

Economic Review August 2004

The New Partnership for Africa's Development (NEPAD):

Lesotho Chapter

The Lesotho NEPAD Chapter was officially launched by the Right Honourable the Prime Minister, Mr Pakalitha B. Mosisili on 30 August 2004

Background

NEPAD is a socio-economic program of the African Union. This represents expression of will and determination of African leadership to steer Africa to higher levels of sustainable development, and steer towards poverty reduction and minimise marginalization from the global economy. The program highlights renewal, underpinned by the energizing and revitalization of development institutions.

The international community and social partners have already accepted NEPAD framework as a basis for cooperation with Africa, since the last three years when it was adopted as socio-economic renewal programme for Africa. Partners include among others Global Environment Facility (GEF), the World Bank, the African Development Bank, FAO, Forum for Agricultural Research in Africa (FARA), and the Consultative Group on International Agricultural Research (CGIAR).

Primary objectives of NEPAD include among others:

1. To eradicate poverty
2. To place African Countries, both individually and collectively, on a path of sustainable growth and development.
3. To halt the marginalisation of Africa in the globalisation process and enhance its full and beneficial integration into the global economy
4. To accelerate the empowerment of women

NEPAD Priorities are subdivided into three categories, namely:

- a) Establishing the conditions for sustainable development by ensuring
 - Peace and security
 - Democracy and good political, economic and corporate governance
 - Regional co-operation and integration
 - Capacity building
- b) Policy reforms and increased investment
 - Agriculture
 - Human development with a focus on health, education, science and technology and skills development
 - Building and improving infrastructure, including information and communication technology (ICT), energy, transport, water and sanitation
 - Promoting diversification of production and exports, particularly with respect to agro-industries, manufacturing, mining, mineral beneficiation and tourism
 - Accelerating intra-African trade and improving access to markets of developed countries
 - The environment

c) Mobilising Resources

- Increasing domestic savings and investments
- Improving management of public revenue and expenditure
- Improving Africa's share in global trade
- Attracting foreign direct investment
- Increasing capital flows through further debt reduction and increase

Building Blocks on program implementation

NEPAD building block is based on the role and responsibility of the Regional Economic Communities (RECs) which have to establish capacity building requirements and mobilize assistance to develop necessary countries' own capacity and repositioning. Further it is expected that this unit will establish effective systems to harmonize, coordinate, ensure complimentarity of national policies, monitor and evaluate implementation of NEPAD/REC programs by member countries and designated agencies, and advise the REC leadership on the status of the program and any reviews that may need to be implemented. REC is further expected to be a facilitator in the involvement of private sector and civil society in the participation of regional programs.

NEPAD Linkages with National Objectives

Lesotho has experienced positive growth over the years, from a per capita GDP growth of -9 percent in 1998 to 1.1 percent in 2003, and GDP growth of 3.3 in 2003. This positive growth has been underpinned by development efforts under (AGOA, SACU, CMA, SADC, ACP-EU, WTO and recently NEPAD). There are two main sources of growth in the economy, textile production and construction-mainly in LHDA and government expenditure in construction. Consequently high performance sectors in employment are manufacturing with about 55 000 people and government with about 36 000 employees and mining in South Africa with about 60 000 Basotho.

Compatibility of National policy stance with NEPAD

1. The Vision 2020 objectives are consistent with the NEPAD objective: And highlight building a strong economy, by building a proper infrastructure including roads, telecommunications and electricity networks.
2. The priority areas under the PRSP are compatible with NEPAD, which are set to provide a broad based improvement in the standard of welfare for the current generation of Basotho, without compromising opportunities for future generations.

National objectives	NEPAD
1. Stable democracy and united nation	1. Peace and security
2. Strong economy	2. Improve African position and market access and debt relief

Development Challenges to Lesotho

Despite promises that are offered by Lesotho Involvement in NEPAD, there are still serious problems that confront Lesotho, and challenge its capacity to provide for the welfare of its people.

- An increase in the Incidence of Poverty- the Core Welfare Indicator study showed that in 2002 there were more rural poor compared to previous periods when households are judged by the assets they own.
- High levels of unemployment-There is limited capacity for the economy to generate formal employment and as such there is a challenge to exhaust means to expand national employment
- The Rapid spread of HIV and AIDS-if the results of the impact of HIV/AIDS are taken into account, expectation is that the Lesotho Human Development Index will decline further. Lesotho was ranked 120 out

- of 162 countries in 1999. And ranked 132 out of 173 countries in 2000, and to 137 out of 175 in 2001.
- Worsening famine, precipitated by unfavourable weather conditions.

The Way Forward

The process of launching the NEPAD chapter in Lesotho paves way for the development of national implementation framework, which will include the National Vision 2020 and the PRSP paper as its building blocks. It is expected that the framework will enhance Lesotho's chance to reap the full benefits offered by NEPAD.

The benefits can be wholly realised if the process of establishing a national framework is inclusive of relevant stakeholders in its design. Lesotho has one of the greatest informal sector, which also plays a pivotal role in the economic wellbeing of those involved in it. The important consideration is to design targeted policies to assist the sector to access funding and creation of market for their products.

The other related challenge is the mechanism to establish a cohort of local businesses in the sectors that seem to be dominated by foreigners. The manufacturing sector, and in particular the textile and clothing industry can be a case in point. This presents an apparent risk when Lesotho start to fall out of favour with foreign investors, and they choose to relocate to other favourable countries. The apparent shock can be cushioned by creating assistance to local business owners into the sector. One way can be an establishment of a pool fund where Basotho who express interest in the sector can borrow as start-up capital, with an obligation to repay.

Finally, the country faces a challenge of establishing macro-micro linkages in the fight against poverty. The focus of most least developed countries, developing countries, and transition economies is to fight poverty from a macroeconomic management view point, There is however no clear link on how macroeconomic variables can be used to improve the livelihood of the poorest people. The observed limitation of most programmes is that they fail to understand individual country macroeconomic environment, and as a result programmes fail to yield expected output. Lesotho is no exception to this incidence.

Immediate Challenges: Oil price crises

Estimates show that from January to August 2004, oil prices have increased by about 30 percent. And on year-on-year world oil demand growth has also increased consistently. The regional and national oil demand growth trends still show an upward movement, it is expected that growth in prices will range from 2.15 to 2.65 by August 2005. In annual terms it gives about 2.7 to 3.3 percent based on current demand rate of around 82.3 Mbd.

The reasons for the trends are mainly around the uncertainties surrounding the war in Iraq, and the ever growing threat to Russia as one of the important suppliers. The US election expectation and outcome does not seem to have much influence compared to the threat to world GDP growth, of attacks on oil productions, transport and refining installations in Saudi Arabia, Russian and Iraq.

These international developments are of immediate policy concern for least developed, developing countries and transition economies, especially those that import 100 percent of their oil needs. An increase in a general price level feeds directly into the domestic inflation rate, as production become costly there is an expectation that general prices will increase, and erodes the buying power of consumers. There is also a further potential threat as the current forecast of an increase in oil prices can go beyond the current forecast of August 2005. The foreseeable cushion to this threat is to encourage consumers to save more, so that when prices increase their buying power is maintained.

NB: This report is benefited by www.nepad.org, www.lesotho.gov.ls and Venezuela Electronic News.

Table 1. Monetary and Financial Indicators

	June	July	August
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	12.5	12.5	12.42
1.2 Prime Lending rate in RSA	11.5	11.5	11.00
1.3 Savings Deposit Rate	2.31	2.31	1.49
1.4 Interest rate Margin (1.1 – 1.3)	10.19	10.19	10.93
1.5 Treasury Bill Yield (91-day)	9.31	9.27	8.91
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	2353.47	2424.2	2448.60
2.2 Net Claims on Government by the Banking System	-539.52	-552.4	-696.38
2.3 Net Foreign Assets – Banking System	3858.72	4031.3	3973.33
2.4 CBL Net Foreign Assets	2831.31	2911.5	2877.35
2.5 Domestic Credit	73.98	60.58	18.32
2.6 Reserve Money	289.522	356.4	330.51
3. Spot Loti/US\$ Exchange Rate (monthly average)	6.4476	6.2050	6.6793
	2003	2004	
	Q4	Q1	Q2
4.1 Current Account Balance	-299.8	-193.2	-161.64
4.2 Capital and Financial Account Balance	320.0	-23.5	181.73
4.3 Reserve Assets	-156.6	257.5	-251.39

Table 2. Selected Economic Indicators

	2000	2001	2002	2003
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	1.3	3.2	3.5	3.3
1.2 Gross Domestic Product Excluding LHWP	0.0	3.5	3.3	3.2
1.3 Gross National Product – GNP	-3.2	0.2	1.6	6.3
1.4 Per capita –GNP	-5.2	-1.9	-0.4	4.1
2. Sectoral Growth Rates (1995 constant prices)				
2.1 Agriculture	2.8	0.5	-4.2	-1.9
2.2 Manufacturing	4.4	7.8	6.9	5.2
2.3 Construction	9.7	1.4	6.9	4.3
2.4 Services	-0.9	2.2	2.2	4.4
3. External Sector – Percent of GNP Excluding LHWP				
3.1 Imports of Goods	64.4	68.2	82.8	74.5
3.2 Current Account	-21.3	-17.4	-24.5	-21.1
3.3 Official Reserves (Months of Imports)	8.9	11.7	6.4	5.5

4. Government Budget Balance (Percent of GNP)	-4.9	-1.0	-2.7	-2.5
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