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HUMAN DEVELOPMENT REPORT 2010: THE REAL WEALTH OF NATIONS: PATHWAYS TO HUMAN DEVELOPMENT

In 2010 Human Development Report , Lesotho is classified as a Low Human Development country and it is ranked position 141st out of 169 countries……………………..

Introduction

The Human Development Report (HDR) 2010 forms part of a series of documents published annually by the United Nations Development Programme (UNDP). The idea behind human progress, as espoused by the founders of the reports, was that human development cannot be gauged by income levels alone. Hence the Human Development Index (HDI) was introduced to capture the true essence of the level of human development.

The HDI seeks to provide a broader measure of a country's human development as an alternative to the traditional measures which emphasise the income level of each country as a measure of a nation's well-being. 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 an attempt to meet their needs and interests. Each report provides a critical analysis of a specific theme. The focus of the 2010 report was on people as the real wealth of nations. Thus, its emphasis was that, for human development process to really evolve successfully, people should be put at the centre of the development process.

Human Development Index

The HDI is a comparative and a composite measure of three aspects of human development process, namely knowledge, longevity and health, and standard of living across countries and regions.

In order to achieve this, data from different countries is collected and compiled using complementary definitions and collection methods to make it internationally comparable. The HDI measures human development on a scale of 0 to 1. In 2010 HDR, countries are grouped into the following four main categories:

- Very high human development (0.784 - 1);
- High human development (0.677 – 0.784);
- Medium human development (0.488– 0.676); and
- Low human development (0 – 0.488)

One important point to note is that all countries that are included in the category of very high human development are developed countries.

As mentioned earlier, the index is a composite of 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 of 83.2 and a minimum of 20 years. Access to knowledge is estimated by expected years of schooling and mean years of schooling, which is set for a minimum value of 0 for both education variables. Standard of living is proxied by the level income, which is measured by real gross national income (GNI) per capita adjusted for differences in price levels between countries. The HDI is then calculated as the geometric mean of the three indices.

Review of Recent Trends in Human Development

The human development process and index has evolved very well since its systematic analysis 20 years ago. However, progress has not been immune to challenges such as uncertainty about economic stability, international and social security and climate. Progress in the HDI has been commendable and rose from an average of 0.57 in 1990 to 0.68 in 2010 for the whole world. This has occurred in almost all regions and countries, with the most notable and fastest progress observed in East Asia and the Pacific. Moreover, human development dimensions have also seen an upward trend since 1990. For example, life expectancy in the Arab States has risen by more than 18 years since 1970, which means that a child born today is likely to live longer than that born 40 years ago; while infant mortality rates have fallen dramatically from 98 per 1000 live births in 1970 to 38 per 1000 live births in 2008.

Other areas of progress in the human development include increases in access to knowledge. Enrolment ratios and expected years of schooling (the number of years of schooling that today's children can expect to have once they grow up) capture a better picture of progress in education. For example, enrolment ratio, which is reflected in expected years of schooling, has risen from 9 years in 1980 to 11 years today and from 5 years to 8 years for low HDI countries. Moreover, gender differences, in relation to access to knowledge, have narrowed. Today, more girls than boys have been enrolled in primary and secondary education and their completion rates have also risen. In 79 out of 134 countries, Lesotho inclusive, secondary school enrolment of women relative to men exceeds 98 per cent. In Arab states, women enrolment ratio in higher education surpasses that of men on average, standing at 132 women for every 100 men.

Finally, people in almost all regions in the world have seen substantial progress in their living standards. Incomes per head have improved on average, though at varying patterns. The growth of income per head rose twenty-one fold, more than nine fold in Botswana and more than five fold in Thailand and Malaysia.

Nonetheless, the progress in human development has been challenged by global economic uncertainty that emanated from the US sub-prime mortgage meltdown, and the consequent global economic recession. There were massive layoffs of workers, and increases in poverty levels in those countries which were already in the doldrums. For example, 34 million people worldwide lost their jobs while more than 64 million people lived below the $1.25 a day poverty threshold mainly due to recession. The threat of climate change cannot be underestimated in the process of human development. Unsustainability of production and consumption, which recently rely heavily on fossil fuels, makes the global warming a grievous concern for human development process.

Human Development in Lesotho

Lesotho is ranked position 141 in terms of the level of human development with HDI value of 0.427. Norway heads the list with the HDI of 0.938, while Zimbabwe (169) is in the last position with an index of 0.140. In the category of low human development countries, Lesotho ranks 14 out of 42 countries. However, Lesotho is above both the SSA's and the least developed countries' index averages of 0.381 and 0.386, respectively.

At the Southern African Development Community (SADC) level, Lesotho is in position 7. Table 1 below presents the HDI statistics for SADC member countries. Mauritius, which ranks position 1 in the SADC region, is the only SADC country in the category of high human development with position 72 worldwide. Botswana (98), Namibia (105), South Africa (110) and Swaziland (121) are classified as medium development. Madagascar (135) Angola (146), Tanzania (148), Zambia (150), Malawi (153), Mozambique (165), DRC (168) and Zimbabwe (169) are in the low human development category.

Educational achievement, measured in terms of adult literacy rate, for Lesotho is the third highest of all indices in the low level of human development category, with adult literacy rate of 89.5 per cent against a 91.9 per cent for Myanmar (rank-132) and 91.4 per cent for Zimbabwe (rank-169). Among the SADC countries, Lesotho ranks second to Zimbabwe in terms of adult literacy rates. However, the country lags behind on life expectancy and income. At 46 years, life expectancy for Lesotho is the lowest in the SADC region and is below the average of all countries at the low level of human development of 56 years and the SSA's average of 52.7 years. Life expectancy in Lesotho follows trends in SSA and its decline may be attributed mainly to the effects of HIV/AIDS pandemic.

Lesotho's level of income at the international arena, measured by GNI per capita in Purchasing Power Parity (PPP) terms, stands at US$2021 as of 2008, which is below the SSA's average of US$2050. Nonetheless, at this level, Lesotho is above the average of all countries at the low level of human development.

Other Indicators

While HDI captures the core of human development process, challenges posed by poverty and inequality have pushed the frontiers of human development progress measurement. As a result, new measures of human development achievements have been designed. These include Inequality-adjusted HDI (IHDI), the Gender Inequality Index (GII) and Multidimensional Poverty Index (MPI). The IHDI goes beyond measurement of human development in the three broad dimensions by capturing the distribution aspect. It captures the actual level of human development while HDI is an index of potential human development. The difference between the two indices measures the loss in potential human development due to inequality.

Among a total of 129 developing countries ranked for IHDI, Lesotho is placed at position 99, while in the SADC region, the country is behind Mauritius (30), Botswana (56), Namibia (63), South Africa (68), Swaziland (79) and Madagascar (93). The average loss of human development in Lesotho is 34.0 per cent, driven mainly by a larger loss in human development in the dimension of health and income because life expectancy index and income index adjusted for inequality are above 35.0 per cent.

In order to measure the degree of gender equality, the Gender Inequality Index (GII) is used. It reveals gender disparities in reproductive health, empowerment and labour market participation. In this regard, Lesotho ranks 102 at the low human development level and is assigned a GII of 0.685, which is far greater than the HDI. The country's men and women enjoy the same level of life expectancy at birth which is 45.9 for both genders. The number of seats in parliament for women is 25.8 per cent in Lesotho higher than eight countries in the SADC region.

Another measure that is used to gauge the progress of human development is the Multidimensional Poverty Index (MPI) which replaces Human Poverty Index. The MPI reveals the deprivations of an individual in all three dimensions of human development, namely, health, education and standard of living. Thus, the MPI captures the number of people who experience overlapping deprivations and the average number of deprivations they face. The MPI reveals the magnitude of poverty beyond monetary measures. In this area, SSA has been found to have the highest incidence of multidimensional poverty. For example, the average share of deprivation in South Africa is 3.1 per cent while Niger tops the list in the region with an average of 92.7 per cent. For Lesotho, the average share of deprivation stands at 48.1 per cent. The intensity of deprivation, measured as average percentage deprivation experienced by people in multidimensional poverty, in Lesotho is around 46.0 per cent and the people who live below the international poverty line as well as national poverty line are around 43.0 per cent and 56.0 per cent, respectively.

Challenges Facing Human Development Progress

Climate change

As already mentioned, climate change poses serious concern for human development progress. Climate change is defined as the variation in the global climate over time either occurring naturally or induced by human mechanisms. This factor can derail human development progress to the extent of human extinction. The largest contributor to climate change is the increase in the level of carbon dioxide in the atmosphere, due to emissions from fossil fuels combustion, aerosol and cement manufacture. As humanity progresses, so are its mode of survival. In the process things such as rapid industrialisation are contributing to climate change. Other factors include land use and livestock.

The adverse effects of climate change are already being felt in the world and there are concerns that future generations may actually be in greater danger. The effects include increased exposure to drought, more intense floods and storms. The new estimates from the report indicate that adverse climate change may impact on grain yields which would push prices up with significant repercussions. Long term adverse effects on agricultural productivity are also expected to be high.

Conclusion

The report puts forth the following strategies for future human development agenda.

- To identify new avenues through which frontiers of human development could be advanced. The future development should not be assumed to mimic the past trends;
- To contextualise policy making without taking recourse to overarching policy guidelines; and
- To address major new challenges with speed and agility without compromising targets such as climate change.

Table 1: SADC Member countries

HDI Rank	*SADC level HDI rank*	*Country*	*HDI*	*Life expectancy index*	*Education index*	*GNI index*
72	1	Mauritius	0.701	0.824	0.617	0.678
98	2	Botswana	0.633	0.562	0.670	0.676
105	3	Namibia	0.606	0.666	0.596	0.563
110	4	South Africa	0.597	0.506	0.668	0.631
121	5	Swaziland	0.498	0.427	0.545	0.531
135	6	Madagascar	0.435	0.652	0.464	0.272
141	**7**	**Lesotho**	**0.427**	**0.410**	**0.493**	**0.387**
146	8	Angola	0.403	0.445	0.281	0.525
148	9	Tanzania	0.398	0.584	0.331	0.325
150	10	Zambia	0.395	0.432	0.436	0.326
153	11	Malawi	0.385	0.547	0.395	0.265
165	12	Mozambique	0.284	0.449	0.200	0.255
168	13	Democratic Republic of Congo (DRC)	0.239	0.443	0.347	0.089
169	14	Zimbabwe	0.140	0.427	0.519	0.012

Source: Human Development Report 2010 and Author's own calculations

2. THE G20 SEOUL SUMMIT 2010

The Group of Twenty (G20) was established in 1999 to bring together systematically important industrialized and developing economies to discuss key issues in the global economy. It was created as a response to both the financial crisis of the late 1990s and to a growing recognition that key emerging market countries were not adequately included in the core of global economic discussion and governance in prior similar groupings such as the Group of Seven (G-7).

Normally, the G20 Finance Ministers and Central Bank Governors meet once a year. However, the G20 extraordinary Summits were recently convened to tackle the financial and economic crisis in 2008. Accordingly, five G20 Summits have been held in Washington in 2008, in London and Pittsburgh in 2009 and in Toronto and Seoul in 2010. It is against this background that this article intends to discuss the Seoul declaration, proposed reforms/policy commitments, their specific action-plans and the Summit's likely impact on the economy of Lesotho.

The G20 Seoul Summit Leaders' Declaration

In November 2008, when the G20 leaders gathered for the first time to address the financial crisis and the world recession, the Summit pledged to support and stabilize the global economy and, at the same time, lay the foundation for reform, to eliminate or reduce the possibility of recurrence of such an upheaval. The Seoul summit declaration, therefore recognized unprecedented cooperation and unity in an attempt to reverse the dramatic fall in the global economy, establish the basis for recovery and renewed growth, and prepare to prevent or at least to withstand future crises. The Summit further recognized the importance of addressing the concerns of the most vulnerable members of the society and declared its determination on job creation, social protection, decent work and accelerated growth in low income countries.

Despite considerable progress, the summit declared their vigilance against future risks. These include sluggish economic recovery, high levels of unemployment and widening imbalances, which may fuel the temptation to diverge from global solutions into uncoordinated actions. The Summit further expressed commitment to monitor and assess implementation of the commitments made in Seoul and previous summits.

To promote resilience, the G20 leaders prioritized actions aimed at addressing critical bottlenecks, including infrastructure deficits, food market volatility, and exclusion from financial services. To provide broader forward looking leadership: the G20 will continue its efforts to prevent and tackle corruption; rationalize and phase-out inefficient fossil fuel subsidies; mitigate excessive fossil fuel price volatility; safeguard the global marine environment; and combat the challenges of global climate change. The G20 leaders then endorsed the Seoul Summit Document which entails the following reforms/policy commitments and their respective implementation action plans.

Framework for Strong, Sustainable and Balanced Growth

This framework was launched in Pittsburgh in 2009 and the Summit committed to the assessment of the collective implications of national policies on global growth, the identification of potential risks to the global economy, and to taking additional actions to achieve shared growth. Since then, important progress has been made through the Mutual Assessment Process (MAP) on areas including the stability of the financial system; the strengthening of the international financial institutions; global economic recovery; and fiscal sustainability. Despite this recovery, the Summit recognizes that some downside risks remain and the G20 leaders resolved to doing more through the Seoul action plan.

The Seoul Action Plan

This plan is intended to: ensure an unwavering commitment to cooperation; outline an action-oriented plan with each member's concrete policy commitments; and to deliver on all three objectives of strong, sustainable and balanced growth. To be specific, the summit commit to actions in five policy areas.

The first area is of *monetary and exchange rate policies.* The summit committed to moving toward more market-determined exchange rate systems, which would enhance exchange rate flexibility to reflect underlying economic fundamentals, and refrain from competitive currency devaluation. Advanced economies, including those with reserve currencies, will be vigilant against excess volatility and disorderly movements in exchange rates. These actions are intended to help mitigate the risk of excessive volatility in capital flows facing some emerging market economies.

Under the *Fiscal Reforms,* advanced economies will formulate and implement clear, credible, ambitious and growth-friendly medium-term fiscal consolidation plans in line with the Toronto commitment and differentiated according to national circumstances. Another area is on *Financial Reforms* in which the G20 leaders are committed to taking action at national and international levels to raise standards, and ensure that national authorities implement global standards developed consistently. These would ensures a level playing field, a race to the top and avoid fragmentation of markets, protectionism and regulatory arbitrage.

The G20 leaders further reaffirmed their commitment to free trade and investment, in recognition of its central importance for the global recovery, under the *Trade and Development Policies.* In addition, they promised to refrain from introducing protectionism and oppose protectionist trade policies in all forms. The importance of a prompt conclusion of the Doha trade negotiations was also acknowledged.

The G20 will also embark on implementing and supporting a range of structural reforms to boost and sustain demand. These include: product market reforms to simplify regulation and reduce barriers; education and training; tax reforms that enhance productivity; reforms to reduce the reliance on external demand; reforms to strengthen social safety nets; and investment in infrastructure to address bottlenecks. In pursuing these reforms, the G20 shall draw on the expertise of the OECD, IMF, World Bank and other international organizations.

International Financial Institution Reforms

In the previous G20 Summits, it was agreed that the International Financial Institutions (IFIs) should be provided with the resources they needed to support the global economy. As a result, new lending instruments were endorsed and the IFIs mobilized financing, including more than $750 billion by the IMF and $235 billion by the Multilateral Development Banks (MDBs).

Under these reforms, the G20 are committed to *Modernizing the IMF Governance* fundamentally so that it better reflects changes in the world economy and can more effectively play its role in promoting global financial stability, fostering development and improving the lives of the poorest. Specifically, these reforms include: shifts in quota shares; moving to an all-elected Board; and greater representation for the emerging markets, developing economies and under-represented countries at the Executive Board. The Summit agreed to enhance the *IMF Surveillance* in order to focus on systemic risks and vulnerabilities. To this extent, the summit welcome the IMF's decision to make financial stability assessment a regular and mandatory part of the Article IV consultation for members with systemically important financial sectors.

Under the *Multilateral Development Banks (MDBs)*, the Summit reiterated their commitment to completing replenishment for the concessional lending facilities of the MDBs, especially the International Development Assistance (IDA), to help ensure that Least Income Countries (LICs) have access to sufficient concessional resources.

Financial Sector Reforms

The global financial system came to a sudden halt in 2008 as a result of reckless and irresponsible risk taking by banks and other financial institutions, combined with major failures of regulation and supervision. The initial move from previous G20 summits was therefore, to stabilize financial markets and restore the global flow of capital. In addition, the G20 leaders committed to reforms aimed at transforming the financial system to address the root causes of the crisis, implementation of new standards and principles for international assessment, including peer review. The summit further identified issues that warrant more attention and areas where further work is essential in the future.

Fighting Protectionism and Promoting Trade and Investment

In recognition of the importance of free trade and investment for the global economic recovery, the G20 leaders committed themselves to keeping markets open, liberalizing trade and investment, and resisting all forms of protectionism. The G20 believe that trade can be an effective tool for reducing poverty and enhancing economic growth in LDCs. However, LDCs need capacity to trade and the G20 would provide support. In this regard, the summit is committed to maintaining Aid for Trade and making progress toward duty-free and quota-free market access for LDC's products. The G20 countries are further committed to support the Africa regional integration efforts.

Seoul Development Consensus for Shared Growth

The global financial crisis disproportionately affected the most vulnerable persons of society in the poorest countries and slowed progress toward achievement of the MDGs. For this reason, the G20 recognize the need to strengthen and leverage these countries' development efforts. The G20, therefore, committed to working in partnership with other developing countries, LDCs in particular, to help them build the capacity to achieve and maintain their maximum economic growth potential. The Summit has thus developed a consensus for the G20's contribution to global development efforts in line with the Toronto mandate.

The Seoul Consensus is based on the following core principles: reduction in poverty cannot be achieved without growth; provision of Official Development Assistance (ODA) remains essential to most LDCs; there are common factors but there is no single formula for development success; the need for a policy environment that supports sustainable private sector-led investment and growth; and focus on tangible outcomes of significant impact that remove blockages to improving growth prospects in developing countries, particularly LDCs.

The Seoul Consensus also identifies nine key pillars where actions are necessary to resolve the most significant bottlenecks: infrastructure, human resource development, trade, private investment and job creation, food security, growth, financial inclusion, domestic resource mobilization and knowledge sharing. The Multi-Year Action Plan then outlines the specific, detailed actions to which the G20 commit. The G20 further commit to timely and effective implementation of the Action Plan and shall work closely with relevant international organizations to push these actions forward. In addition, the Seoul Summit reaffirmed the commitment to achievement of the MDGs and respective IDA pledges and commitments to assist the poorest countries.

Financial Inclusion

The G20 reiterate their strong commitment to financial inclusion and recognize the benefits of improved access to finance to lift the lives of the poor and to support the contribution of SMEs to economic development. The financial inclusion action plan has thus been developed and the Global Partnership for Financial Inclusion (GPFI) shall soon be launched. Furthermore, the G20 have constructed a flexible SME Finance Framework to mobilize grants, risk capital and private financing.

Energy

The Seoul Summit reaffirmed their commitment to rationalizing and phasing-out, over the medium term, inefficient *fossil fuel subsidies* that encourage wasteful consumption. With regard to the *fossil fuel price volatility,* the summit recognized the importance of a well-functioning and transparent oil market for world economic growth. Furthermore, the Summit strongly supported the Joint Oil Data Initiative and other relevant institutions which shall assess oil spot market prices and how this affects the transparency and functioning of oil markets.

Climate Change and Green Growth

The negative effects of climate change are already being felt in all parts of the world and shall be more so for future generations. To mitigate the effects of this phenomenon, the G20 committed to continued strong and action-oriented measures and remain fully dedicated to negotiations, provisions and principles of the UN Framework Convention on Climate Change. They further committed to support country-led green growth policies that promote environmentally sustainable global growth along with employment creation while ensuring energy access for the poor.

Anti-Corruption

In realisation of the fact that corruption severely impedes/hampers economic growth and development, the G20 leaders endorsed the (Anti-Corruption Action Plan). They further promised to lead by example in key areas including: to accede or ratify and effectively implement the UN Convention against corruption and promote a transparent and inclusive review process; adopt and enforce laws against the bribery of foreign public officials; prevent access by corrupt officials to the global financial system; consider a cooperative framework for the denial of entry to corrupt officials, extradition and asset recovery; protect whistleblowers; and safeguard anticorruption bodies.

In conclusion, the summit expressed their recognition of the impact of their decisions on the world at large. Therefore, the necessity to consult with the wider international community, in particular the IMF, WB, UN, regional bodies, civil society, academia was acknowledged.

Implications on the Economy of Lesotho

The G20 is one of the most important bodies in the world, based on the importance of their decisions on the global economy. Given Lesotho's position as a small open economy, some of the decisions and commitments made shall have some implications for Lesotho.

Strong and sustained global economic growth, particularly for the US, may boost the ailing manufacturing sector in Lesotho. This may be supported further by programs aimed at supporting trade and investment in LDCs like Lesotho through implementation of Duty-Free-Quota Free (DFQF) and Aid for Trade. The DFQF initiative may also lead to the extension of AGOA which is pivotal to the textiles and clothing sector. The decision to move towards market-determined exchange rates and of curbing excess volatility in foreign exchange markets is expected to yield currency stability, which is conducive to trade and investment.

However, the removal of trade barriers and further liberalization of trade and investment introduces a possibility of destabilizing adjustment shocks to small open economies such as Lesotho. This may occur in cases where Lesotho has to compete on equal ground with strong Asian countries such as China. It can also occur when import tariffs charged on extra-SACU imports are removed. These may, respectively, result in a possible shut-down of the textiles and clothing sector for US exports and a drastic decline in the already low SACU revenue pool.

Based on the G20 declaration and other commitments, the LICs, including Lesotho, may see some increase in IDA. Increased financial assistance could help by bridging the fiscal financing gap for Lesotho. Lesotho may also benefit from increased support on specific areas such as, private sector reforms, regulatory and legal reforms, human capacity building and SMEs financial inclusion support.