Economic Review November 2011

Human Development Report (HDR) 2011: Sustainability and Equity: A Better Future For All

Lesotho's Human Development Index (HDI) rank remained unchanged at 160 in 2011……..

Introduction

In an effort to contribute to the global human development process, the United Nations Development Programme (UNDP) continued to publish the HDR. The 2011 HDR stresses the importance of sustainability and equity because of the emerging challenges arising from the impact of climate change on human development and prosperity.

The report uses the Human Development Index (HDI) to assess this progress. The HDI is a composite measure of the three aspects of human development, namely, knowledge, longevity and standard of living. According to the 2011 HDR, there has been commendable human development progress over the past years. It shows that since 1970, the HDI has risen dramatically by 41.0 per cent overall and 61.0 per cent for the low HDI countries. The picture thus painted mainly reflects the commendable growth and advances in education, health and income.

Nonetheless, the report pointed out that the gains in human development came at a cost that could undermine those gains. Progress has not been uniform and environmental degradation that is caused by rapid industrialization, through carbon dioxide (CO_2) emissions, is having a devastating impact on human lives and is expected to severely affect future generations if the situation is left unattended.

This article defines the HDI, reviews current developments in human development and highlights the HDI trends for Lesotho. It also looks at other human development indicators as well as emerging challenges to human development.

The Concept of Human Development Index

As mentioned earlier, the HDI is both a comparative and composite statistic used to rank countries by level of human development and it makes a distinction between very high human development, high human development, medium human development and low human development countries. The statistic measures human development on a scale of 0 to 1.The four levels of human development and their scales are as follows:

- Very high human development (0.790-1);
- High human development (0.698-0.783);
- Medium human development (0.522-0.698);
- Low human development (0.286-0.510).

As mentioned earlier, the HDI is a combination of knowledge, longevity and standard of living dimensions of human development. Each of these three dimensions of human development is measured through an index or indicator. On the one hand, access to knowledge is measured by the mean years of adult education and expected years of schooling for children of school-entrance age. The former is the average number of years of education received by people aged 25 years and older in their lifetime. The latter is the total number of years of schooling a child of school-entrance age can be expected to receive if prevailing patterns of age-specific enrolment rates stay the same throughout the child's life.

Longevity, on the other hand, is measured by life expectancy at birth, which is the number of years a newborn infant could be expected to live if prevailing patterns of age-specific mortality rates at the time of birth were to remain unchanged throughout the infant's life. As for standard of living, it is measured by the Gross National Income (GNI) per capita expressed in 2005 United States Dollar terms Purchasing Power Parity (PPP$). The HDI is the geometric mean of normalized indices measuring achievement in each of these dimensions.

Recent Trends and Patterns in Human Development

According to the HDR 2011, there has been substantial progress in human development trends over the last 40 years. Nonetheless, they have been significantly challenged by the growing income inequality and environmental degradation. The HDI value for the whole world stood at 0.68 in 2011, not significantly different from that realized in the previous year. On average, the world's HDI increased by 18.0 per cent between 1990 and 2010, mainly reflecting significant improvements in school enrolment, life expectancy at birth, literacy and income.

According to the report, majority of the world countries realized improvements in life expectancy, health and per capita income. More than ten Southern African countries, including Lesotho, experienced deterioration in one or more of these indicators. The former Soviet Union saw deterioration in the health dimension. Moreover, the per capita income of the Democratic Republic of Congo declined by 80.0 per cent between 1970 and 2011 while that of China grew astoundingly at around 1200 per cent during the same period.

With regard to the health dimension, there has been commendable progress. For example, the most notable progress as measured by life expectancy at birth has been in the developing Arab States, Latin America and the Caribbean, where life expectancy at birth increased by 19 years, and 17 years, respectively since 1970. At these levels, these regions have surpassed developing East Asia and the Pacific which ranked highest in the health dimension in 2010. Slower rates have been experienced by the developing Europe, Central Asia and Sub-Saharan Africa (SSA). Moreover, the global infant mortality rate declined from 54 deaths per 1000 live births in 2000 to 41 deaths per 1000 live births in 2011.

On the education dimension of human development, expected years of schooling have risen by 72.9 per cent between 1980 and 2011 at the global

level. This indicator has increased by 2.5 years for the least developed countries during the same period. Moreover, according to the education index, access to education in the period 1980-2011 has risen by 39.0 per cent and has more than doubled in the Least Developed Countries (LDCs) and increased by 28.3 per cent in SSA, in particular.

A significant improvement was also observed in the decent and acceptable standard of living as measured by per capita income. Global GNI per capita increased by 53.2 per cent between 1980 and 2011. That was higher than the growth rate experienced by the Organization for Economic Co-operation and Development (OECD) countries and the developing SSA. For the developing LDCs, GNI per capita increased from PPP$762 in 1980 to PPP$1327 in 2011. This shows that people's standards of living have significantly increased during the last three decades. The person living in 2011 is far better off than the person who lived in the 1980s.

Lesotho's' Performance in 2011 Human Development Report

Lesotho's HDI improved slightly to 0.450 in 2011 from 0.446 registered in 2010. This put Lesotho in position 160 out of 187 countries and territories. Table 1 below shows Lesotho's progress in each of the HDI indicators. It depicts an improvement in all the dimensions, except life expectancy at birth which declined between 1980 and 2011. Nonetheless, only life expectancy at birth increased significantly from 2010 to 2011. The HDI value and GNI per capita (2005 PPP$) showed an increase from 2010 to 2011. Life expectancy at birth and income increased by 6.6 years and 1.3 per cent, respectively between 2010 and 2011.

Table 1: Lesotho's HDI trends based on consistent time series data, new component indicators and new methodology

	Life expectancy at birth at birth(years)	Expected years of schooling(years)	Mean years of schooling(years)	GNI per capita (2005 PPP$)	HDI value
1980	53.8	8.2	3.7	1,339	0.418
1985	56.4	9.3	4.1	1,517	0.451
1990	59.5	9.5	4.4	1,498	0.470
1995	57.1	9.6	4.6	1,433	0.462
2000	47.7	9.9	4.9	1,455	0.427
2005	44.3	10.3	5.3	1,480	0.417
2006	44.8	10.3	5.4	1,610	0.426
2007	45.4	9.9	5.5	1,644	0.429
2008	46.1	9.9	5.6	1,689	0.436
2009	46.9	9.9	5.8	1,633	0.440
2010	41.6	9.9	5.9	1,643	0.446
2011	48.2	9.9	5.9	1,664	0.450

Source: HDR 2011

During the last three decades, life expectancy at birth declined by 5.6 years while expected and mean years of schooling increased by 1.7 years and 2.2 years, respectively. Moreover, GNI per capita increased by 24.0 per cent during the same period.

In 2011, the highest ranking country in the world was Norway, with an HDI value

of 0.943, more than twice that of Lesotho. In the Southern African Development Community (SADC) region, Lesotho was higher than only five member countries, namely, Zambia (164), Malawi (171), Zimbabwe (173), Mozambique (184) and Democratic Republic of Congo (187).

In terms of educational achievement, the education index (mean and expected years of schooling) shows that Lesotho performed better than Angola, Madagascar, Malawi, and Mozambique and has also surpassed the SSA average..

Nonetheless, Lesotho continued to be the least performer in terms of life expectancy at birth in the SADC region and was lower than SSA's average, probably due to high prevalence of HIV/ AIDS and other related diseases like tuberculosis.

Lesotho's level of income per head, measured by GNI per capita (2005 PPP$), stood at PPP$1664 in 2011, and it was above that of six SADC member countries namely, Madagascar, Mozambique, Malawi, Zambia, Zimbabwe and the United Republic of Tanzania. However, it was below the SSA average.

Lesotho remained in the low human development category at position 19 out of 46 countries that belonged in this category. In first position was the Solomon Islands with a rank of 142 out of 187 countries. Demographic Republic of Congo was the lowest in this category, with a rank of 187.

Other Indicators and Emerging Challenges

Over time, it has been recognized that the HDI masks a lot of information regarding the human development process. Again, some emerging challenges have posed a threat to the development process. New methodologies and indicators have been constructed to capture such information. These are Inequality-adjusted HDI (IHDI), Gender Inequality Index (GII), and Multidimensional Poverty Index (MPI).

The IHDI captures inequality in all the three dimensions of the HDI by discounting each dimension's average value according to its level of inequality. The HDI is an index of potential human development while IHDI is an index of actual human development. The loss in human development is captured by the difference between the two.

As shown earlier, Lesotho's HDI value was 0.4 in 2011. Nonetheless, after discounting for inequality, the HDI fell to 0.2, a loss of 35.9 per cent, mainly reflecting a larger loss of 34.8 and 47.0 per cent in inequality-adjusted life expectancy at birth and income indices, respectively. In the SADC region, Lesotho only performed better than the Democratic Republic of Congo and Namibia. The IHDI value for Lesotho was below that of the world and SSA's average.

The GII index captures gender inequality in reproductive health, empowerment and labour market participation. In this regard, Lesotho was positioned at 108 out of 187 countries. At this level, Lesotho was above most SADC member states except Mauritius (63), Namibia (84), South Africa (94) and Botswana (102). Women occupied 22.9 per cent of seats in Lesotho's parliament. Female participation rate in the labour market was 70.8 per cent of the total labour force compared to 77.7 per cent for men in 2011.

The MPI identifies multiple deprivations in the same households in education, health and standard of living. The most recent data publically available for Lesotho on MPI refers to 2009. This

inhibits further analysis of this indicator currently because there is no data for 2010 and 2011. According to the HDR 2011, 35.3 per cent of Lesotho's population suffered multiple deprivations while an extra 26.7 per cent were vulnerable to multiple deprivations. The intensity of deprivation (the average percentage of deprivation experienced by people in multidimensional poverty) in the country was 44.1 per cent.

Challenges Facing the Human Development Process

The human development process is characterised and affected by high and uneven rates of inequality and environmental degradation as a result of severe climate change.

According to the report, CO_2 emissions are having a toll on climate, drastically changing it. It was reported that emissions per capita were much higher and greater in very high HDI countries than the rest of the categories lumped together. This mainly reflected energy-intensive activities in the industrialized countries such as use of cars, fossil fuel-based electricity and air-conditioning. On average, a person living in the very high HDI country accounts for more than four times that living in low human development category in terms of CO_2 emissions. In the UK, for example, a citizen accounts for two times more CO_2 emissions than a citizen in the low HDI country in a year. It has been noted that the amount of CO_2 emitted is strongly and positively related to the level of income.

However, climate change is not the only threat to progress in human development. Others include soil erosion, desertification and water scarcity, deforestation, degradation of marine ecosystems and pollution.

While climate change is increasing the likelihood of drastic weather conditions such as drought, storms and floods, *inter alia*, soil erosion and desertification pose a threat to agricultural production and food security. Moreover, water scarcity, mainly caused by destruction of watersheds, wetlands and natural water towers for industrial purposes, poses a grave danger to human development.

Deforestation, destruction of marine ecosystems and pollution, has each contributed to the current environmental degradation. The former has compounded soil erosion and caused leaching while also preventing CO_2 absorption, leading to global warming. Pollution, on the other hand, has posed a threat to marine ecosystems on which some of the global population depends for a living.

Conclusion

The article has depicted trends in human development in line with major challenges facing its progress today. It has shown that despite commendable progress in the overall measure of human development, inequality and environmental degradation are threatening to reverse the trends if cautious and timely measures are not undertaken to halt them.

If left unchecked, environmental deterioration, ranging from droughts in SSA to rising sea levels that could drench low-lying countries like Bangladesh could threaten food security. It could spark food price increases by about 50.0 per cent and derail efforts to expand water availability, sanitation and energy access to millions of people, especially those living in South Asia and SSA.

2. The South African Rand Depreciates Following a Prolonged Appreciation: Causes and Implications for Lesotho's Economy.

The loti depreciated against the major world currencies in August 2011 and remained weak up to November 2011……..

Introduction

The exchange rate plays an important role in the formulation and implementation of macroeconomic policy in any country. This is why Lesotho has forfeited the exchange rate policy to South Africa by pegging the domestic currency, the loti, to the SA rand through the fixed exchange rate regime. The main advantage of this policy is the low and stable inflation environment that Lesotho is able to enjoy as a result of the relative stability of the rand exchange rate. Lesotho's currency, the loti, which is fixed at par to the SA rand, depreciated against the US dollar, euro and pound sterling in August 2011 and remained weak up to November 2011. This followed a prolonged appreciation that started in the first quarter of 2009.

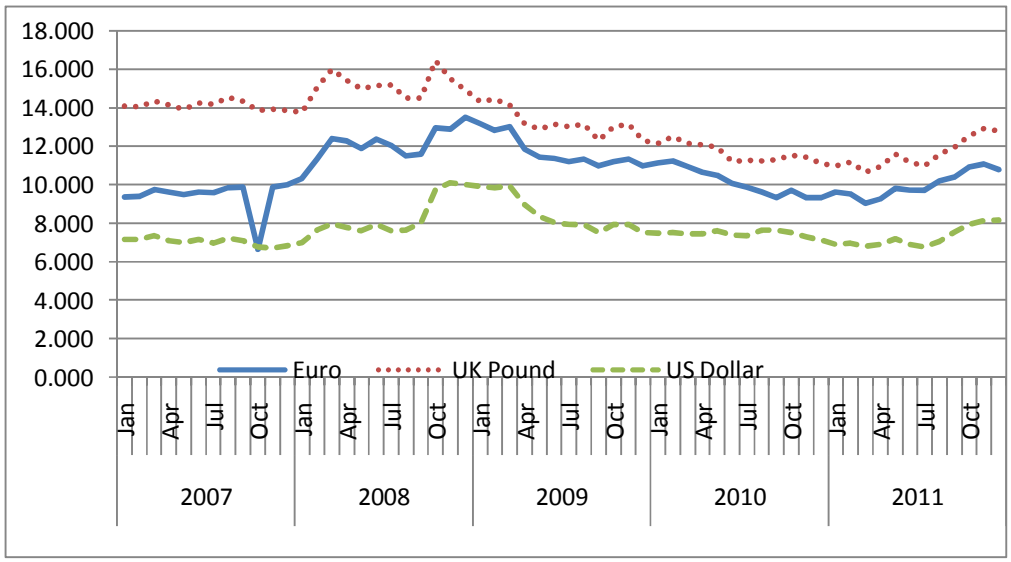
The objective of this article is to discuss the recent depreciation of the loti against major currencies. An analysis of the possible factors behind this development and its implications on Lesotho's economy is also provided.

Recent Exchange Rate Movements

As the global economic crisis intensified towards the end of 2008 to the beginning of 2009, the loti strengthened markedly against major currencies. It appreciated from M10.00 per US dollar at the end of 2008 to M7.53 per US dollar in December 2009. The loti appreciated by 18.8 per cent and 17.5 per cent against the euro and the British pound, respectively from December 2008 to December 2009. It remained strong throughout 2010 and increased its gains to reach the historical low levels of M6.79, M10.96 and M9.70 against the US dollar, pound sterling and euro, respectively, in July 2011.

As demonstrated in Figure 1 below, this long period of appreciation came to a pause in August 2011, when the loti lost ground against major currencies. It depreciated by 20.4 per cent, 16.5 per cent and 11.2 per cent against the US dollar, pound sterling and euro, respectively, from July 2011 to December 2011.

Figure 1: The Loti Exchange Rate against Major Currencies



Factors behind the Observed Recent Trend

Exchange rate movements are determined by a number of theoretical and empirical factors. Theoretically, the purchasing power parity (PPP) approach to the exchange rate, which derives from the "law of one price", has become a very influential way of thinking about the exchange rate. According to the law of one price, due to competitive arbitrage, identical goods should sell at identical prices across countries. This implies that exchange rates should adjust to compensate for price differentials across countries. The International Fisher Effect (IFE) model is also used to understand present and predict future spot currency price movements. It assumes that the appreciation or depreciation of a currency against another is proportionally related to differences in nominal interest rates between the two economies.

Empirical research has also identified a number of factors that influence exchange rate developments. These include,

- **Interest Rates Differentials** – higher interest rates offer lenders in an economy a higher return relative to other countries. Consequently, higher interest rates attract foreign capital, thus causing exchange rate appreciation. In addition, any other variables that could drive interest rates up, for example, an increase in employment, personal income and spending, retail sales and economic growth could boost investors' confidence in an economy, hence boost the value of the currency.

- **Differentials in Inflation** – the purchasing power of the currency of a country with consistently lower inflation increases relative to other currencies. Thus lower inflation could contribute to exchange rate appreciation. Factors that could result in high inflation in the future such as large public deficits and debt are also crucial determinants of the exchange rate.

- **Terms of Trade** – the increase in the terms of trade, reflecting higher increases in the price of a country's exports relative to the increase in the price of its imports could cause an exchange rate appreciation. This

is because it reflects increased demand for the country's currency.

- **Political Instability** - may cause loss of investor confidence in an economy, thus causing movement of capital to the currencies of more politically stable countries.

Amongst these general factors, the following could have contributed to the depreciation of the rand against major currencies in the three months to November 2011.

During this period, the SA rand depreciated together with the currencies of many other emerging market economies, mainly reflecting heightened global risk aversion due to the Euro area sovereign debt crisis and widespread sovereign ratings downgrades. High commodity prices prior to this period had also rendered strong support to the rand, mainly because of SA's heavy reliance on exports of gold and platinum. However, global commodity prices fell significantly after September 2011, thus contributing to the depreciation of the rand.

Implications on Lesotho's Economy

The weakening of the loti against major currencies presents a number of positive and negative implications for Lesotho's economy. On the positive side, the depreciation of the loti could boost employment and economic growth by increasing the value of exports in maloti terms. The domestic textiles and clothing manufacturing sector has, since the onset of the global financial and economic crises, been experiencing low orders from US retailers, thus forcing them to reduce operations or close down completely. The appreciation of the loti against major currencies, especially the US dollar, during the same period put more negative pressure on the sector's performance. Thus the recent depreciation, if sustained could help the sector to recover by improving the price competitiveness of Lesotho's exports in the US market and increasing its revenue in maloti terms against the same cost structure. The mining sector, which exports diamonds to the Euro area, could also benefit from the depreciation of the loti by increasing the sector's export earnings in maloti terms.

On the negative side, the observed depreciation bodes ill for inflation. SA reported a year on year increase of 15.9 per cent in the price of imported commodities in November 2011, mainly reflecting the effect of the exchange rate. As a consequence, the South African Reserve Bank has recently revised its inflation forecast upwards and expects the inflation rate to remain outside the upper end of the inflation target range for the whole of 2012. Because of Lesotho's fixed exchange rate regime and the heavy reliance on imports from SA, inflation developments in Lesotho follow those of SA very closely. The heightened inflationary pressures blur the prospects of maintaining SA's, hence Lesotho's interest rates at the current low levels even though such is necessary to boost economic recovery and growth. In addition, the depreciation of the loti causes an increase in external debt as it implies that more maloti would be needed to pay off Lesotho's foreign currency denominated debt.