



**Economic Review**

**October 2009**

## **HUMAN DEVELOPMENT REPORT 2009: OVERCOMING BARRIERS: HUMAN MOBILITY AND DEVELOPMENT**

*Lesotho is classified as Medium Human Development and ranked position 156<sup>th</sup> out of 182 countries in the Human Development Index 2009.....*

### **Introduction**

The United Nations Development Programme (UNDP) has been publishing the Human Development Report (HDR) annually since 1990. Central to the report is the computation of the Human Development Index (HDI). The HDI seeks to provide 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 wellbeing 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 the extent to which people are free to make choices, in order to develop their full potential and lead productive and creative lives in accordance with their needs and interests. In addition to an assessment of the state of human development across the globe, each report provides a critical analysis of a specific theme. The 2009 report focused on the challenges posed by migration on development and recommends policy changes to relax the emigration laws. This review intends to present the finding of the report and draw some experience from Lesotho on international mobility.

### **Human Development Index**

The HDI is a relative measure. It 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 2009 report introduces a new category-very high human development with HDI of 0.900 or above. This category mainly captures developed countries.

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**

With a HDI of 0.514 in 2007, Lesotho is ranked 156th in terms of the level of human development amongst a total of 182 countries. Figure 1 presents the evolution of HDI in Lesotho during the period 2000 to 2007. A steady improvement can be observed in Lesotho since 2005. Norway assumes first position at a level of 0.971 and Niger the last position with an index of 0.340. Lesotho's position is at the bottom half of medium development countries (with Nigeria as the last at 157<sup>th</sup> position), and the index is below the 0.686 average level for all countries at a medium level of human development. However, the country's level is the same as the average level for Sub-Saharan Africa countries.

Table 1 below presents the HDI statistics for Southern African Development Community (SADC) member countries. Mauritius is the only SADC country ranked at a high human development in position 81 while Botswana (125), Namibia (128), South Africa (129), Swaziland (142), Angola (143), Madagascar (145), Tanzania (151), and Lesotho (156) are medium human development. The remaining members, Malawi (160), Zambia (164), Mozambique (172) and DRC (176) are ranked low human development. Zimbabwe has not been ranked in the report.

The level of education of Lesotho people is slightly higher than the average of all countries at medium level of human development, with adult literacy rate of 82.2 per cent against 80.0 per cent average. However, the country is lacking on life expectancy and income. At 44.9 years, life expectancy is amongst the lowest in SADC countries and is below the average of all countries at medium level of human development of 66.9 years. Life expectancy

in Lesotho is declining possibly as a result of HIV/AIDS pandemic. Lesotho's income measured by GDP per capita is Purchasing Power Parity (PPP) US\$1541. This is below both the Sub-Saharan and all countries at the medium level of development at US\$2031 and US\$3963. This implies a deterioration since Lesotho was above the SSA average in 2007 HDR.

### **Other Indicators**

Measuring poverty levels in the same multiple dimensions of HDI (health, education and standard of living) can assess human development achievements. While HDI indicates average achievements, the Human Poverty Index for developing countries (HPI-1) measures the extent to which people are deprived in the three basic dimensions of HDI. Deprivation to a healthy life is measured by the probability at birth of surviving to age 40. Exclusion from education is indicated by adult illiteracy, while lack of access to overall economic provisioning is estimated by the percentage of population not using improved water sources and percentage of children under five who are underweight.

Among a total of 135 developing countries ranked for HPI-1, Lesotho is placed at position 106. In the SADC region, the country is behind of Mauritius (45), Namibia (70), Botswana (81), South Africa (85), Tanzania (93) and Zimbabwe (105). It should be noted that a higher HDI does not imply a high HPI-1. People in Lesotho stand a 47.4 per cent chance at birth of living until age 40 and adult illiteracy rate is 17.8 per cent. About 22 per cent of the population has no access to improved water sources and 20 per cent of children under 5 are underweight.

In order to measure the degree of gender equality, HDI is adjusted for inequalities in achievements of men and women. The Gender-related Development Index (GDI) and HDI would be the same if gender equality existed. Lesotho is assigned a GDI of 0.509. The country's women enjoy higher level of life expectancy at birth than men. Life expectancy at birth is 45.5 for females compared with 43.9 for males. There is a huge disparity in literacy across sexes; female literacy rate is 90.3 per cent while males are 73.7 per cent. Furthermore, the

females' gross enrolment ratio is higher at 62.3 per cent compared to 60.6 per cent for men. However, the estimated earned income for males is higher than females.

### **Challenges for Lesotho**

As presented in Figure 1, HDI in Lesotho has been declining since 2000 although some recovery was observed in 2005. This presents a clear challenge on its prospect to keep up with the pace of human development. The challenge is made even more acute by the global recession that has taken its toll on the economy of Lesotho. The impact of the global recession on the economy of Lesotho has manifested itself in the laying off of workers employed in the manufacturing of textile and clothing and the mining industry. This has sent shock waves through other sectors of the economy like retail, transport and telecommunications. Furthermore, the recession has reduced revenue that Lesotho gets from Southern African Customs Union (SACU). The importance of customs revenue for the economy of Lesotho cannot be overemphasised as it accounts for 60 per cent of total revenue to the Government of Lesotho.

The key challenge facing the Government of Lesotho is to ensure that efforts put in place to improve the livelihoods of Basotho remain intact despite the prevailing negative factors. These efforts include, first, the provision of basic health care services and the fight against HIV/AIDS pandemic. Lesotho remains with the third highest prevalence of HIV/AIDS of 24 per cent. To this end the Government continues to implement the free access to health services and drugs. Work has already commenced in the construction of Tsepong which is aimed at replacing Queen Elizabeth II Hospital. The expected decline in Government revenue coupled with a reduction in donor funds due to the global recession may worsen the already vulnerable situation. Second, the Government continues to strengthen efforts to provide education at all levels. The continued implementation of the free primary education and the ongoing expansion of secondary education infrastructure remain critical. The HDR 2009 poses a challenge to the Government of Lesotho when she compares herself to her peers in Southern

African Development Community (SADC). In SADC, Lesotho is ranked number nine out of 13 countries ranked in SADC. Lesotho is ranked higher than Mozambique, Malawi, Zambia and DRC. In SACU, Lesotho is ranked last.

### **Human Mobility and Development**

As already mentioned, the 2009 report focused on the link between human mobility and human development. Migration can be in two ways, internal migration and international migration. The report pays special attention to the latter. However, it recognises that internal migration is quiet high at about 740 million which is about four times higher than cross border migrants. Data presented in the report shows that the bulk of international migrants move between within developing countries and within developed countries. A small portion move from developing to developed. The observed pattern is due to the costs involved in migration. Thus regional migration is preferred. However, it is important to note that the movement is always to a country with a higher HDI. In that way human mobility become effective in raising the individual income, health and education.

The case of Lesotho is typical. The bulk of international migrants from Lesotho move to the neighbouring South Africa. South Africa is ranked high in the HDI and is in the higher developmental stage. The benefits that Lesotho enjoys from the migration cannot be overemphasized, the remittances have been pivotal to Lesotho developmental agenda.

In conclusion, the report proposes the following six reforms that can enhance the benefits of migration to human development.

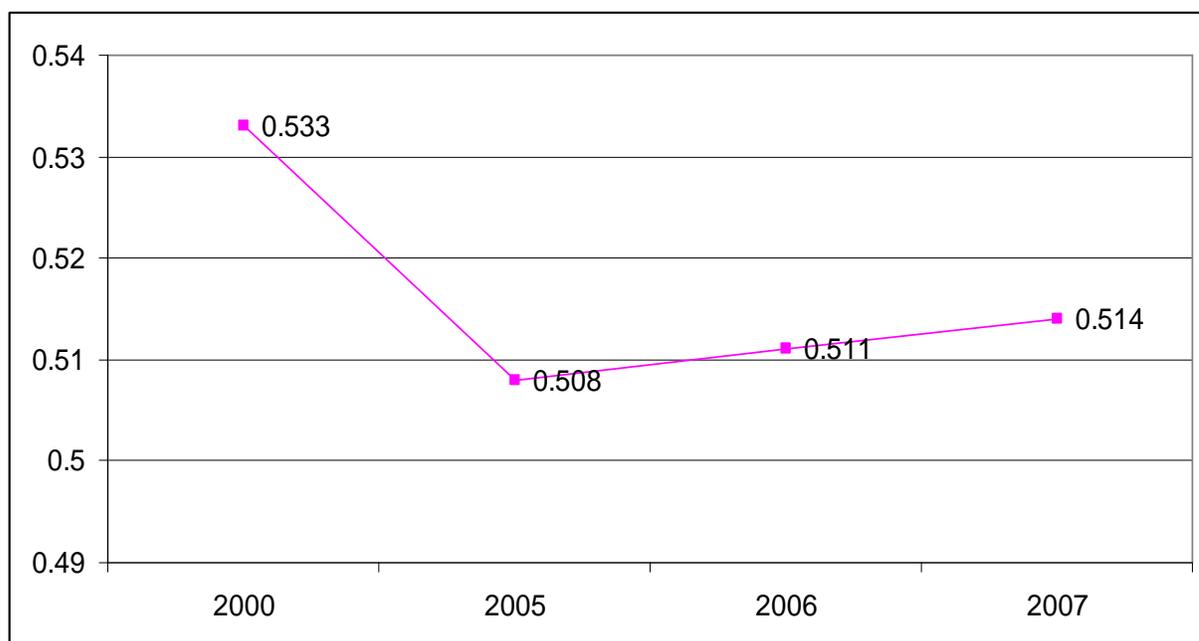
- Liberalising and simplifying regular channels
- Ensuring basic rights for migrants
- Reducing transaction costs associated with movement
- Improving outcomes for migrants and destination communities
- Enabling benefits from internal mobility
- Making mobility an integral part of national development strategies

**Table 1: SADC Member countries**

Rank	Country	HDI	Life expectancy index	Education index	GDP index
81	Mauritius	0.804	0785	0.839	0.789
125	Botswana	0.694	0.473	0.788	0.820
128	Namibia	0.686	0.590	0.811	0.658
129	South Africa	0.683	0.442	0.843	0.765
142	Swaziland	0.572	0.339	0.731	0.646
143	Angola	0.564	0.359	0.667	0.665
145	Madagascar	0.543	0.582	0.676	0.373
151	Tanzania	0.530	0.500	0.673	0.416
156	Lesotho	0.514	0.332	0.753	0.457
160	Malawi	0.493	0.456	0.685	0.339
164	Zambia	0.481	0.326	0.682	0.435
172	Mozambique	0.402	0.380	0.478	0.348
176	Democratic republic of Congo(DRC)	0.389	0.377	0.608	0.182
...	Zimbabwe	...	0.306	0.789	...

Source: Human Development Report 2007/2008

**Figure 1: Trends in HDI in Lesotho**



## 2. Human Mobility and Development: Lesotho Experience with Migration

*The experience of Lesotho with international mobility offers some valuable insights on the implications.....*

### Introduction

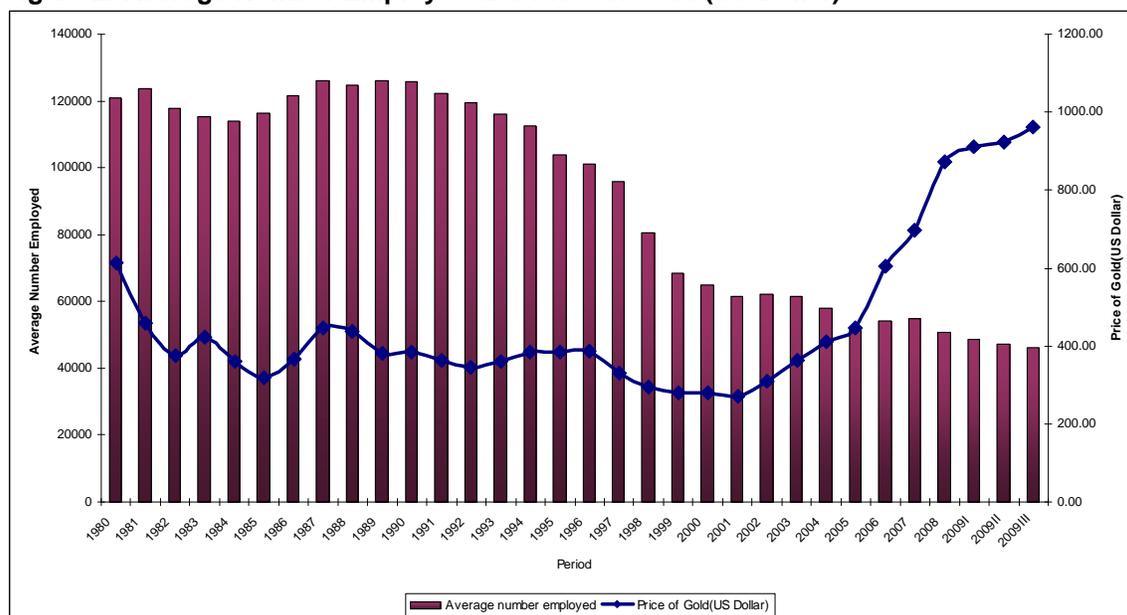
The 2009 Human Development Report is released at the opportune time for Lesotho, for a century, the country has been relying on remittances from migrant workers employed in a number of industries in South Africa. As Turner (2003) puts it, migration has been the leading livelihood strategy for Basotho for at least a century. History traces migration of Basotho to the neighbouring South Africa to the discovery of diamonds in Kimberly and later gold in Johannesburg. International mobility from Lesotho to South Africa has been mainly driven by economic factors with the bulk of migrants seeking employment in the mining industry in South Africa. There is also evidence that a sizable number were employed in the agricultural sectors. Thus the experience of Lesotho on human mobility is quite wealthy.

### Trends in Migration Patterns

Figure 2 below presents evolution of number of Basotho employed in the South African mining industry during the period 1980 to 2009. The long term trend of the number of

Basotho in the mines in South Africa has been downward. The number of Basotho in the mines declined from 120 733 in 1980 to 46 275 at the end of third quarter of 2009. The observed downward trend can be explained by a confluence of factors. First, the bulk of Basotho were employed in gold mining firms and the decline in the price of gold during the late 1980s led to the retrenchments of employees from the mining industry. About 70 000 Basotho lost their jobs in the mines since the 1980s. Second, during the last three decades there has been significant improvement in mining technology leading to the marked mechanization of the mining activities. Hence declining amounts of labour is required for the same activity. Last, the change in the political landscape in South Africa, mainly the end of the Apartheid era in 1994, saw mining companies in the country being more willing to employ black South Africans. This was contrary to the previous philosophy which preferred employees from the neighbouring countries. In recent years there have been traces of white collar migration but no formal study has been done to that effect.

**Figure 2: Average Number Employed and Price of Gold (US Dollar)**



## Implications

There is no doubt that the economy of Lesotho benefited significantly from the migration of Basotho to South Africa. First, the migrants provided Lesotho with the much needed foreign exchange in the form of migrant remittances. It is estimated that during the 1980s income from abroad financed about 68 per cent of total imports. This has since declined to 24 per cent in the third quarter of 2009. Thus a significant portion of private consumption and investment was financed by the remittances.

### 3. Monetary Policy Operations Report for October 2009

During the review period, monetary policy operations undertaken by Central Bank of Lesotho (CBL) were successful in attaining the desired objectives. The primary objective of monetary policy is to achieve and maintain price stability within the economy. As a result, the Bank employs Open Market Operations (OMO) to maintain the stated objective. This initiative enables CBL to maintain the parity between the local currency, Loti, and the South African Rand. This is done through maintenance of adequate level of Net International Reserves (NIR). The NIR ensures that the parity between the Loti and the South African Rand is maintained. The maintenance of the parity is important to price stability. Therefore, open sale and purchase of Treasury bills goes a long way in protecting the currency peg. The parity allows Lesotho to benefit from the relatively low inflation in South Africa.

The report present economic and operational issues surrounding the monetary policy operations conducted during the review period to assess the success of the operations. Table 1 below shows that the entire amounts of treasury bills (M40.0 and M50.0 million) announced during the auctions conducted on October 14 and 28, 2009, respectively, were ultimately issued.

Competitiveness of the 91-day TBs auction (as measured by the number of bidders and bids received, over/under subscription of the auctions as well as the movements of discount rates) improved slightly during the review period. The number of bids received declined from 11 bids to 10 bids in the

The existence of a strong relationship between poverty and unemployment imply that for many years, Basotho men were employed in the South African mines, there were positive impacts on poverty in the country. The retrenchments in the mining industry have partly contributed to the worsening poverty situation in the country. This has also put pressure on the Government of Lesotho to introduce social security benefits like the old age pension scheme.

under the review period. Oversubscription increased from M20.0 to M21.5 million in October, 2009. Nevertheless, the number of bidders increased to 8 participants from 4 participants in the previous auction. The Lesotho's 91-day TBs rate (discount rate) declined by 4 basis points to 6.78 per cent during the reporting, but lower than SA counterpart rate at 7.03 per cent.

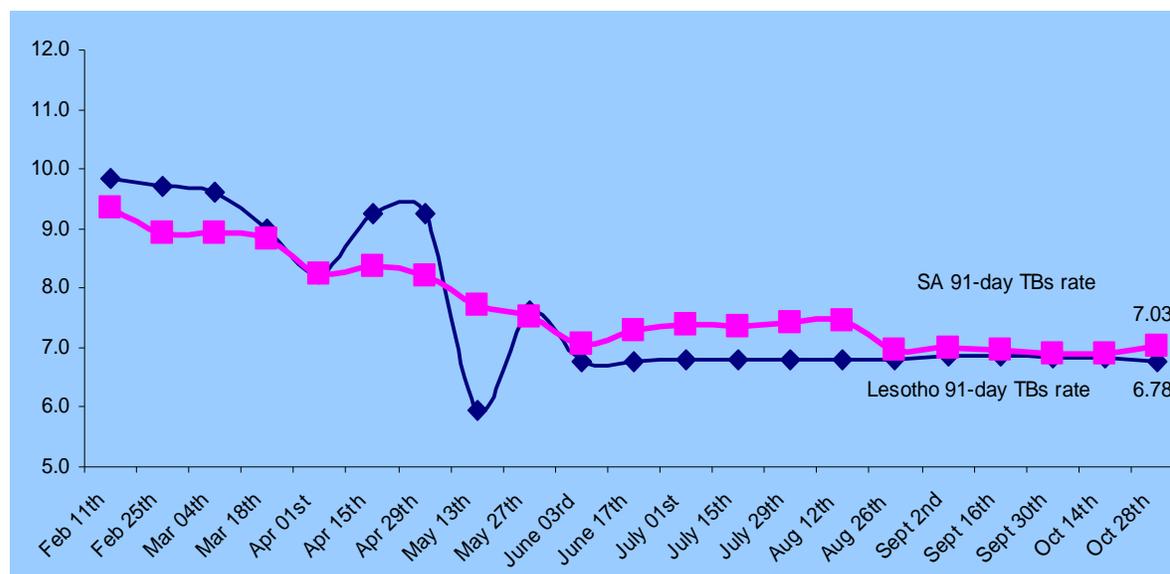
During the review period, the intermediate target, the 91-day TBs rate (discount rate) declined by 0.04 percentage points to 6.78 per cent, as shown in figure 2 below. However, SA 91-day TBs rate increased by 14 basis points from 6.89 per cent to 7.03 per cent at the end of October 2009. Therefore, the margin between the two rates (discount rates) widened by 25 basis points at the end of August from the margin of 7.0 per cent in the previous period. This implies that there was a considerable incentive for undesirable cross border transfers of funds between the two countries.

In relation to the progress towards attaining Monetary Policy objectives, the minimum NIR limit set for the period under review was successfully met. The level of NIR at the end of October 2009 was US\$1000.0 million, above the upper limit of the target range of US\$500 million to US\$550 million set by the Monetary Policy Committee (MPC) by US\$450.0 million. Therefore, the Monetary Policy operations undertaken during the review month were successful in attaining their desired objectives of financial stability by maintaining the target NIR level.

**Table 2: Treasury Bills Auctions**

Type of Security	Auction Date	Maturity Date	Auction Amount (Million Maloti)	Amount Issued (Million Maloti)	Over/(under) subscription (million)	Discount Rate (%)	RSA Discount Rate (%)
91-day	14-Oct-2009	13-Jan-10	M12.0	M12.0	M20.0	6.82%	6.89%
182-day		17-Mar-10	M12.0	M12.0	M26.8	7.16%	7.10%
273-day		14-July-10	M8.0	M8.0	M22.8	7.95%	7.17%
364-day		13-Oct-10	M8.0	M8.0	M19.1	7.88%	7.09%
91-day	28-Oct-2009	27-Jan-10	M15.0	M15.0	M21.5	6.78%	7.03%
182-day		31-Mar-10	M15.0	M15.0	M20.3	7.11%	7.17%
273-day		28-July-10	M10.0	M10.0	M16.9	7.92%	7.38%
364-day		27-Oct-10	M10.0	M10.0	M15.1	7.83%	7.15%
<b>Total for reporting period</b>			<b>M90.0</b>	<b>M90.0</b>	<b>M162.5</b>	-	-

**Figure 3: Measuring the Success of Monetary Policy Objectives for October, 2009: Performances of Lesotho 91-day T-bills vs RSA 91-day T-bills**



**Table 3: Selected Monetary and Financial Indicators**

	2009		
	Aug	Sep	Oct
<b>1. Interest rates (Percent Per Annum)</b>			
1.1 Prime Lending rate	12.0	11.83	12.00
1.2 Prime Lending rate in RSA	10.50	10.50	10.50
1.3 Savings Deposit Rate	2.11	2.11	2.11
1.4 Interest rate Margin( 1.1 – 1.3)	9.89	6.72	9.89
1.5 Treasury Bill Yield (91-day)	7.16	7.14	7.08
<b>2. Monetary Indicators (Million Maloti)</b>			
2.1 Broad Money (M2)	6128.99	6411.20	5415.93
2.2 Net Claims on Government by the Banking System	-4489.48	-3644.00	-5078.61
2.3 Net Foreign Assets – Banking System	12104.17	11331.01	11766.13
2.4 CBL Net Foreign Assets	8081.93	7167.10	8813.21
2.5 Domestic Credit	-2598.53	-1855.95	-3254.39
2.6 Reserve Money	789.00	710.08	779.70
<b>3. Spot Loti/US\$ Exchange Rate (Monthly Average)</b>	<b>7.9505</b>	<b>7.5345</b>	<b>7.4880</b>
<b>4. Inflation Rate (Annual Percentage Changes)</b>	<b>5.6</b>	<b>4.7</b>	<b>4.2</b>
<b>5. External Sector (Million Maloti)</b>			
	<b>2008</b>	<b>2009</b>	
	<b>QIV</b>	<b>QI</b>	<b>QII</b>
5.1 Current Account Balance	330.54	322.98	341.82
5.2 Capital and Financial Account Balance	-184.20	132.85	607.24
5.3 Reserves Assets	-558.82	67.28	70.01

+Preliminary Estimates.

\*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 4: Selected Economic Indicators**

	2005	2006	2007	2008+
<b>1. Output Growth( Percent)</b>				
1.1 Gross Domestic Product – GDP	0.7	8.1	5.1	3.4
1.2 Gross National Product – GNI	-1.9	12.0	3.0	5.0
1.3 Per capita –GNI	-1.9	12.0	2.2	4.2
<b>2. Sectoral Growth Rates</b>				
2.1 Agriculture	-12.4	14.9	-8.6	1.8
2.2 Manufacturing	-10.2	6.0	9.9	-4.5
2.3 Construction	5.4	3.5	6.9	7.7
2.4 Services	2.8	6.5	3.1	2.4
<b>3. External Sector – Percent of GNI</b>				
3.1 Imports of Goods	83.5	77.6	82.0	86.8
3.2 Current Account	-5.8	3.4	9.8	9.5
3.3 Capital and Financial Account	3.7	0.7	5.5	5.1
3.4 Official Reserves (Months of Imports)	5.5	6.7	7.6	7.4
<b>4. Government Budget Balance (Percent of GDP)</b>	<b>5.0</b>	<b>11.6</b>	<b>7.5</b>	<b>-1.0</b>

+Preliminary Estimates