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DECLINING MINEWORKERS' REMITTANCES: IMPLICATIONS FOR THE LESOTHO ECONOMY

Migrant mineworkers' remittances[1] continue to depict a downward trend due to falling number of Basotho migrant mineworkers employed in the South African (SA) mines amid higher production costs…

Background

Migrant labour is viewed as an important source of employment and hence income in many countries. In order to help solve the problems of unemployment and income generation in the migrant workers' home country, labour shortages in one country can be compensated for by labour surpluses in another. In Lesotho, a large portion of migrant labour income is attributable to mineworkers' remittances. These remittances have several positive effects on the Lesotho economy. Firstly, migrant mineworkers bring foreign exchange, which the country needs for international transactions. Secondly, these migrants spend their money on local products.

In Lesotho, migrant mineworkers' employment accounts for the largest share of overall formal employment. It is followed by manufacturing and then by government employment. It is therefore important to look at the implications for the Lesotho economy as a result of declining mineworkers' remittances amid falling number of Basotho migrant mineworkers in the SA mines.

Recent trends in migrant mineworkers

Figure 1 below depicts that migrant labour has always been an important source of employment for Lesotho. However, the average number of migrant mineworkers has been declining over time as a result of recent developments in both regional and international markets, which ultimately had spill-over effects onto the SA economy and hence Lesotho economy. The 1992/93 and the unpublished 1999 migrant mineworkers' surveys conducted by the Central Bank of Lesotho (CBL) depicted that on average, migrant mineworkers remitted about 71.3 and 68.9 per cent of their total earnings to Lesotho, respectively. Therefore, the fall in the average number of migrant mineworkers over the years ultimately led to the decline in the mineworkers' remitted income as depicted in figure 2 overleaf.

Figure 1: Number of migrant mineworkers employed in SA mines (in thousands)

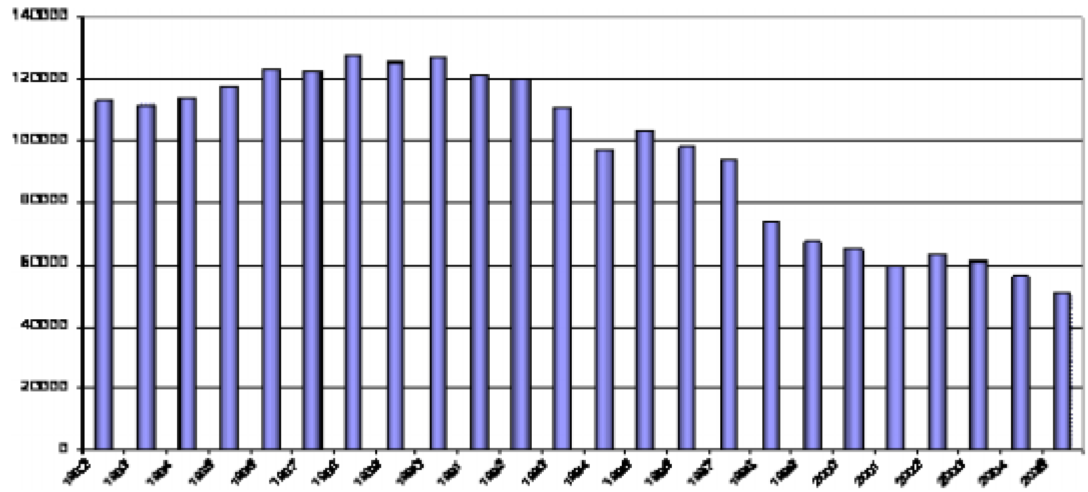
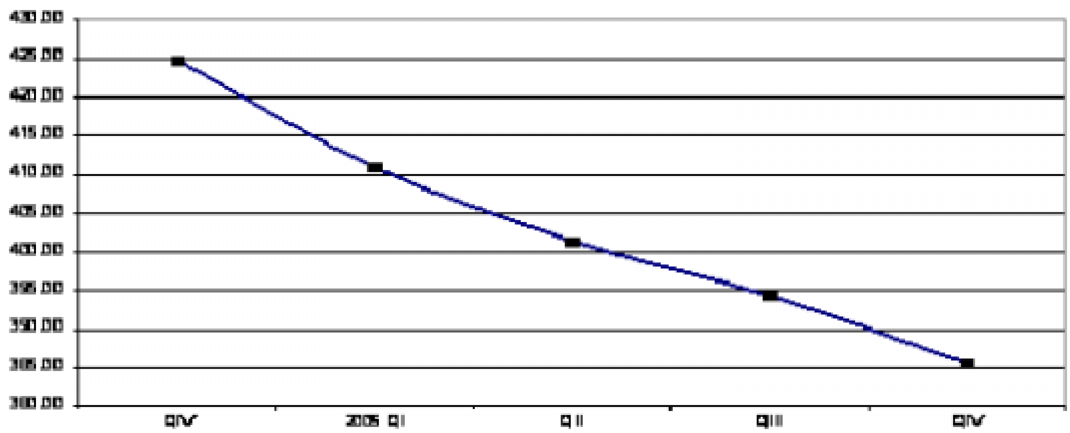


Figure 2: Migrant mineworkers' remittances (In million maloti)



Causes of the decline in numbers employed

Several factors are deemed to have contributed to this observed trend in the number of Basotho migrant mineworkers in recent years. The strong and volatile rand is considered to be the major factor. The SA mining companies trade in US dollars and get their earnings in rand terms, hence movements in exchange rate, either an appreciation or depreciation of the rand against the US dollar leads to losses or gains in profitability, respectively. These companies generally incur their costs in rand terms, hence the volatility of the rand may hamper mining operation costs in the sense that it leads to uncertainties in the market.

The second major factor is the persistent increase in the international crude oil prices. Generally, oil is used as one of the input factors in the production processes by many companies. Uncertainties in Iraq and in the Middle-East led to uncertainties in the global supply of crude oil. In addition, increased demand for oil in India and China also led to supply-side concerns. Last but not least, unfavourable weather conditions (hurricanes Katrina and Rita) in the Gulf of Mexico and the Gulf Coast of the United States (US) during the second half of 2005 also led to disruption in the oil refinery activities and hence lower production. All the abovementioned factors had an effect on the price of oil. The production/operation costs of most firms in SA, including, mining companies, increased amid the hike in the price of oil. Therefore, in order to keep the companies profitable, the affected companies had to resort to some alternatives such as, laying-off workers, so as to cut down their operation costs.

Thirdly, mechanisation, switching from labour intensive production methods to capital intensive methods, is also considered to be another factor leading to the falling number of mineworkers. Furthermore, high wages, which attract black SA citizens in larger numbers than before and SA's affirmative action and localisation policy all led to a shift in the employment composition of mineworkers. That is, the SA mines are now giving first preference to SA citizens.

Importance of remittances

The fall in the number of migrant mineworkers and the resultant decline in miners' remittances do not bode well for the Lesotho economy. Several impact channels are discussed in this section.

At household level:

Remittances are normally used for basic subsistence needs such as food, clothing, housing, education and health care and they make up a significant portion of the income of many households.

At national level:

Remittances provide a significant source of foreign exchange, finance imports and hence contribute positively to the balance of payments. In addition, remittances are used as a potential source of savings and investment for capital formation and development. As a consequence, this could lead to the improvement in the living standards of recipients. The level of income inequality in the country could also be reduced provided that the poorer or less skilled are the ones migrating to SA mines.

Future prospects

During the second half of 2005, the average price of gold increased substantially, especially towards the end of the fourth quarter. The price of gold reached a peak of $528 an ounce on the 12th December 2005. This significant increase in the dollar price of gold was due to the depreciation of the dollar against other major currencies, such as the Euro, which induced higher demand by European investors as the metal became less expensive. This positive development, if maintained, bodes well for the SA mining industry and therefore the Lesotho economy. This could to some extent mitigate the impact of the increase in international crude oil prices, which is used as an input factor in the SA mining sector. A sustained increase in the price of gold could result in the improvement in profitability of the SA mining companies and this would to some extent put a hold on the laying-off of workers.

With the pipe-line plans for more diamond mines to be established within Lesotho in the near future, dependence of the country on SA mining industry could be reduced. Hence retrenched Basotho migrant mineworkers could be re-employed in those mines because of their experience and skills acquired from abroad.

The manufacturing sub-sector as the second largest employment sector in the economy, could serve as an alternative employment sector for the retrenched Basotho migrant mineworkers. However, this sub-sector is currently faced with problems such as, among other factors, the phasing out of the quotas under the Agreement on Textiles and Clothing (ATC) in December 2004, strong rand and cash-flow problems. These do not bode well for the employment prospects in this sub-sector and hence the economy as a whole.

The agricultural sector too could also be viewed as an alternative for retrenched Basotho migrant mineworkers. This sub-sector is however, over-shadowed by persistent drought and lack of crop diversification, which continue to result in poor harvests.

The declining number of migrant mineworkers from the SA mines and hence declining mineworkers' remittances pose a challenge for policy-makers in Lesotho in the sense that concise and well targeted policies have to be formulated to absorb the retrenched workers, so as to continue pursuing the poverty reduction goal.

Table 1: Monetary and Financial Indicators+

	Oct.	Nov.	Dec.
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	11.50	11.50	11.50
1.2 Prime Lending rate in RSA	10.50	10.50	10.50
1.3 Savings Deposit Rate	1.24	1.24	1.24
1.4 Interest rate Margin(1.1 – 1.3)	10.26	10.26	10.26
1.5 Treasury Bill Yield (91-day)	6.74	6.60	6.95
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	2519.7	2593.5	2590.0
2.2 Net Claims on Government by the Banking System	-1209.13	-1103.20	-910.08
2.3 Net Foreign Assets – Banking System	4683.29	4580.33	4211.18
2.4 CBL Net Foreign Assets	3436.3	3200.22	3076.22
2.5 Domestic Credit	-481.56	-365.57	7.16
2.6 Reserve Money	425.36	392.09	545.31
3. Spot Loti/US$ Exchange Rate (monthly average)	6.5895	6.6561	6.3691
4. Inflation (year-on-year percentage change)	3.4	3.4	
5. External Sector (Million Maloti)	**2005**		
	QI	**QII**	**QIII**
5.1 Current Account Balance (Excl. LHWP)	52.86	-122.41	34.71
5.2 Capital and Financial Account Balance (Excl. LHWP)	-69.05	187.88	-102.54
5.3 Reserves Assets	-119.83	-94.55	26.53

+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.

Table 2: Selected Economic Indicators

	2001	2002	2003	2004*
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	3.2	3.5	3.1	3.1
1.2 Gross Domestic Product Excluding LHWP	3.5	2.9	2.9	3.7
1.3 Gross National Product – GNI	0.2	1.6	6.0	6.1
1.4 Per capita –GNI	-2.1	-0.2	3.7	3.9
2. Sectoral Growth Rates				
2.1 Agriculture	0.5	-4.2	-1.8	1.2
2.2 Manufacturing	7.9	6.9	5.2	5.9
2.3 Construction	1.4	6.9	4.3	0.4
2.4 Services	2.2	2.2	3.9	3.9
3. External Sector – Percent of GNI Excluding LHWP				
3.1 Imports of Goods	75.3	93.9	80.1	81.3
3.2 Current Account	-2.9	-11.6	-5.8	1.0
3.3 Capital and Financial Account	1.9	6.4	3.8	1.4
3.4 Official Reserves (Months of Imports)	11.7	6.2	5.8	5.2
4. Government Budget Balance (Percent of GDP)	-1.0	-2.8	-0.3	5.4

* Preliminary estimates

[1] A portion of international migrant workers' earnings sent back from country of employment to the country of origin