

February 18, 1988

MEMORANDUM

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FROM: AFR/PD, Carol Peasley *CP*

SUBJECT: Issues Paper for Lesotho AEPRP PAAD (632-0224)

Lesotho AEPRP PAAD (632-0224) Issues Paper for ECPR to be held Friday, February 19 from 9 a.m. - 11 a.m. in Room 6941 and to be chaired by E.L. Saiers.

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ISSUES PAPER
LESOTHO ECONOMIC POLICY REFORM PROGRAM (AEPRP)
PAAD SUBMISSION

ISSUES TO BE RESOLVED

1. Issue: Funding Level

Discussion: The PAAD proposes a \$15 million package of which \$12.75 million is for non-project assistance and \$2.25 million for technical assistance/studies/evaluations. The non-project assistance portion of the program includes two components; Agricultural Input and Livestock, with cash transfers totalling \$4.25 million and \$8.5 million for the respective components. Disbursements are phased over three to four years and progressively higher each year in order to provide incentives for actual implementation of the reforms.

DP has Lesotho's AEPRP listed for \$6.875 million, less than half of the level proposed in the AEPRP.

The PAIP review suggested tapping other sources of funds to implement the program and/or scaling down the program, perhaps to just one component.

The Mission's stance is summarized as follows: The GOL is planning to move on these and other reforms. The issue, therefore, is not whether the GOL will announce policy reforms, but rather to what degree USAID can influence the shape of the policies and their implementation. With less funding there will be less influence. The Mission's preferred option is to go forward with both components even at reduced levels to ensure some involvement in both of these endeavors.

In order to come to a resolution an increase in the allocated funding level and/or a decrease in the proposed funding level is required.

Illustrative Funding "Mix and Match" Options:

- a) Increase in AEPRP funding.
- b) Incremental AEPRP funding.
- c) Some portion of the TA/studies/evaluations be funded out of Lesotho's OYB and/or reduced TA level.
- d) Secure Southern Africa Development Assistance (SADCC) funds to fill the funding gap if the activity is accepted by SADCC as part of their list of projects.
- e) Any one or combination of the above.

2. Issue: Cash Transfer Mechanism

Discussion: AEPRP's were formerly funded with ESF funds, which as of 2/87 required tracking of the dollars. FY1988 AEPRP's are being funded out of the DFA which does not include a legislative requirement for tracking of cash transfer dollars. The Lesotho AEPRP describes a cash transfer mechanism which would not enable tracking of dollars. Dollars would be used to buy Rand, another hard currency, which would be converted into Maloti and deposited into a separate account in Lesotho for use for program related purposes on agreed upon activities. Thus the funding could be tracked but the dollars per se could not since they would be used to buy a hard currency prior to disbursement to the GOL.

Additional staff work (AFR/DP, AFR/PD, GC/AFR, PPC) will be required prior to a Bureau decision regarding tracking of dollars for DFA cash transfer programs in general and for the Rand monetary union in particular.

ISSUES/CONCERNS RESOLVED AT ISSUES MEETING

1. Issue: Is the Technical Operations Unit (TOU) activity a necessary element of the program?

Decision: No. Eliminate the CP for TOU from the program.

Discussion: The Technical Operations Unit (TOU) is a government department in the Ministry of Agriculture which provides custom plowing and planting services to farmers. It competes directly with a growing number of private tractor operators. It services farmers at a subsidized rate which obliges beneficiaries to pay only 60 percent of the cost of fertilizers, seed and tractor tillage and planting services. Fertilizer is supplied to TOU by Coop Lesotho. In August 1987 the Government of Lesotho (GOL) announced its intention to eliminate inputs subsidies and restructure or phase out Coop Lesotho and TOU.

The three phased Agricultural Input component of the AEPRP includes Conditions Precedent (CP) addressing: 1) progressive transfer of TOU activities to private sector agents; 2) progressive divestiture by Coop Lesotho of its retail sales outlets and lock ups stores; and 3) elimination of fertilizer subsidies. While Coop Lesotho divestiture and fertilizer subsidy removal are tracked through the program to their conclusion, the AEPRP only includes a CP for TOU in phase one of the program. This CP calls for adoption of an implementation plan for the GOL's announced commitment to the progressive transfer of TOU activities to private sector operators. The AEPRP does not follow through with CP's for actual implementation of this plan. This inconsistency raised the issue of whether the TOU was essential to the program.

At the issues meeting the options of eliminating TOU from the program or including CP's to ensure implementation of the plan for TOU transfer of its functions were discussed. Given a) the political sensitivities of TOU which subsidizes larger farmers; b) the elimination of input subsidies will make TOU obsolete; and c) that follow up of TOU's implementation plan could result in additional program activities, such as phase out of TOU personnel, which would add further complexity to an already ambitious undertaking, it was felt that elimination of the single CP calling for an implementation plan for TOU, rather than expanding the second and third phases of the program, was the most appropriate option. The USAID/Lesotho Mission Director agreed with this choice of options.

2. Concern: The text of the PAAD does not clearly distinguish project and non-project assistance, includes inconsistencies in the CP's and lacks specificity for some indicators.

Decision: Portions of the document require editing and/or elaboration prior to authorization.

Discussion: AFR/PD, AFR/TR/ARD and GC/AFR had several questions about the wording and consistency of the text regarding conditionalities, indicators and project vs. non-project components. Some of these questions resulted from specific concerns regarding implementation of sale of Coop Lesotho assets and implementation of the grazing fee. USAID/Lesotho Mission Director provided additional information on these components which clarified the concerns. It was agreed that the questions and concerns could be addressed through text revisions and that the interested parties would meet separately to come to an agreement on the clarifications required prior to finalizing the document. The revisions were not viewed as substantive changes but rather as refinements or elaboration of elements within the designed program.

drafted: Viviann Gary:eld:3924L