

# **Economic Review    November 2004**

## **HUMAN DEVELOPMENT REPORT 2004**

### **Introduction**

The United Nations Development Programme (UNDP) has been publishing the Human Development Report annually since 1990. Central to the report is the computation of the Human Development Index (HDI). The HDI provides a broader measure of countries' development as against the traditional measures which emphasised the income level of each country. The understanding behind HDI is that national economic well being can be measured more comprehensively in terms of the quality of life of people. The index estimates a country's ability to meet basic needs of the majority of its population. It gives an indication of people's freedom in determining their way of life and development realising their full potential.

### **Human Development Index**

The HDI as a relative measure gives a comparative analysis of the level of human development in a country relative to other countries. In order to achieve this, data from different countries is collected and compiled using harmonised definitions and collection methods to make it internationally comparable. The HDI measures quality of life on a scale of 0 to 1. Countries ranging at levels between 0.8 and 1.0 have high human development; 0.51 to 0.79 implies medium development while 0.0 to 0.50 indicates low human development.

The index covers three dimensions of development namely a long and healthy life; knowledge and a decent standard of living. Longevity is measured by life expectancy at birth, which is assigned a maximum goalpost of 85 years and a minimum of 25 years. Knowledge is estimated by a weighted average of adult literacy (two-thirds) and combined primary, secondary and tertiary school gross enrolment (one-third). Income is used to measure the standard of living, and it serves as a surrogate for all dimensions of human development not reflected in longevity and in knowledge. Income is measured by real GDP per capita adjusted for differences in price levels between countries. Income is estimated within a range of US \$100 and \$40,000 because 'achieving a respectable level of human development does not require unlimited income'. The HDI is calculated as a simple average of the three dimensions, implying the dimensions are equally important to human development.

### **Human Development in Lesotho**

The HDI report for 2004 rank Lesotho number 145<sup>th</sup> with a HDI value of 0.493 in 2002 relative to the HDI of 0.535 in 2000. It was ranked 132<sup>nd</sup> a total of 173 countries in 2000 and out of a total of 175 countries in 2002. Norway is still ranked number one in 2000 and 2002. Lesotho's position is among the low human development countries (with Uganda just below Lesotho) with the HDI value of 0.493 on position 146. It is important to note Swaziland is on the medium human development category at number 137 with HDI value 0.519, with Botswana at number 128 with HDI value of 0.589. On the low human development Zimbabwe is number 147, Kenya 148, Madagascar and Nigeria at 150 and 151 respectively.

Lesotho is classified on slightly higher set of low human development on adult literacy rate at position 145, with a literacy rate of 81.4 percent in 2002. This rate is higher than the Sub-Saharan Africa average of 63.2, South Asia at 57.6, lower than Latin America and the Caribbean at 88.6, and East Asia and the Pacific of 90.3. Other countries in SADC such as Zambia and Mozambique have literacy rates of 79.9 and 46.5 percent respectively.

### **Millennium Development Goals**

Millennium Development Goals (MDG) are expression of determination to eradicate poverty, promoting human dignity and achieving peace and democracy. The commitment was made by 189 countries at the United Nations Millennium Summit in September 2000. The establishment of HDI is complementary to the MDGs. The 20<sup>th</sup> century realised dramatic and unprecedented progress in Human Development. The period between 1960 and 2000 life expectancy in developing countries increased from 46 to 63 years. Mortality rates for children under five were more than halved. On the period 1975 to 2000, one in every two adults could not read, but in 2000 the share of illiterate people has been halved.

Measurement of regional progress on selected MDGs reveal that East Asia and the Pacific region is on track on all the goals. South Asia is also relatively on track though slightly behind East Asia and the Pacific. This is an important observation in that the two regions constitute half of the world population. This implies development goals are on track for only half of the world populations, while the other regions are falling behind human development. The Human Development Report 2004 boldly points to the fact that Sub-Saharan Africa performance is too slow, at this current rate it can only meet the goal on universal primary education at around 2129 and the goal for reducing child mortality by two-thirds at around 2106. This unprecedented slow down in human development is a call for concern.

The gloomy picture observed at regional level is also apparent at country levels, many countries experienced development reversals since the 1990s. The Report highlights that in 46 countries people are relatively poorer now than they were in the 1990s. In a list of countries that experienced a drop in Human Development Index in 1980s and 1990 constitute Democratic Republic of Congo, Rwanda, and Zambia. In the period 1990-2002, the group constitutes twenty countries namely, Bahamas, Belize, Botswana, Cameroon, Central African Republic, Congo, Democratic Republic of Congo, Co'te d'Ivoire, Kazakhstan, Kenya, Lesotho, Moldova, Russia Federation, South Africa, Swaziland, Tajikistan, Tanzania, Ukraine, Zambia, and Zimbabwe.

### **Challenges for Lesotho**

Lesotho falls within the category of countries that have not only slowed down, but have also experienced reversals in human development. This presents a clear challenge on its prospect to keep up with the pace of human development. There are promising ground work undertaken to address some of these challenges. This is the passing of the government policy paper on National Vision 2020 and the Poverty Reduction Strategy. These two pieces of documents are a framework for efforts on accelerating human development. The precondition for the success of poverty reduction strategy as a tool for human development has to start with establishing a strong link with macroeconomic framework and financing that is required for medium and long term goals. There has to be country specific assessment of progress, an effort to develop a baseline on which the scaling up of the programme will be assessed. The use of distributional analysis is also important in informing the direction for execution of Poverty Reduction Strategy.

The establishment of policy priorities for human development is only a starting point of a long term process. Next there should be institutional capacity to implement the policies. The greatest challenge is focusing the strategy on key policy measures, sequencing, in full cognisance of the government budget constraint. There are still concerns on execution of policies as indicators only point to inputs and impacts, though statistical systems used to reach such decisions remain fragile. This presents a weakness in the analytical robustness of policy implementation in the Poverty Reduction Strategy.

There is however positive indicators in the policy priorities, Poverty Reduction Strategy and Vision 2020 show an understanding of the nature of poverty and human development in Lesotho. There is a coherent discussion of the macroeconomic stability and growth as a precondition for poverty reduction. Notwithstanding this understanding of the relationship between poverty and economic growth, the analysis of the sources of growth still remain weak, this is a threat to assessment of pro-poor growth. The criticism of this process by other countries is that PRS process subjects least-developed countries to pressures of hope in development Aid, which in turn is used as a basis in planning of the execution of

programmes.

Poverty reduction is unequivocally part of every development agenda in the world on the present era. The global trend on poverty levels suggest a decrease in overall poverty levels, especially considering that there have been significant improvement in China, which is one of the highly populated countries in the world. Despite this positive picture, there is however caution that this trend will soon be at risk if Africa continue to have the prevailing levels of poverty. The debate suggests that Africa compared to other regions of the world, is the least growing, has the smallest number of people ameliorated out of poverty. During the 1980s Africa's GDP declined by 1.3 percent per annum, which is 5 percentage points below the average for all low income developing countries. The situation deteriorated further during 1990-1994 when the decline was recorded at 1.8 percent per annum, resulting in a wider gap to 6.2 percentage points to all low-income developing countries

The greatest challenge of this conclusion is that Lesotho is part of the least growing part of the world, and the implication is that, it has to reposition itself in poverty reduction in the global context. The pressure is even more paramount if compared to her peers in Southern African Development Community (SADC).

Last, the challenge is how Lesotho deals with international trade both as a driver of economic growth and as a tool for poverty reduction. International trade can affect society's welfare through many channels. The current trend on global trade is negotiation of free trade areas (FTAs). This calls for the knowledge of the country's comparative advantage and sectors with potential comparative advantage. This is an important starting point as will help to assess which sectors have to be protected either through tariffs or quotas, because they have highest employees and contribute significantly to the domestic economic growth, manufacturing is case in point.

## Conclusion

Lesotho has been oscillating around the 0.50 Human Development Index, with 0.457 in 1975, 0.544 in 1990 and 0.493 in 2002. The country's performance is lower than most of its counterparts in the Southern African Development Community region. It is observed that progress on education and level of knowledge is satisfactory. There is however challenges to improve the people's health, income, and welfare. Efforts should be intensified in the fight against HIV/AIDS. Policies to reduce unemployment and efforts to achieve a higher economic growth than population growth could be helpful on achieving higher levels of income.

***This report benefited from Human Development Report 2004, Lesotho Poverty Reduction Strategy paper, Lesotho Vision 2020.***

**Table 1. Monetary and Financial Indicators\***

	Aug	Sept	Oct
<b>1. Interest rates (Percent Per Annum)</b>			
1.1 Prime Lending rate	12.42	12.17	12.17
1.2 Prime Lending rate in RSA	11.00	11.00	11.00
1.3 Savings Deposit Rate	1.49	1.35	1.35
1.4 Interest rate Margin (1.1 – 1.3)	10.93	10.82	10.82
1.5 Treasury Bill Yield (91-day)	8.91	8.27	8.44

<b>2. Monetary Indicators (Million Maloti)</b>			
2.1 Broad Money (M2)	2448.60	2474.3	2360.70
2.2 Net Claims on Government by the Banking System	-650.28	-572.91	*-1058.59
2.3 Net Foreign Assets – Banking System	4052.76	4039.88	4303.20
2.4 CBL Net Foreign Assets	3406.44	3350.34	3741.50
2.5 Domestic Credit	-61.55	-2.89	-433.16
2.6 Reserve Money	121.86	133.33	111.04
3.1 Inflation	5.30	4.70	4.60
3.2 Spot Loti/US\$ Exchange Rate (monthly average)	6.4542	6.5445	6.3829
	<b>2004</b>		
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>
4.1 Current Account Balance	-193.2	-71.17	-50.59
4.2 Capital and Financial Account Balance	-23.5	237.08	114.33
4.3 Reserve Assets	257.5	-251.39	-15.53

\* These indicators refer to the end of period. Prime lending and savings deposit 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.

**Table 2. Selected Economic Indicators**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>1. Output Growth( Percent)</b>				
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
<b>2. Sectoral Growth Rates</b>				
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
<b>3. External Sector – Percent of GNP Excluding LHWP</b>				

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
<b>4. Government Budget Balance (Percent of GNP)</b>	-4.9	-1.0	-2.7	-2.5