

account convertibility has been achieved. The next phase of financial sector reform will need to focus on increasing domestic savings and achieving greater efficiency in its utilization. This will require strengthening the capital market, ensuring that Treasury financing is done at market terms, liberalizing lending rates and creating a market for foreign exchange. Greater reliance on indirect monetary policy instruments would also make monetary policy more efficient.

15. Poverty Reduction and Human Resources Development. National social indicators are low, and regional disparities in the incidence of poverty and in the provision of basic social services are high. Rapid and lasting improvements in social indicators require public expenditure reallocations, notably in favor of rural areas and programs targeted at women and girls, as well as measures to improve their efficiency and efficacy. Alternative sources of financing such as service fees and health insurance, and private provision of secondary and tertiary services, should be actively promoted. Since the share of total expenditures allocated to some social sectors (i.e. education) is already high, this policy will need to rely mainly on improved efficiency in the use of public resources.

16. Environmental and Natural Resources Management. Environmental and natural resources (water and land) have been increasingly under strain in recent years. Most critical is the impending water shortage with projected water demand and supply patterns confirming a critical global deficit circa 2040, with earlier deficits in some water basins. Worrying aspects of environmental degradation include deforestation, soil erosion and the ill effects of industrial effluent. Growing competition between the existing and potential water users and the deterioration in the quality and quantity of water supply require urgent attention. Improvements in environmental and water resource management call for new approaches such as measures to develop a system of co-management for each watershed in order to promote stakeholders participation and cooperation and develop a coherent masterplan for investments, penalties and incentives.

17. Public Sector Management and Finance. The main reforms will require restructuring the fiscal system and public finance management, ensuring the financial viability of all public enterprises, and concentrating government investment and expenditure in the social and rural sector, and in infrastructure complementary to private activity, while moving toward a balanced budget. The Bank-prepared Public Expenditure Review, transmitted to the Government in September 1994, provides a detailed analysis. Three overarching managerial