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OFFICIAL OPENING OF A NEW UNIVERSITY: IMPLICATIONS FOR ECONOMIC DEVELOPMENT.

The Right Honourable the Prime Minister, when officially opening the Limkokwing University of Creative Technology (LUCT) – Lesotho campus, recognized the event as an important milestone towards attainment of the development goals embodied in strategies such as vision 2020, Poverty Reduction Strategy and Education Strategic Plan…....

Introduction

The limited number of tertiary institutions in Lesotho has always been a major challenge for skill development. This has led a number of Basotho to seek further education in neighboring countries like South Africa and abroad. In most cases, students failed to continue with their studies due to financial constraints particularly for courses that are available only outside Lesotho. Access to tertiary education was identified as one of the key priorities in the Poverty Reduction Strategy (PRS). The PRS recognized that only 2 per cent of student who enroll at primary school end up at the tertiary level. Therefore, one of the main objectives is to increase access to advanced and relevant education. The implementation of the free primary education followed by the subsidization of secondary education is expected to increase the number of students applying for tertiary education in the coming years. This has increased the need for more tertiary institutions in the country.

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Thus, the government recognized the importance of preparing for the large intake in the tertiary education. Due to lack of infrastructure, existing tertiary institutions in the country do not have enough capacity to absorb all students. Moreover, the curriculum in these institutions is limited in terms of the number of courses offered.

The Role of Education in Economic Development

Theoretically, education is identified as one of the fundamental factors determining sustainable economic development. It is argued that education increases efficiency and effectiveness of labour. Thus for developing countries like Lesotho to achieve sustainable economic development, it is important that they invest substantially in education of their people.

From an individual point of view, the benefits of high education include better employment prospects, high salaries and hence greater ability to save and invest. These benefits may result in better health and improved quality of life, hence improvement in country's life expectancy enabling individuals to work more productively over a longer period.

For the whole economy, education increases the human capital and productivity of labour. This leads to high output level in the economy. Education enriches people with necessary skills and competences which are very critical in the production processes.

The mechanism through which education increases productivity is two-fold. First, education adds skills to labour, increasing the productive capacity of labour. This is due to the fact that highly functional literacy is key to better productivity. Highly literate workers are easier to train and adjust easily to changes in production technologies.

Secondly, education enhances innovative capacity of labour force which is very critical for economic development. It also facilitates the adoption and implementation of foreign technology and therefore reducing the knowledge gap between the technologically advanced nations and developing nations.

With the shift to globalization and economic integration, it is evident that the ability of any country to compete in the global markets depends on the quality of human capital it has. Nations with highly skilled labour is in a better position to compete in the global markets and thus increase their exports of goods and services relative to others. This can translate into economic growth because the more the country exports, the faster it grows.

Education System in Lesotho

According to the Ministry of Education and Training, the system of education in Lesotho is structured in line with the International Standard Classification of Education (ISCED) recommended to Southern African Development Community (SADC) member states by the United Nations Educational, Scientific and Cultural Organization (UNESCO). Table 1 below shows that the system comprises of six levels- Early Childhood Care and Development (ECCD), primary, lower secondary, higher secondary, post secondary and university.

Table 1: Structure of Education in Lesotho

Level	Years	Ages
ECCD	3	2-5 years
Primary	7	5+ years
Lower Secondary	3	NS
Higher Secondary	2	NS
Post Secondary	NS	NS
University	NS	NS

NS - Not Specified

Institutions at tertiary level in Lesotho include two universities (National University of Lesotho and the new LUCT), one teacher training college (Lesotho College of Education), nursing school, agricultural college, polytechnic and several technical schools. Based on enrollments, tertiary education is dominated mainly by the National University of Lesotho (NUL). In 2005, NUL had the largest enrollment with 7918 students followed by Lesotho College of Education with 2335 students. Other tertiary institutions have enrollments of few hundreds.

It is important to note that the Government of Lesotho finances tertiary education through National Manpower Development Secretariat (NMDS) and direct subventions to the tertiary institutions. NMDS provides financing to all qualifying students in all tertiary institutions. This is also extended to students in tertiary education outside the country. It is estimated that about 2000 Basotho students were studying in South Africa in 2002 with the bulk of them being financed by the Government of Lesotho. The highest proportion of Government of Lesotho's budget goes to the education sector. During the fiscal year 2008/09, the share of education sector to the total budget is 22 per cent. The allocation to NMDS is M280.0 million.

However, the major challenge that the country is faced with is the limited capacity of local tertiary institutions. This has led to increased number of students abroad, particularly in South Africa. The continued financing of students abroad is likely to threaten fiscal sustainability due to high fees in South Africa. This is likely to worsen when the first cohort of free primary education students graduate from secondary/high school, in three years time.

Establishment of New University in Lesotho

The establishment of the new University (the first Private University) in the country came as a result of negotiations between the founder of the University of Limkokwing, Professor Emeritas Tan Sri Dato and the Right Honourable Prime Minister of the Kingdom of Lesotho at the Smart Partnership dialogue in Malaysia in 2007. The new university offers a combination of 4-year degree and 3-year associate degree (diploma) programmes in the following discipline: Media Studies, Business Information Technology, Tourism Management and E-commerce.

Unlike most tertiary institutions in Lesotho, LUCT puts a special emphasis on promotion of creativity and innovation. The university has 1200 inaugural students of which 1000 are sponsored by the Government of Lesotho.

Implications on Lesotho's Economy

A number of implications for the economy of Lesotho can be identified. First, LUCT is expected to establish its own buildings within the country. This has implication on infrastructure development and investment within Lesotho. In addition, it is going to stimulate domestic expenditure (consumption of utilities; water and electricity, telecommunications etc) translating into high economic growth and development.

Second, it is expected that about 80% of the lecturers and 90% of other employees (supporting and non-academic staff) employed by the university will be Basotho. In addition, the informal and formal private sector in banking, catering, transport and accommodation are likely to benefit from the university.

Third, as mentioned earlier, the government provides loan bursaries to students for the tertiary education. The government is spending significant amounts of money on tertiary education (tuition fees, living expenses etc) outside the country due to the fact that the existing tertiary institutions within the country did not have enough capacity to accommodate them. The cost of tertiary education abroad is expensive relative to domestic institutions. Therefore, the establishment of the new university will reduce the fiscal burden on the government budget. In addition, the government budget on education will now be in a position to accommodate more students than before.

Finally, the government will realize some tax revenue from the operations of the new University. This would emanate from its expenditures on goods and services implying that the government will realize more Value Added Tax (VAT). Furthermore, the staff employed in the university would pay income tax.

Conclusion

Education is an important ingredient for achievement of sustainable economic growth and poverty reduction. The opening of LUCT in Lesotho is certainly a right step towards attaining vision 2020, PRS and education sector strategic plan. It is important that the government should continue to attract more tertiary institutions into the country and create an enabling environment for the existing ones.

It should also continue investing in her people as this has potential of increasing supply of skilled and productive labour force.

2. Current Trends in the Price of Oil: Implications for Developing Countries

Introduction

Currently, the international oil prices are falling with the price of crude oil declining by more than 50 per cent between July and November 2008. The prevailing deteriorating global economy due to financial crisis and the subsequent slowdown in demand for oil and other oil-products, as well as the strengthening US Dollar, have been cited as the main drivers behind the fall in the oil price. During the third quarter, the price of oil started the downward trend from a record-high of more than US$147 a barrel in July to as low as US$103 in mid-September. In October, it hovered in the range of US$60 to US$70 a barrel.

The global oil production is dominated by Organization of Petroleum Exporting Countries (OPEC). OPEC can be characterized as a cartel. First, a cartel is able to restrict its output in order to influence the movement of prices to levels above the competitive level in most cases. OPEC is responsible for 40 per cent of the world production of crude oil. Second, a cartel can assign output quotas for its individual members. As the price of crude oil continued to decline, OPEC decided to cut production by 1.5 million barrels per day as opposed to 500 000 decided upon earlier. However, the price of crude oil continued to defy logic and plummeted by about more than 60 per cent below the July level. If this trend continues, OPEC will cut production again. The oil price fluctuations have far-reaching repercussion for oil-exporting and oil-importing countries alike. This section attempts to highlight the implications of oil price decline on developing oil-exporting and oil-importing countries.

Implications of Recent Price Fall on Developing Countries.

Casting eyes back in history, especially the onset of this year, a sustained increase in the price of crude oil extended varied and high levels of economic illness in both developed and developing countries. Behind the surge in oil price, a trail of global inflationary episodes surfaced. Economic downturns ensued in several parts of the globe and unprecedented tolls of unemployment were symptoms of the day.

First, the plummeting oil price is expected to ease tensions in the balance of payments of the net oil-importing countries while hurting the current account of the net oil-exporting countries. This is because a one-time flow of income from oil-importing economies to oil-exporting countries will now be reduced substantially even though by less than a fall in the price of oil. The current account surplus that accrued from high international oil price will be reduced thus causing external shock especially if the revenues were already committed on long term projects.

Second, the income in the oil–importing countries will increase due to purchasing power of consumers and hence increased demand for the local production backed by low inflationary pressures and strengthening US dollar against currencies of developing countries like Lesotho. Moreover, input prices will improve in favour of low climate of oil price and this will encourage domestic demand such as business investment more especially in the transport system due to falling prices of energy in the sub-sector.

Third, falling oil prices may induce an increase in employment. Oil-intensive industries that laid-off workers due to soaring oil prices followed by increased inputs prices may find it easier to assume operations now that the oil prices have tumbled down. Moreover, decline in the price of oil has positive influence on the international flow of funds in which case the foreign assets or reserves of oil-importing countries may improve.

On the other hand, the falling oil prices do not bode well for the oil exporting countries. These countries make most of their living from oil revenues and their government budgets are largely fed by income from oil. As such, they are apparently beset by increased budget deficits, social disorder and exacerbation of their slow economic growth.

Implications for Lesotho's Economy

The decline in the international price of oil has a number of implications for the economy of Lesotho. This follows from the fact that Lesotho is dependent on petroleum products to run transportation and agricultural production. First, Lesotho's inflation rate is likely to slow down due to declining fuel and food prices and also as a result of a slowdown in inflation rate in South Africa from 13.6 per cent in August to 13.0 per cent in September. Lesotho inflation tends to follow that of South Africa due to close trade linkages and membership to the Common Monetary Area.

Second, majority of people living in the rural areas of Lesotho use illuminated paraffin for basic household functions like cooking, lighting and heating, hence are likely to benefit from a fall in price of petroleum products. It is important to note that the price of illuminated paraffin fell by 90 lisente during the third quarter.

Third, the price decline comes as a relief to commuter operators as their profit margins are likely to rebound. The commuter fares in Lesotho are controlled by the Government through the Ministry of Works and Public Transport and are not adjusted regularly to reflect the daily changes in petrol and diesel. Thus operators have to take cuts in their profit margins.

Fourth, since Lesotho has increased its pace in the mechanization of agricultural industry, a decline in the price of inputs that use energy following a fall in crude oil price is likely to make the sector buoyant. The lowlands farmers and residents rely heavily on mechanized agricultural implements for productivity and as such are likely to realize increased production should drought and other adverse conditions remain unproblematic for the sector.

Conclusion

Volatility in the price of crude oil does not bode well with both oil exporting and importing countries as it generate unnecessary macroeconomic shocks. The recent fall is likely to curb worsening poverty situation in Lesotho mainly due to the food crises. This is because the high price of crude oil was one of the main determinants of the current global food crisis.

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Table 2: Selected Monetary and Financial Indicators

	2008		
	July	**August**	**Sept**
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	*16.58*	*16.58*	*16.58*
1.2 Prime Lending rate in RSA	*15.50*	*15.50*	*15.50*
1.3 Savings Deposit Rate	*5.28*	*5.28*	*5.28*
1.4 Interest rate Margin(1.1 – 1.3)	*11.30*	*11.30*	*11.30*
1.5 Treasury Bill Yield (91-day)	*9.94*	*9.94*	*10.01*
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	*4337.04*	*4375.75*	*4378.56*
2.2 Net Claims on Government by the Banking System	*-4677.78*	*-4346.04*	*-3939.21*
2.3 Net Foreign Assets – Banking System	*10189.05*	*10021.10*	*9891.51*
2.4 CBL Net Foreign Assets	*8007.13*	*7791.54*	*7766.18*
2.5 Domestic Credit	*-3151.06*	*-2786.73*	*-2404.32*
2.6 Reserve Money	*572.17*	*581.73*	*723.49*
3. Spot Loti/US$ Exchange Rate (Monthly Average)	***7.6272***	***7.6680***	***8.0599***
4. Inflation Rate (Annual Percentage Changes)	***10.5***	***11.2***	***12.1***
5. External Sector (Million Maloti)	***2007***	***2008***	
	QIV	***QI***	***QII***
5.1 Current Account Balance	*328.65*	*507.48*	*824.12*
5.2 Capital and Financial Account Balance	*-83.21*	*330.96*	*117.74*
5.3 Reserves Assets	*-116.19*	*-774.19*	*-165.33*

+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 3: Selected Economic Indicators

	2004	**2005**	**2006**	**2007+**
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	*4.2*	*2.9*	*7.2*	*5.1*
1.2 Gross National Product – GNI	*7.9*	*5.5*	*3.1*	*4.9*
1.3 Per capita –GNI	*7.9*	*5.5*	*3.1*	*4.0*
2. Sectoral Growth Rates				
2.1 Agriculture	*-1.9*	*-1.7*	*1.7*	*-39.3*
2.2 Manufacturing	*2.1*	*-8.6*	*10.5*	*11.0*
2.3 Construction	*-4.4*	*-3.4*	*0.6*	*3.5*
2.4 Services	*2.1*	*4.1*	*6.6*	*6.3*
3. External Sector – Percent of GNI				
3.1 Imports of Goods	*86.3*	*83.1*	*80.1*	*86.5*
3.2 Current Account	*-4.7*	*-5.7*	*3.5*	*9.5*
3.3 Capital and Financial Account	*5.8*	*3.6*	*0.7*	*8.2*
3.4 Official Reserves (Months of Imports)	*5.2*	*5.5*	*6.7*	*7.6*
4. Government Budget Balance (Percent of GDP)	*5.7*	*4.8*	*11.8*	*5.3*

** Preliminary estimates*

+CBL Projections