



## **Public Sector Reform Process in Lesotho: Benefits and Challenges**

*The Government of Lesotho realised the need for, and has undertaken to improve public financial management. In order to carry out this enormous task, the Ministry of Finance and Development Planning embarked on a broad public financial management reform process...*

### **Background**

The debate on good governance and its requirements has provided impetus for new approaches to public sector management reforms. The approaches appear to suggest that good public management and administration with focus on accountability and responsiveness to customer needs is fundamental for economic development. The World Bank identifies three pillars for good governance, namely; an efficient public service, a reliable judicial system, and an administration that is accountable. In turn, good governance places emphasis on improvement of public sector management systems. No wonder the prescriptions of good governance centre on public management reforms as a key component pointing towards market and private sector approaches to public sector management under the ambit of the New Public Management (NPM). The Government of Lesotho (GoL) has come to recognise the potential of achieving sustainable economic development through the public sector management reform process. Within this framework, this article provides a snapshot of the reform process and

### **INSIDE**

- 2. IMF World Economic Outlook April 2007: Spillovers and Cycles in the Global Economy.....4**
- 3. Monetary Policy Operations for March 2007.....5**
- 4. Foreign Exchange rate, Interest rate and inflation.....6**
- 5. Selected Monetary and Financial Indicators.....8**
- 6. Selected Economic Indicators..8**

discusses the benefits and challenges that lie ahead.

### **The New Public Management: An Overview**

By definition, the NPM describes a management culture that emphasises the centrality of the citizen or customer as well as accountability for results. It shifts the weight of management from traditional public administration to public management which is market-based and employs techniques borrowed from the private-for-profit sector. Protagonists of NPM reason for smaller, faster-moving service delivery organisations that would be user-responsive and outcome-oriented in order to survive.

The major doctrines of NPM include the following:

- direct public sector costs should be cut and labour discipline raised to improve use of resources;
- private-sector-style management practices should be applied to increase flexibility in decision-making;
- controls should be shifted from inputs to outputs, to stress results rather than procedure;
- decentralisation should be implemented to make units more manageable and to increase competition among them; and
- express standards and performance measures should be established to achieve accountability and efficiency.

### ***The Public Sector Reform Process in Lesotho***

A fundamental objective of the public sector reform process in Lesotho is to improve public service delivery in the country. Phase 1 of this nascent process is being effected through three components as follows:

- *Component 1:* Public financial management and accountability programme;
- *Component 2:* Improving service delivery through decentralisation; and
- *Component 3:* Improving public service management.

The first component is expected to yield critical outputs such as an integrated planning and budgeting process through a Medium Term Expenditure Framework (MTEF), an integrated accounting and reporting information system called the integrated financial management information system (IFMIS) in place of the current financial management

information system (GOLFIS), and an improved and transparent procurement system.

The second component is targeted at creating an appropriate environment in which communities can freely and effectively participate in the planning and management of development as well as have access to improved services through decentralised institutions. This component is expected to garner, inter alia, the following outputs: sensitise the public about the decentralisation process, clarify the roles and functions of local authorities, determine community, municipal and district counsels' areas, and develop and implement a capacity-building program.

The third component mainly seeks to formulate, coordinate and operationalise the Human Resource policies and manuals. To develop civil service capacity-building through the provision of quality training programs and creating a HIV/AIDS competent public service.

### ***Benefits of Public Sector Reforms to the Lesotho Economy***

The benefits of the broad public sector reform process will go beyond government. The overall benefit will be an efficient and effective civil service with high levels of accountability and improved outreach to the local communities. More specific advantages encompass the following:

- The new financial management system would allow for commitments to be made automatically upon issuance of every Government order or contract;
- The system will eliminate unnecessary delays that are commonly experienced in paying suppliers;

- A successful completion of the reform process will ensure strong training institutions in Lesotho and a professionalised public service. For example, certified qualifications would be obtained such as the Chartered Institute of Purchasing and Supply (CIPS) and the Chartered Institute of Public Finance and Accountability (CIPFA) from IDM and Centre for Accounting Studies, respectively.

### **What are the Challenges of the Reform Process?**

Despite the fact that the public sector reform process is important, it does not come without challenges. Since the reform process hinges on effective and efficient civil service machinery, there is a need to build human capital. It is important to invest in the training of the labour force and improving the morale of the public service. Another challenge is to invest in physical capital to enhance productivity of the civil service. For instance, technology can help build a viable, efficient, and effective civil service with the necessary dynamism to respond to the demands of the citizen.

Decentralisation can improve the quality of decision making through better information flows and participation from the local level. In view of this, the reform process would empower the communities through strong local governments with respect to finance and personnel management. Furthermore, training on rights and obligations of the relevant units where possible in Sesotho, would be offered. Moreover, tools centred on local accounting, budgeting and financial analysis would be established to encourage and achieve sound management and transparency in the local financial systems.

Needless to say, lack of legal instruments, codes of conduct and regulations that promote ethics and accountability can also be counterproductive. This challenge relates to issues of corruption which should be eliminated to fully unleash the civil service potential to deliver services efficiently.

### **Conclusion and Recommendations**

It is evident from the foregoing discussion that the main vehicle in Government is the public service and personnel. Hence, it is imperative to harness this resource. Building of critical institutional capacities for good governance, economic growth and development is a pre-requisite. Nonetheless, any reform to this end should be carefully formulated and implemented taking into account the specific needs of the country. At this vantage point, the article provides the following menu of recommendations:

- Government should invest in human capital, institution building and process improvement to facilitate capacity building;
- The private sector and civil society should be involved in policy formulation, monitoring and evaluation to achieve quality policy management;
- A performance-oriented civil service should be created. That is, managers should reach a reasonable level of agreement on strategic goals and strategies for attaining the goals. The development and implementation of a performance management system to monitor performance and support decision-making is critical; and
- Efficiency should be improved through a customer-driven civil

service. In this case, a primary focus should be on creating a culture of commitment to identifying and meeting customer

requirements throughout the civil service within the available resources.

## **2. IMF World Economic Outlook April 2007: *Spillovers and Cycles in the Global Economy***

*Global economy remains robust but the US Housing market poses some risks.....*

The International Monetary Fund (IMF) released the World Economic Outlook in April 2007 titled spillovers and cycles in the global economy. The theme tries to understand the extent to which the current slowdown in the US economy arising from moderation in the housing sector can affect the rest of the world. During 2006, the global economy grew by 5.4 per cent compared with 4.9 per cent in 2005. The observed rapid growth was realised in almost all regions. Real GDP in Advanced economies accelerated from 2.5 per cent to 3.1 per cent during the review period. The US and the Euro grew by 3.3 per cent and 2.6 per cent respectively. The emerging market and developing countries also grew robustly by 7.9 per cent compared with 7.5 per cent in the previous period. This exceptional performance was in part driven by strong growth rates experienced in China and India. Economic growth in China and India rose by 10.7 per cent and 9.4 per cent respectively.

The world economy is expected to moderate but continue to display some robust growth in 2007 and 2008. Global GDP is projected to grow by 4.9 per cent in the two years. The slowdown is expected to emanate from the US housing sector which declined by 19 per cent in the second half of 2006. Real

GDP in the US is expected to decelerate to 2.2 per cent in 2007. The Euro area is also expected to moderate but remain above potential in response to the monetary and fiscal policy tightening. The emerging economies are likely to continue to remain strong during the period mainly due to the higher performance of China and India. The outlook for Africa is also very positive.

The projected global economic growth has significant implications for the economy of Lesotho. First, the bulk of Lesotho manufacturing products are destined to the US and with the relatively strong consumption expenditure despite the tumbling residential investment the US slowdown may have minimal effects on the demand for Lesotho products. Second, the positive growth outlook for Sub-Saharan African economy poses an opportunity for Lesotho to explore the market. With Southern African Development Community (SADC) customs union in 2010, strong economic growth in SADC members serves as a launch pad for the Lesotho export sector diversification project. Last, the strong domestic demand in South Africa may have some positive spillovers into Lesotho economy. However, the region may be heading for inflationary times and tighter monetary policy conditions.

**Table 1: World Economic Outlook Projections  
(Annual Percent)**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>World Output</b>	4.9	5.4	4.9	4.9
Advanced Economies	2.5	3.1	2.5	2.7
United States	3.2	3.3	2.2	2.8
Euro Area	1.4	2.6	2.3	2.3
Other Emerging market and developing	7.5	7.9	7.5	7.1
Africa	5.6	5.5	6.2	5.8
Sub-Sahara	6.0	5.7	6.8	6.1
Central and Eastern Europe	5.5	6.0	5.5	5.3
Commonwealth of Independent States	6.6	7.7	7.0	6.4
Developing Asia	9.2	9.4	8.8	8.4
Middle East	5.4	5.7	5.5	5.5
Western Hemisphere	4.6	5.5	4.9	4.2
<b>Consumer Prices</b>				
Advanced Economies	2.3	2.3	1.8	2.1
Other Emerging market and developing	5.4	5.3	5.4	4.9
<b>Imports</b>				
Advanced Economies	6.1	7.4	4.7	5.7
Other Emerging market and developing	12.1	15.0	12.5	12.2
<b>Exports</b>				
Advanced Economies	5.6	8.4	5.5	5.8
Other Emerging market and developing	11.2	10.6	10.4	9.9

**SOURCE:** IMF World Economic Outlook April 2007: *Spillovers and Cycles in the Global Economy*

### **3. Monetary Policy Operation Report for April 2007**

During the review period, monetary policy operations undertaken were successful in attaining their desired objectives. Table 3 below shows amounts auctioned and discount rates that prevailed for the 2007 auctions. The April auction was fully subscribed and as a result, the whole auction amount to the

tune of M160.0 million was issued. The level of competitiveness in the market, as estimated by the number of participants in an auction, declined during the recent auction. In April, there were 5 bidders who submitted 10 bids for the auction and 7 successful bids.

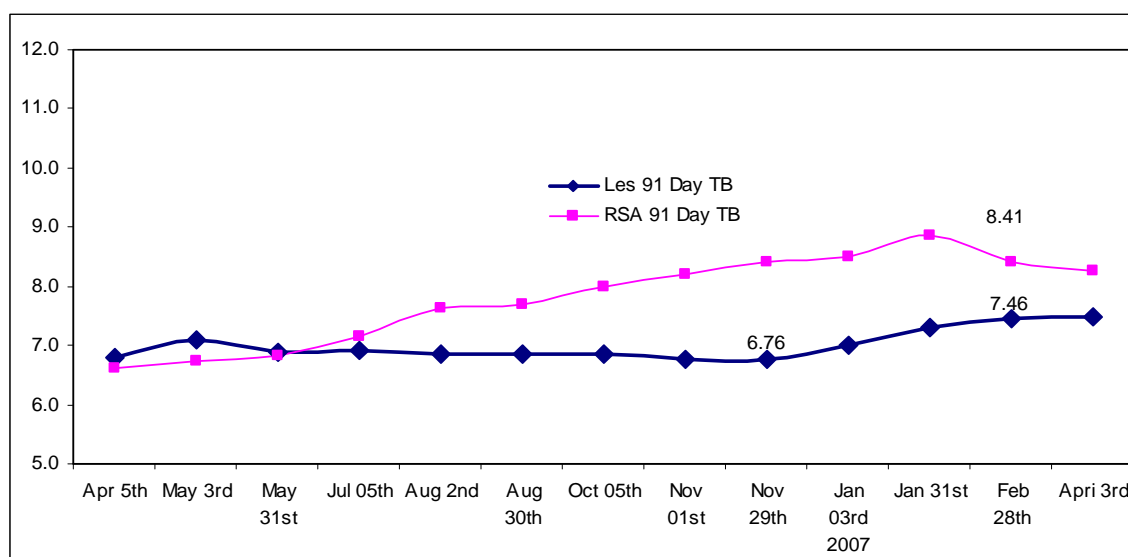
**Table 2: Treasury Bill Auctions**

Type of Security	Auction Date	Maturity Date	Auction Amount (million)	Amount Issued (million)	Discount Rate
91-day TBs	03 Jan 2007	05 Apr 2007	M160.0	M160.0	7.02%
182-day TBs	09 Jan 2007	13 Jul 2007	M50.0	M50.0	7.30%
91-day TBs	31 Jan 2007	04 May 2007	M170.0	M170.0	7.30%
91-day TBs	28 Feb 2007	01 Jun 2007	M170.0	M170.0	7.46%
182-day TBs	06 Mar 2007	07 Sep 2007	M20.0	M20.0	7.46%
91-day TBs	03 Apr 2007	06 Jul 2007	M160.0	M160.0	7.49%

The Lesotho 91-day treasury bill rate continued to increase but remained below its South African counterpart rate. The situation has prevailed since May 2006. The Lesotho 91-day treasury bill increased by 3 basis points to 7.49 per cent. On the contrary, the counterpart

SA rate declined from its previous level of 8.41 per cent in March to 8.27 per cent in April. Hence, the margin between the two rates narrowed from 95 basis points to 78 basis points at the end of April, as depicted in figure 1 below.

**Figure 1. Lesotho and SA 91 day Treasury Bill rate**



#### 4. Foreign exchange rate, Crude oil and inflation

*Oil prices and inflation rate rise while the Loti strengthens against the US dollar*

Inflation rate measured by the changes in the Consumer Price Index (CPI) rose by 8.1 per cent in April 2007 compared with 5.9 per cent recorded in March 2007. This is the highest level since February 2003. The observed

inflationary conditions are mainly due to the developments in the price of crude oil which has increased the cost of production and fuel prices. Most categories in Lesotho inflation registered strong growth. Food and non-alcoholic

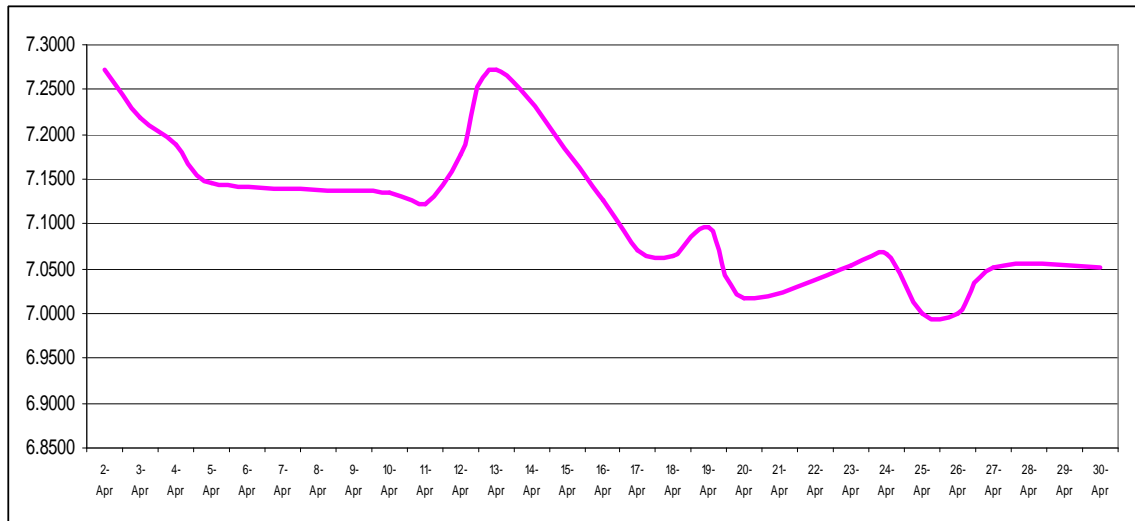
beverages category rose by 15.5 per cent in April 2007 compared with 10.8 per cent in the previous month. Food and beverages category is significant in Lesotho CPI since it accounts for 39.8 per cent of the CPI basket. The second largest category 'furniture, households' equipment and routine maintenance of house rose by 1.3 per cent compared with 1.1 per cent in March. Clothing and footwear which is the third largest category continued to increase during the month. It rose by 1.5 per cent in April compared with 1.2 per cent in the previous month. Transport category also increased by 3.6 per cent reflecting two time fuel hikes during the month.

The price of crude oil rose averaged US\$ 63.5 per barrel during the month of April compared with US\$58.4 per barrel recorded in the previous month. The price reached a maximum of US\$66.7

per barrel and a minimum of US\$61.8 per barrel. This performance has been influenced by the geopolitical developments in Iraq, Iran and Nigeria. The impact of the increase was counteracted by the relative strength of the Loti against the US Dollar.

The Loti showed some strength against major currencies during the month of April 2007. Measured against the US Dollar, the currency opened the month at 7.27 and closed at 7.05. Measured against the Euro, it opened the month at 9.72 and closed at 9.62. On average, Loti appreciated by 3.28 per cent and 1.37 per cent against the US Dollar and the Euro, respectively. The currency was affected among others by the movements of the US Dollar against other currencies and the fluctuations in the price of gold.

**Figure 2: Loti per US Dollar**



### 5. Selected Monetary and Financial Indicators<sup>+</sup>

	2007		
	Feb	Mar	Apr
<b>1. Interest rates (Percent Per Annum)</b>			
1.1 Prime Lending rate	13.58	13.58	13.67
1.2 Prime Lending rate in RSA	12.50	12.50	12.50
1.3 Savings Deposit Rate	2.68	2.68	3.01
1.4 Interest rate Margin( 1.1 – 1.3)	10.90	10.90	10.66
1.5 Treasury Bill Yield (91-day)	7.46	7.46	7.49
<b>2. Monetary Indicators (Million Maloti)</b>			
2.1 Broad Money (M2)	3592.6	3724.7	3788.3
2.2 Net Claims on Government by the Banking System	-1592.0	-2275.2	-2977.1
2.3 Net Foreign Assets – Banking System	6383.9	7159.2	8014.3
2.4 CBL Net Foreign Assets	4500.7	5326.8	6013.5
2.5 Domestic Credit	-603.61	-1280.4	-1956.3
2.6 Reserve Money	401.2	409.8	455.4
<b>3. Spot Loti/US\$ Exchange Rate (Monthly Average)</b>	7.1693	7.3571	7.1151
<b>4. Inflation Rate (Annual Percentage Changes)</b>	5.7	5.9	8.1
	2006		
<b>5. External Sector (Million Maloti)</b>	QII	QIII	QIV
5.1 Current Account Balance	256.41	151.78	18.88
5.2 Capital and Financial Account Balance	-154.91	-23.94	-81.15
5.3 Reserves Assets	-442.82	-641.50	-32.81

<sup>+</sup>These indicators refer to the end of period. Prime and deposit (savings) rates are averages of all commercial banks' rates operating in Lesotho. The Statutory Liquidity Ratio in Lesotho is 25 percent of commercial banks' short-term liabilities.

### 6. Selected Economic Indicators

	2003	2004	2005	2006*
<b>1. Output Growth( Percent)</b>				
1.1 Gross Domestic Product – GDP	2.7	4.0	2.7	6.2
1.2 Gross National Product – GNI	6.0	6.1	3.4	7.1
1.3 Per capita –GNI	3.7	3.9	2.2	5.8
<b>2. Sectoral Growth Rates</b>				
2.1 Agriculture	0.3	13.5	20.0	13.5
2.2 Manufacturing	5.7	2.1	-8.0	1.2
2.3 Construction	-4.9	-4.4	2.5	2.8
2.4 Services	6.1	2.6	3.5	5.1
<b>3. External Sector – Percent of GNI</b>				
3.1 Imports of Goods	84.0	84.5	78.7	80.2
3.2 Current Account	-6.3	-1.2	-5.5	0.3
3.3 Capital and Financial Account	3.9	1.5	4.3	2.1
3.4 Official Reserves (Months of Imports)	5.6	5.2	5.7	6.7
<b>4. Government Budget Balance (Percent of GDP)</b>	-0.4	5.6	5.3	11.3

\* Preliminary estimates