



THE GOVERNMENT OF LESOTHO HOLDS THE 9TH DONOR ROUND TABLE CONFERENCE ON SUSTAINABLE ECONOMIC GROWTH AND POVERTY REDUCTION

In pursuance of the objectives and strategies aimed at addressing the major challenges facing the country, the Government of Lesotho invited its Development Partners to a Donor conference.....

Background

The importance of official development assistance (ODA) in the development process of least developed countries cannot be overlooked. ODA plays an important role in filling the domestic resource gaps in order to finance programs necessary for sustained economic growth and poverty reduction. The Government of Lesotho hosted its Development Partners and held the Ninth Donor Round Table Conference on 20 to 24 November 2006 at the 'Manthabiseng Convention Centre. The objective of the conference was to raise funds to implement the Poverty Reduction Strategy (PRS).

Lesotho PRS was completed in 2004 with the assistance of the development partners. This followed consultations with over 20 000 people in 200 communities throughout the country and a number of groups such as the elderly, widows, orphans, unemployed and community based organizations. The PRS outlines eight priority areas and two cross cutting issues that need to be addressed in an endeavour to promote rapid economic growth and reduce poverty in Lesotho.

INSIDE

- | | |
|---|---|
| 2. Monetary Policy Operations for November----- | 5 |
| 3. Inflation developments in August-- | 6 |
| 4. Selected Monetary and Economic Indicators----- | 8 |

The eight priority areas are employment creation; improvement of agricultural production and food security; development of infrastructure; deepening democracy, governance, safety and security; improvement of access to health care and social welfare; improvement of the quality of and access to education; enhancement of public service delivery; and management and conservation of the environment. The two cross cutting issues are combating HIV and AIDS; and promoting gender equality and improving the lives of youth and children.

The PRS was developed in line with the Vision 2020, the monitoring of Millennium Development Goals

(MDGs) and the Public Sector Improvement and Reform Programme (PSIRP). Thus the conference intended to develop the joint financing plan for the identified priorities.

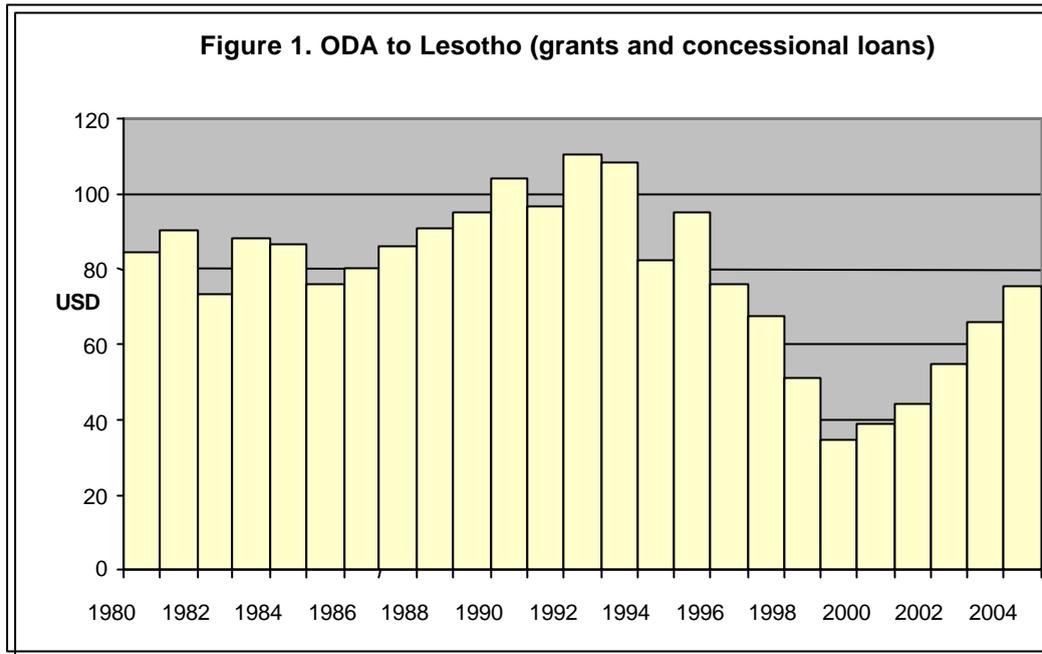
The Role of ODA in Economic Development

ODA to developing countries plays a crucial role in their economic development process. As already highlighted, it supplements their domestic resources for financing development projects. Most of the developing countries do not have adequate financial resources to provide public goods such as roads, education, health services, water etc, which are essential for development. If these goods were to be provided by the private sector, they would not be affordable to the poor as the service fees would reflect the true cost of providing such services. Thus ODA helps avail these public goods. In addition, ODA helps create an enabling environment for private investment. Private investment plays a significant role in promoting economic growth and development. Furthermore, because ODA takes the form of either grant or concessional loans it provides developing countries with the opportunity to avoid costly loans, which could subject them to heavier burdens of repayments. A country that receives ODA may be viewed as creditworthy, which may attract more donor support and also improve investors' sentiment about it. Nations experiencing emergency situations arising from strife, natural disasters and other causes receive ODA to help them survive through such state of

affairs and to deal with their after effects. ODA also brings in foreign currency, which could improve the recipient countries' balance of payments positions.

Trends in ODA to Lesotho

Figure 1 below shows ODA to Lesotho for the period 1980 to 2004. ODA to Lesotho reached a peak in 1992 and thereafter followed a declining trend from the early 1990s to reach an all time low in 2000. Thereafter, it has been recovering steadily. It is important to note that even in 2004; ODA to Lesotho still remains below its levels in the 1980s and early 90s. A number of factors could be responsible for the observed pattern. First, there was an overall decline in aid from the G7 countries to Less Developed Countries (LDCs) while an increase in aid to low and lower middle income nations was realised around the same period. Second, some donors reduced their focus on sub-Saharan Africa and concentrated on other regions, particularly Asia, Oceania, Europe, Latin America and the Caribbean. In addition, donor preference for large projects often excludes Lesotho. Third, debt relieve granted to highly indebted poor countries (HIPCs) under the HIPC initiative increased ODA to countries that qualified to the detriment of those who were not eligible for it like Lesotho. Lastly, the end of the apartheid era and the restoration of democracy to South Africa shifted the international focus to that country.



Constraints to Effectiveness of ODA

The experience of developing countries regarding ODA has raised issues around the effectiveness of ODA. A number of constraints have been identified on the effectiveness of ODA. First, there is a general view that with stable macroeconomic policy environments, strong domestic institutions and good governance, ODA could be effectively implemented and could as such yield positive results in terms of fostering economic development. However, most developing countries are susceptible to various external and domestic shocks. Second, there appears to be management and other skills constraints in ODA receiving countries. Third, there is also a need for aid to be stable and predictable to avoid disruptions to macroeconomic management. Donors need to adhere to long term commitments. Fourth, most ODA is tied. ODA is tied if for example, recipient countries are required to procure goods and services needed for implementation of donor funded projects from donor countries. This restricts the flexibility to obtain

such goods and services at lower costs from other countries.

Strategies to improve efficiency of ODA in Lesotho

Lesotho is also not immune to some of the problems regarding the efficiency of ODA. In an endeavour to improve the efficiency of ODA, the Government is in the process of preparing an AID Policy. The policy is amongst others intended to guide donors to more effectively use Government systems to implement their aid programmes. This would reduce the amount of aid that gets into the country through other channels other the Government and also align donors' incentives with the objectives of Government. The aim of Government is for all aid to be in the form of General Budget Support, so that donor funding could be disbursed through the treasury and be directed to areas identified by Government in its development plans.

Key Priorities of the Government of Lesotho

As already stated, the conference intended to draw the joint financing

plan for the implementation of the PRS. In particular, to raise funds for the financing of the priorities as identified. The following are the key areas of intervention, intended to generate high and sustainable economic growth:

Productive Sectors

Theoretically, it is well accepted that the prerequisite for poverty reduction is sustained economic growth. In order to achieve this prerequisite, the Government of Lesotho has identified a number of sectors to drive growth. The key sectors are manufacturing, tourism, mining, high value agriculture, and small, medium and microenterprises (SMMEs) Investment has to be increased in these sectors to stimulate economic growth, which is essential for poverty reduction.

Human Development

Development of the human resource base is vital for shaping the country's future especially given the low natural resources base. Thus promoting access to quality education and health services is important for poverty reduction. In addition the legal and political institutions affect investors' perceptions about the economy. As such a stable and predictable institutional environment in which the rights of businessmen could be protected should be created.

HIV/AIDS

Lesotho has one of the highest HIV prevalence rate in the world. HIV/AIDS is cutting down the country's human capital and

discouraging investment in key sectors of the economy and in particular agriculture.

Governance, Efficiency and Public Service Delivery

The Government of Lesotho recognises that there is a strong link between the legal framework, political institutions and economic growth. The development of these institutions is paramount to increased private investment in the economy.

Conclusion and Way Forward

Lesotho has been receiving donor support for a number of years now. The significance of this aid in the provision of public goods such as health services, education, roads, water and sanitation cannot be overemphasised. Lesotho still needs donor assistance to achieve its development goals. During the conference, some of Lesotho's Development Partners promised to look into their upcoming programmes for new resources to support these goals. A number of new partners also committed to helping Lesotho accomplish its development goals. Notwithstanding the significant contribution that ODA makes to economic development and poverty reduction, there is a need for Lesotho to further strengthen its efforts to mobilise domestic resources. There is also a need to strengthen efforts to enhance the effectiveness of aid that Lesotho receives. Among other things, this involves improving the coordination of aid.

2. Monetary Policy Operations In November

Table 1 below shows amounts auctioned and discount rates that prevailed for each of the auctions. The November auction was fully subscribed and consequently, the whole auction amount to the tune of M170.0 million was issued. The level of competitiveness in the market, as estimated by the number of participants in an auction, increased during the recent auction. In November, there were 10 bidders who submitted 39 bids for the auction and 9 bidders became partially successful. This number was above the October figure of 6 successful bidders perhaps due to the increase in the offer amount.

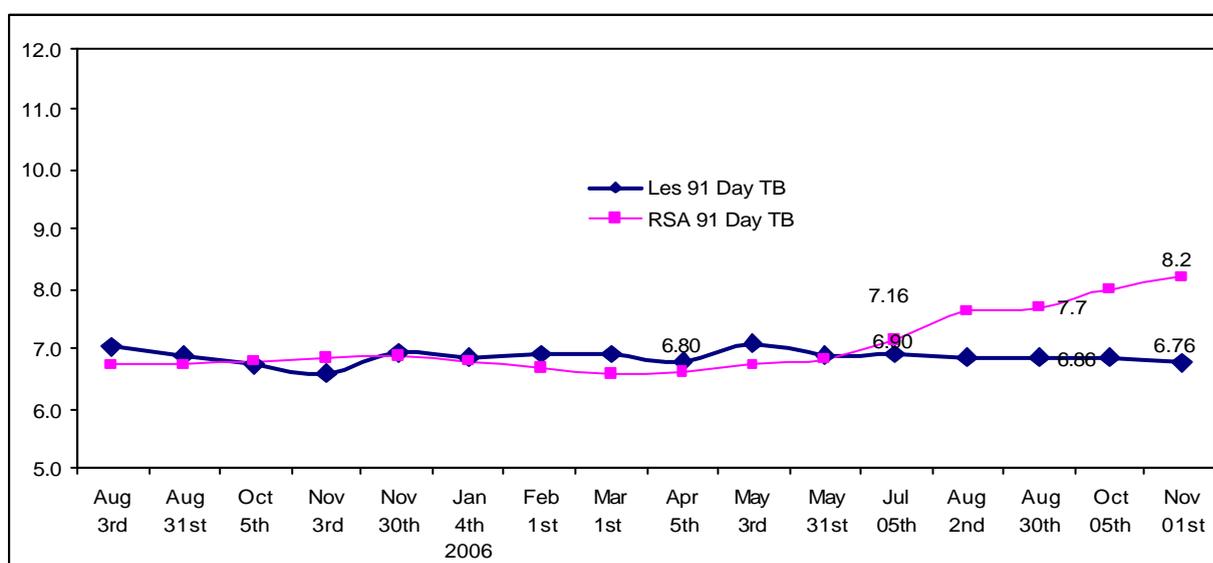
auction amount could influence a bottoming out in the rate, the 91-day treasury bill fell by 10 basis points to 6.76 per cent in November. The rate was still below the counterpart South African rate which continued to rise from its previous level of 8.00 per cent in October to 8.20 per cent in November. Hence, the margin between the two rates widened from 114 basis points to 144 basis points at the end of the review period.

In November, contrary to the expectation that an increase in the

Table 1: Treasury Bill Auctions

| Type of Security | Auction Date | Auction Amount (million) | Amount Issued (million) | Discount Rate |
|------------------|--------------|--------------------------|-------------------------|---------------|
| 91-day TBs | 30 Aug | M150.0 | M150.0 | 6.86% |
| 182-day TBs | 05 Sep | M20.0 | M20.0 | 6.79% |
| 91-day TBs | 05 Oct | M150.0 | M150.0 | 6.86% |
| 91-day TBs | 01 Nov | M170.0 | M170.0 | 6.76% |
| 182-day TBs | 08 Nov | M50.0 | M16.5 | 7.00% |

Figure 2. Measuring the Success of Monetary Policy Objectives:



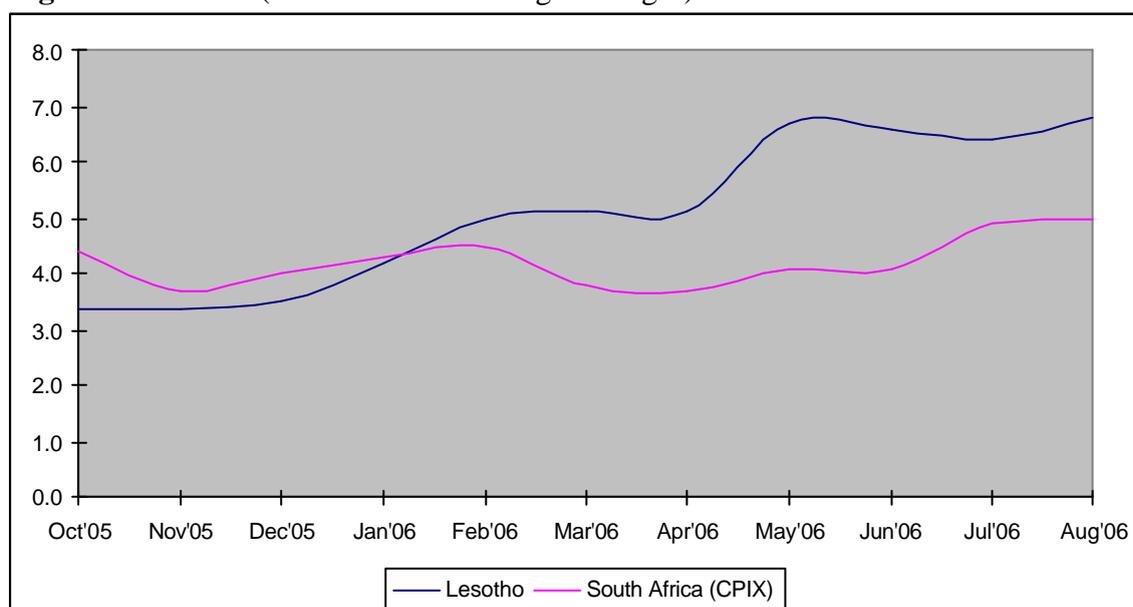
3. Inflation Developments in August

The level of inflation, as measured by changes in the Consumer Price Index (CPI) accelerated from 6.4 per cent in July to 6.6 per cent in August (as depicted by the graph below). In Lesotho, inflation developments follow the trends in South Africa mainly due to the close trade linkages between the two economies. The rise in the reporting period continued to be fuelled by the increase in the 'food and non alcoholic beverages' which carries the largest weight in the CPI basket. Its index accelerated from 10.0 per cent in July to 11.4 per cent in August. The index for 'Furniture, household equipment and routine maintenance of

house' category which carries the second largest weight in the basket, increased by 4.0 per cent compared with 4.6 per cent increase in the previous month. The index for 'Clothing and footwear, housing, electricity, gas and other fuels' category rose by 4.0 per cent in August compared with 4.6 rise in July.

On the overall, inflation outlook for Lesotho will continue to be dominated by price developments in South Africa. The threat to inflation currently continues to be the rise in international oil prices which have a negative spillover effect on costs of production.

Figure 3. Inflation (Annualized Percentage Changes)



4. Selected Monetary and Financial Indicators+

| | August | Sept | Oct |
|--|-------------|------------|-------------|
| 1. Interest rates (Percent Per Annum) | | | |
| 1.1 Prime Lending rate | 12.25 | 12.33 | 12.69 |
| 1.2 Prime Lending rate in RSA | 11.50 | 11.50 | 11.50 |
| 1.3 Savings Deposit Rate | 1.32 | 1.32 | 1.84 |
| 1.4 Interest rate Margin(1.1 – 1.3) | 10.93 | 11.01 | 10.85 |
| 1.5 Treasury Bill Yield (91-day) | 6.86 | 6.86 | 6.76 |
| | | | |
| 2. Monetary Indicators (Million Maloti) | | | |
| 2.1 Broad Money (M2) | 3128.2 | 3121.46 | 3387.38 |
| 2.2 Net Claims on Government by the Banking System | -1492.36 | -1396.16 | -1986.82 |
| 2.3 Net Foreign Assets – Banking System | 5814.9 | 5934.44 | 6358.55 |
| 2.4 CBL Net Foreign Assets | 4249.4 | 4885.89 | 5328.61 |
| 2.5 Domestic Credit | -712.1 | -520.50 | -1113.62 |
| 2.6 Reserve Money | 439.14 | 427.84 | 436.14 |
| 3. Spot Loti/US\$ Exchange Rate (Monthly Average) | 6.9483 | 7.7795 | 7.4085 |
| | | | |
| 4. Inflation Rate (Annual Percentage Changes) | 6.8 | 6.8* | 6.8* |
| | | | |
| 5. External Sector (Million Maloti) | 2006 | | |
| | QI | QII | QIII |
| 5.1 Current Account Balance (Excl. LHWP) | 26.67 | 105.84 | 406.57 |
| 5.2 Capital and Financial Account Balance (Excl. LHWP) | 99.88 | 52.28 | -132.32 |
| 5.3 Reserves Assets | -86.90 | -177.17 | -641.50 |

+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.

5. Selected Economic Indicators

| | 2003 | 2004 | 2005 | 2006* |
|---|------|------|------|-------|
| 1. Output Growth(Percent) | | | | |
| 1.1 Gross Domestic Product – GDP | 2.7 | 4.0 | 2.7 | 4.8 |
| 1.2 Gross Domestic Product Excluding LHWP | 4.3 | 4.5 | 3.2 | 5.1 |
| 1.3 Gross National Product – GNI | 6.0 | 6.1 | 3.4 | 5.7 |
| 1.4 Per capita –GNI | 3.7 | 3.9 | 2.2 | 4.4 |
| | | | | |
| 2. Sectoral Growth Rates | | | | |
| 2.1 Agriculture | 0.3 | 13.5 | 20.0 | 10.7 |
| 2.2 Manufacturing | 5.7 | 2.1 | -8.0 | 1.2 |
| 2.3 Construction | -4.9 | -4.4 | 2.5 | 2.8 |
| 2.4 Services | 6.1 | 2.6 | 3.5 | 2.8 |
| | | | | |
| 3. External Sector – Percent of GNI Excluding LHWP | | | | |
| 3.1 Imports of Goods | 84.0 | 84.5 | 69.5 | 77.7 |
| 3.2 Current Account | -6.3 | -1.2 | -1.0 | 8.6 |
| 3.3 Capital and Financial Account | 3.9 | 1.5 | 2.0 | 2.3 |
| 3.4 Official Reserves (Months of Imports) | 5.6 | 5.2 | 6.4 | 7.1 |
| | | | | |
| 4. Government Budget Balance (Percent of GDP) | -0.4 | 5.6 | 4.4 | 9.3 |

* Preliminary estimates