income taxes and the VAT, with a view of improving tax efficiency. With IMF technical assistance, we aim to review the mining taxation regime by mid-2013 with a view to ensuring that the regime is consistent with international best practices.

Improving Public Financial Management (PFM)

We have recently prepared a comprehensive PFM action plan, assisted by the IMF's Fiscal Affairs Department (FAD) and AFRITAC South, in full coordination with all the key donors. This plan details

---

[2] These include the ministries of Development Planning, Mining, and Social Development.

the reform deliverables for the next three years. The reforms aim at achieving the following objectives: (i) developing and implementing a modern PFM regulatory framework; (ii) improving transparency and effectiveness of fiscal policy by enhancing macro-fiscal projections and strengthening the links between fiscal strategy and budget appropriations; (iii) strengthening internal controls, accounting and fiscal reporting to achieve full compliance with the regulatory framework; and (iv) improving governance and institutional management of PFM reforms. Our reform efforts in 2013/14 will focus on developing capacity to implement the PFM regulatory framework; improving the budget process by strengthening the links between development plans and budgetary appropriations and greater engagement of policy makers in the budget process; and improving cash management and strengthening internal controls. In coming months, we plan to coordinate areas of technical assistance to support the implementation of our PFM action plan, with Lesotho's international partners (e.g., IMF, EU, World Bank, AfDB).

Following a comprehensive inventory of all government accounts, the monthly reconciliation of government's main bank accounts and monthly monitoring reports are expected to start in May 2013, and the Cash Management Unit is to be established in the Accountant General's Office by end-May 2013. To successfully implement these reforms, enhanced coordination between the treasury and line ministries is being actively undertaken.

Strengthening Debt Management

We have made progress in strengthening debt management. With technical assistance from the IMF, legislative reforms are being formulated to safeguard debt sustainability and modernize the debt management framework. Based on the forthcoming Debt Management Performance Assessment (DEMPA), we will develop a broader 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 NSDP. Looking forward, we also 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 necessary for financial deepening. The new Financial Institutions Act (FIA) has empowered the CBL to regulate and supervise nonbank financial institutions (money lenders, foreign exchange bureaus, microfinance, cooperative banks). To effectively implement the FIA, regulations for nonbank financial institutions are being prepared, and a new Insurance Bill, in line with international standards, has been submitted to Parliament. Based on further technical assistance from the IMF, other financial institutions regulations (e.g., asset classification, lending limits) are being developed, and we will also improve supervision and regulation of the insurance sector. 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 also facilitate 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) by end-2013.

Improving Investment Climate

We have embarked on private sector development, in the context of a comprehensive plan to improve the business climate in the NSDP. In collaboration with the World Bank, we will seek to improve the business climate and promote private sector development, including through improving access to finance through better collateralization of loans. We will intensify our efforts to complete the national identification card project given its importance to establishing a credit rating agency, and to foster bank lending to the private sector. We will also accelerate our ongoing land titling program, fully implement the 2010 Land Administrations Act, and advance the national identification card project to facilitate the establishment of a credit rating system. In view of prospective expiration of the AGOA in 2015, we will review the sector's development under the AGOA and explore ways to strengthen competitiveness of Lesotho's export industries.

PROGRAM ISSUES

Safeguard assessment. We remain committed to implementing all safeguards recommendations from the 2010 and 2012 assessments. Specifically, the CBL will continue the practice of appointing international audit firms with experience in auditing central banks for the duration of this and any successor arrangements, and thereafter for as long as IMF's credit remains outstanding. We will also publish the CBL's audited annual financial statements within one month after audit completion. To introduce the recommended internal audits of the monetary program data as an additional safeguard, internal auditors worked with the IMF mission to confirm test date data. Finally, we intend to provide resources in the 2013 budget of the CBL to strengthen internal audit capacity in the near term.

Program monitoring. Completion of the sixth review under the arrangement, by August 30, 2013 will be based on the observance of quantitative performance criteria through end-March 2013, respectively (Table 1). 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.		Status	Dec.		Status	Mar.
	PC	Act.		PC	Act.		PC	Act.		IT	Act.	PC	Act.		IT	Est.		PC
	(Maloti millions)																	
Ceiling on the domestic financing requirement of the central government [1, 2]	1,453			1,435			1,629			148		227			-1,002			-966
Adjusted benchmark	1,670	1,231	Met	1,385	482	Met	1,564	1,284	Met	139	-320	346	-950	Met	-1,017	-1,414	Met	
Ceiling on the net domestic assets of the Central Bank of Lesotho [1, 2]	1,335			1,314			1,275			-43		118			-264			-499
Adjusted benchmark	1,551	1,397	Met	1,264	9	Met	1,210	515	Met	-52	-315	237	-1,065	Met	-279	-1,460	Met	
	(US$ millions)																	
Floor on the stock of net international reserves of the Central Bank of Lesotho [2]	805			634			736			722		723			917			987
Adjusted benchmark	776	897	Met	641	892	Met	745	851	Met	723	876	707	973	Met	919	1,050	Met	
Ceiling on the stock of external payments arrears [3]	0	0	Met	0	0	Met	0	0	Met	0	0	0	0	Met	0	0	Met	0
Ceiling on the amount of new non-concessional external debt contracted or guaranteed by the public sector (cumulative from end-March 2010) [2, 3]																		
Maturity of less than one year	0	0	Met	0	0	Met	0	0	Met	0	0	0	0	Met	0	0	Met	0
Maturity of one year or more	182	242	Not Met [5]	182	242	Not Met [5]	182	274	Not Met [5]	182	274 [5]	182	274	Not Met	274	274	Met	274
	(Maloti millions)																	
Indicative targets:																		
Floor on the central government social expenditures[4]	170	205	Met	170	170	Met	170	170	Met	183	184	183	175	Not Met	183	183	Met	183
***Memorandum items*:**																		
Net disbursements [1,2]	304	272	…	-18	32	…	-122	-57	…	-88	-79	-65	-184	…	-104	-90	…	-104
General budget support	552	530	…	154	162	…	207	302	…	0	0	120	0	…	180	196	…	300
Debt service payments	249	258	…	172	131	…	329	359	…	88	79	185	184	…	284	286	…	404
SACU receipts [1]	2,628	2,628	…	1,376	1,376	…	2,752	2,752	…	1,492	1,492	2,983	2983	…	4,475	4,475		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] Continuous performance criteria.

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

[5] At the time of the 4th review under the ECF arrangement for Lesotho on November 27, 2012 the Board granted a waiver of nonobservance of the continuous PC on contracting/guaranteeing of new nonconcessional debt up to 274 million cumulative from March-2010.

Table 2. Structural Benchmarks for September 2012–March 2013

Benchmarks	Test date	Status
I. Other structural reforms		
Submit to Parliament the Industrial Licensing Bill, which will improve the process of licensing industrial enterprises	End-September 2012	Met with delay
Submit to Parliament the Insurance Bill	End-December 2012	Met with delay
II. Public Financial Management		
Reconcile all Treasury (Revenue and Expenditure) Accounts on a monthly basis and produce a monthly monitoring report.	End-November 2012	Not met
Establish a Cash Management Unit in the Treasury	End-December 2012	Not met
II. Debt Management		
Submit to Parliament the amendments of the Loans and Guarantees Act	End-March 2013	Not met
III. Revenue collection		
Establish a full-service Large Tax Payers Unit, which provides the full range of tax administration functions.	End-December 2012	Met with delay

Table 3. Structural Benchmarks through May 2013

Benchmarks	Test date	Macroeconomic rationale
I. Public Financial Management		
Establish a Cash Management Unit in the Treasury.	End-May 2013	Support expenditure efficiency and medium-term fiscal consolidation
Reconcile all Treasury (Revenue and Expenditure) Accounts on a monthly basis and produce a monthly monitoring report.	End-May 2013	Support expenditure efficiency and medium-term fiscal consolidation
II. Debt Management		
Submit to Parliament the amendments of the Loans and Guarantees Act	End-May 2013	Strengthen debt management

ATTACHMENT II. 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 fifth and sixth 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.[3]

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.

[3] 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.

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 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, HIV/AIDS, and cash grants to orphaned and vulnerable children.

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[4]

- 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.

---

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

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.

- 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.