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Aid for Trade: Does Lesotho Feature?

Assistance to build supply-side capacity in developing countries has a long history. Each year, around a fifth of Official Development Assistance (ODA) is dedicated to building supply-side capacities including those needed to engage in international trade in low and middle income countries.

Background

The WTO Aid for Trade Task Force argues that it is vital to understand a global depiction of aid for trade flows globally, assess whether more resources are being delivered and whether the delivery is based on need and is proportionate across regions.

In the period ranging from 2002-2005 donors committed an estimated average of USD 21 billion per year in aid for trade. But considerable differences exist on which countries give more and which ones receive more. The article is set to explore the situation of aid for trade, international trends, SADC performance and salient features of Lesotho's trade development.

Distribution of Aid for Trade by Activity

Aid for trade is defined broadly to include all assistance that is geared towards the improvement and enhancement of trade in developing countries. It generally covers six areas namely; trade policy and regulations; trade development; trade-related infrastructure; building productive capacity; trade-related adjustment; and other trade-related needs.

Table 1 shows that the highest growth in aid for the period 2002-2005 was in economic infrastructure, followed by assistance in building productive capacity and third was trade policy and regulations.

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The identified challenge on aid for trade is the inconsistency in implementing projects and imbalance in direction with certain regions receiving more than others.

Regional Distribution of Aid for Trade

The regional distribution of Aid for Trade highlights that Asia receives more than 51 percent of aid for trade. Africa comes second at 30 percent.

It should however be noted that the distribution does not take into account the number of countries per region. This therefore may imply that few countries may get more aid as in the case of reconstruction of Iraq and Afghanistan among others.

Top ten donors, comprise developed countries and international organizations, with Japanese commitments amounting to USD 4 764 million, followed by United States with USD 3 423 million, International Development Agency USD 3 099 million, European Community USD 2 403 million, Germany with USD 1 140 million, United Kingdom with USD 711 million, France with USD 660 million, African Development Bank with USD 574 million and Netherlands at USD 512 million. The figures therefore indicate that Japan provides in excess of 33 percent, while the rest of the countries and international financial organizations share the remainder.

Table 1: Multi-Country Programmes by Activity: Commitments (USD Million, 2005 Constant Prices)

	2002	2003	2004	2005	Average 2002-2005
Trade policy and regulations	164	284	204	258	227
% of total trade policy and regulations	20	46	43	39	37
Economic infrastructure	11774	12489	16882	14493	13909
% of total economic infrastructure	7	10	6	7	8
Building productive capacity	1110	1376	1596	1200	1321
% of total building productive capacity	15	15	16	13	15

Extracted from Table A1.6, pp. 70 Aid for Trade at a Glance 2007

It can be noted from Table 2 that South Africa dominates the economic performance of the region by accounting for 55 per cent of the region's exports. Most countries in Southern Africa are not well diversified as commodity exports account for more than 50 percent of total exports. The undeveloped business environment in most countries tends to slow down the development of trade especially for Small and Medium Enterprises. Another debilitating factor is that most countries in the region do not know the contribution of the informal sector. The informal sector is usually one of the most productive subcategory in developing economies. However, in many cases its contribution to the overall economic performance is unknown due to lack of reliable data. This is an apparent limitation on the side of these countries. In Lesotho the informal sector is highly diversified in terms of products produced and has high turnover in employment. Due to lack of attention to this subcategory their

export potential is generally ignored and sometimes not known and understood.
In terms of the volume of exports, Lesotho was only superior to Malawi amongst a group of Southern African countries, during 2001 to 2005 (see Table 2)

Lesotho's performance during the period might have been weakened by the expiry of the Multifibre agreement in 2004, which impacted it more due to relatively large exposure to textiles. The table implies that efforts to improve exports need to be intensified.

Table 2: The Southern Africa's Export Performance, (2001 -2005)

Country	Volume of Exports (US$ Million)	Ratio of Export to GDP (%)	Exports per capita (US$)	Growth of export value (% Per Annum)	Share of exports to the region (%)	HDI ranking (out of 177)
South Africa	46 922	22	1 038	14	9.0	121
Angola	22 044	110	1 383	34	1.3	161
Botswana	3 941	46	2 233	106	8.0	131
Mauritius	1 995	33	1 599	7	7.2	63
Zimbabwe	1 858	40	143	2	39.1	151
Zambia	1 848	34	158	17	29.2	165
Mozambique	1 780	32	90	25	14.0	168
Namibia	1 752	32	863	36	9.0	125
Madagascar	1 073	25	58	-16	1.5	143
Swaziland	826	34	730	24	3.6	145
Lesotho	502	37	280	19	0.2	149
Malawi	493	27	38	2	26.1	165
Total for the region	**85 035**		**586**	**19**	**8.0**	

Sources: World Bank and UNDP Human Development Indicators (*Data refer to 2005 and growth rates to 2001 – 2005. Exports figures only include trade in goods*

Conclusion

The distribution of the 25 highest recipients is concentrated in five Asian countries and the other countries receive the balance. These countries include; Vietnam, India, Indonesia, China, Bangladesh, Egypt, Ethiopia, Sri Lanka, Serbia, Pakistan, Thailand, Tanzania, Philippines, Kenya, Morocco, Mozambique, Madagascar, Ghana, Uganda, Bolivia, Senegal, Burkina Faso, Tunisia, Nigeria, and Zambia. An interesting observation is that Lesotho does not fall within these 25 top recipients.

On trade policy and regulation the government of Lesotho has established

a 'one stop shop' trade facilitation centre that is meant to fast-track services to the exporters. Nonetheless the improvement has not reached a stage of systemic competitiveness and fostering effective international trade.

A possible opportunity is that productive capacity is highest in SACU (South Africa, Lesotho, Namibia and

Swaziland) due to closer integration of member countries with South Africa.

An area for improvement is the linkages with the downstream and upstream small and medium enterprises, which are not well developed. This is on the back of limited skills and technological spill over even when it involves significant foreign investments.

Lastly, it is noted frequent droughts have hampered reliance on the agri-industry as a driver for economic growth, and while aware of the need for product diversification, this has not been achieved to date and remains one of the vital components to be explored for trade creation in Lesotho.

The paper benefited from Aid for Trade at a Glance 2007, and ITC's Role in Aid for Trade

Electricity Power shortages in South Africa: Regional implications

Background

Demand for electricity in the South Africa (SA), has exceeded supply over the past few months. According to the South African government, the increased demand is attributable to, among others, years of economic growth since 1994 and the provision of electricity to black informal settlements that were not connected in the apartheid era. In addition, investment in new power stations has not been enough to meet the growing demand.

Sectors affected

Various parts of the country have experienced frequent power cuts in recent weeks. The problem has adversely affected the transport sub-sector due to traffic lights failure. This leads to traffic jams and accidents, delaying the delivery of goods and services, and increasing overall transportation costs. Health services are also affected as electricity failures hamper medical procedures and increase power costs. Emergency rooms and Intensive care units have suffered most in terms of service delivery. The tourism and hospitality sectors have also been affected. Nearly 40 tourists in Cape Town were reported to have been stranded in a cable car at Table Mountain after power outages a few weeks ago. Restaurateurs and hotels are forced to suspend some services due to lack of electricity.

Table 3: Eskom's Electricity Sales by Sector

Sector	Electricity Sold (% share of total)
Manufacturing	27%
Mining	15%
Commercial	4%
Residential	4%
Cities	40%
Agriculture	2%
Traction	2%
International	6%
Total sales	100%

***Source**: Eskom's 2007 Annual Report*

The mining and manufacturing industries could to be the hardest-hit. Some of the mining companies suspended operations out of fears that power outages could trap workers underground. These companies include large operators such as; AngloGold Ashanti Ltd.; Harmony Gold Mining

Company Ltd.; and Gold Fields Ltd.; and De Beers Ltd., which stopped production in its six SA mines. It is important to note that manufacturing and mining industries contributes about 18 per cent and 6 per cent of GDP, respectively. The mining sector employs a large number of people, of which, around 56 000 are Lesotho migrant mineworkers. However, the effect of production cuts on mining revenue will be mitigated by increasing commodity prices. The prices of gold and platinum have been on an upward trend, hitting US$909.7 and US$1,845.1, respectively on 7th February 2008. Three aluminium smelter companies were also reported to have closed down. The world's second largest ferrochrome producer, Samancor Chrome, is reported also to be planning to close its plants. Ferrochrome is used to produce stainless steel and most of it is produced in SA.

Possible implications for Lesotho's economy

Lesotho uses domestically generated electricity from the Muela hydropower station. This power station generates enough electricity to supply the whole country. However, given the increasing demand of electricity due to the growing manufacturing and mining industries in the country, at certain peak periods, such as winter, Lesotho imports around 30 per cent of electricity from South Africa. Therefore under the current electricity rationing by Eskom, Lesotho is in no position to import electricity from SA should domestic demand exceed supply. Therefore as a precautionary step, the Lesotho Electricity Company has started informing the general public that lower and rational consumption of electricity is necessary to prepare for worst case scenario.

Power shortages in SA are envisaged only to have indirect impact on the Lesotho economy because of the close trade linkages between the two economies. Firstly, a large number of Basotho are employed in the SA mining industry and the closure of some mines, if sustained, could lead to retrenchment of Basotho migrant workers. Consequently, the balance of payments position could be negatively affected as mineworkers' remittances to the country could decline. On the national accounts side, the gross national income (GNI) of the country would also be adversely affected because of the reduction in the net factor income from abroad. Ultimately this would lead to an increase in the rate of unemployment in the country which could then have a negative impact on poverty reduction efforts by the government.

Secondly, since Lesotho sources a bulk of its imports from SA, power shortages in SA could lead to a delay in processing and transportation of some of these goods. The resulting supply shortages could have inflationary pressures in the country and this could hamper one of the SADC's macroeconomic convergence indicators of keeping the rate of inflation at single digits.

Remedial Measures

The SA Cabinet has declared the power outages as national electricity emergency and it has to be addressed with urgent, vigorous and coordinated actions. Consequently, the government rolled out the intermediate term, medium term and long term steps to be undertaken to alleviate electricity demand and therefore boost power generation capacity. As a way of rationing electricity consumption in SA, Eskom has reduced commercial and private consumption of electricity by 5 to 20 per cent and 10 per cent, respectively. Eskom has also reduced exports of electricity to neighbouring countries. Botswana and Namibia were especially affected as they import 70 per cent and 40 per cent of electricity, respectively, from South Africa.

As far as the FIFA 2010 soccer world cup tournament is concerned, back-up systems will be in place for all 10 stadia as well as the FIFA world cup international broadcasting centre. Furthermore, back-up generators for all world cup stadia are already a FIFA requirement for hosting the tournament.

As a medium term solution, the government has started introducing efficient lighting programmes, solar water heating programmes, smart metering and fuel switching (to the use of liquid petroleum gas as an energy source).

Furthermore, as a long term solution to the power shortages, the SA government is to invest around US$40 billion in the construction of new plants. However, these would only be operational in five years' time. The government also plans to reactivate older and decommissioned plants and this will also take several years to accomplish.

3. Monetary Policy Operations Report of January 2008

The CBL's objective of maintaining price stability in the present policy framework is attained through the maintenance of an adequate level of foreign reserves and fighting domestically generated inflation.

Table 4 below shows amounts auctioned and discount rates that prevailed for each of the auctions. The level of competitiveness in the market is estimated by the number of participants in an auction. The recent auction saw a participation level of 6 bidders who submitted 14 bids for the auction and this was above December's figure of 7 bidders. All bidders became partially successful and 10 bids were successful against 9 bids that were successful in the previous auction.

Table 4: Treasury Bill Auctions

Type of Security	Auction Date	Maturity Date	Auction Amount (Million Maloti)	Amount Issued (Million Maloti)	Discount Rate (%)	RSA Disc. Rate (%)
91-day	04 Jul 2007	05 Oct 2007	170.0	170.0	7.62	9.10
182-day	11 Jul 2007	11 Jan 2008	50.0	32.0	8.20	9.42
91-day	01 Aug 2007	02 Nov 2007	170.0	170.0	7.76	8.86
91-day	29 Aug 2007	30 Nov 2007	160.0	160.0	8.12	9.30
182-day	05 Sep 2007	07 Mar 2007	20.0	20.0	8.90	9.67
91-day	03 Oct 2007	04 Jan 2007	160.0	160.0	8.32	9.43
91-day	31 Oct 2007	01 Feb 2008	160.0	160.0	8.90	9.94
182-day	07 Nov 2007	07 Mar 2007	30.0	30.0	8.72	9.96
91-day	28 Nov 2007	29 Feb 2008	150.0	150.0	8.82	9.96
91-day	02 Jan 2008	04 May 2008	150.0	150.0	9.10	10.52
182-day	09 Jan 2008	11 Jun 2008	30.0	24.8	10.45	10.47
Total for Reporting Period			M180.0	M174.8		

The Lesotho 91-day treasury bill rate still remained below its SA counterpart rate despite the fact that it continued to follow an upward trend in January. The Lesotho 91-day treasury bill rate rose by 28 basis points to 9.10 per cent. The counterpart SA rate also increased from its previous level of 9.96 per cent in December 2007 to 10.52 per cent in January 2008. As a result, the margin between the two rates widened from 114 basis points to 142 basis points at the end of the review period, as depicted in figure 1 below.

Figure 1: Measuring the Success of Monetary Policy Objectives: Performance of Lesotho 91-Day T-Bills vs RSA T-Bills

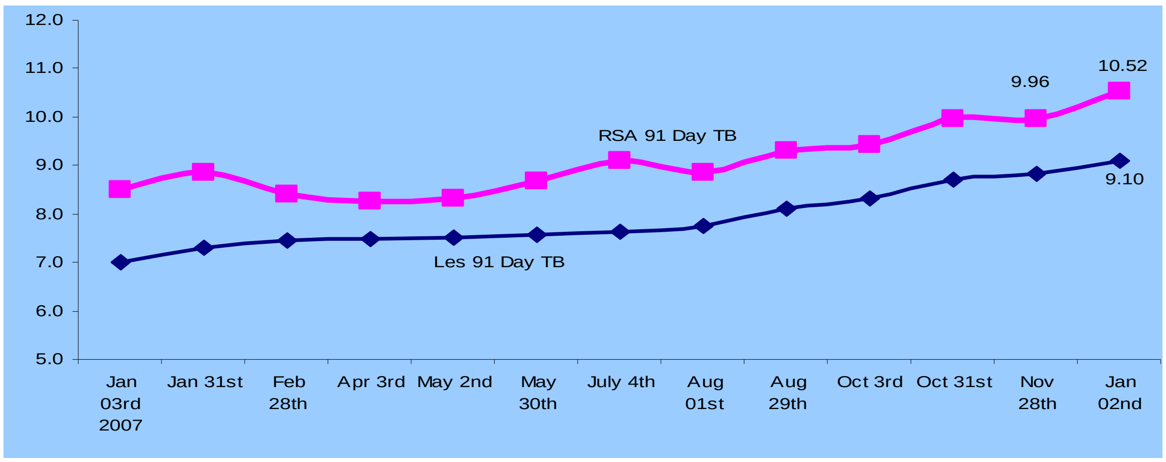

Table 5: Selected Monetary and Financial Indicators

	2007		
	Oct	**Nov**	**Dec**
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	*14.50*	*14.50*	*15.42*
1.2 Prime Lending rate in RSA	*14.00*	*14.00*	*14.50*
1.3 Savings Deposit Rate	*4.08*	*4.08*	*4.67*
1.4 Interest rate Margin(1.1 – 1.3)	*10.42*	*10.42*	*10.75*
1.5 Treasury Bill Yield (91-day)	*8.32*	*8.74*	*8.82*
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	*3869.05*	*4104.13*	*4154.15*
2.2 Net Claims on Government by the Banking System	*-3873.83*	*-3281.40*	*-3324.32*
2.3 Net Foreign Assets – Banking System	*8702.39*	*8157.91*	*8377.64*
2.4 CBL Net Foreign Assets	*6725.60*	*7033.41*	*6786.26*
2.5 Domestic Credit	*-2676.81*	*-1992.05*	*-2071.06*
2.6 Reserve Money	*496.755*	*716.06*	*535.05*
3. Spot Loti/US$ Exchange Rate (Monthly Average)	***6.7831***	***6.7229***	***6.8385***
4. Inflation Rate (Annual Percentage Changes)	***8.7***	***9.3***	***10.5***
5. External Sector (Million Maloti)	**2007**		
	QI	**QII**	**QIII**
5.1 Current Account Balance	*716.63*	*62.68*	*465.67*
5.2 Capital and Financial Account Balance	*278.94*	*390.49*	*245.40*
5.3 Reserves Assets	*-1023.89*	*143.38*	*-870.86*

+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 6: Selected Economic Indicators

	2004	**2005**	**2006**	**2007+**
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	*4.2*	*2.9*	*7.2*	*4.9*
1.2 Gross National Product – GNI	*7.9*	*5.5*	*3.1*	*3.6*
1.3 Per capita –GNI	*7.9*	*5.5*	*3.1*	*3.6*
2. Sectoral Growth Rates				
2.1 Agriculture	*-1.9*	*-1.7*	*1.7*	*-22.5*
2.2 Manufacturing	*2.1*	*-8.6*	*10.5*	*11.0*
2.3 Construction	*-4.4*	*-3.4*	*0.6*	*2.5*
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*	*8.6*
3.3 Capital and Financial Account	*5.8*	*3.6*	*-1.2*	*5.9*
3.4 Official Reserves (Months of Imports)	*5.2*	*5.5*	*6.7*	*7.2*
4. Government Budget Balance (Percent of GDP)	*5.7*	*4.8*	*12.6*	*4.8*

** Preliminary estimates*
+CBL Projections