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FOREVER YOUNG?

LESOTHO

COUNTRY BRIEF

This brief is part of a series of outputs under the analytical work "Forever Young? Social Policies for a Changing Population in Southern Africa". Outputs include:

- Forever Young? Social Policies for a Changing Population in Southern Africa (overview report)
- Forever Young? Botswana Country Brief
- Forever Young? Lesotho Country Brief
- Forever Young? Namibia Country Brief
- Forever Young? South Africa Country Brief
- Forever Young? Swaziland Country Brief

Design: Kilka Diseño Gráfico

DEMOGRAPHIC CHANGE MIGHT LEAD TO ECONOMIC OPPORTUNITY

Lesotho has experienced a significant demographic transition over the last fifty years, with both mortality and fertility decreasing sharply. Between 1950 and the early-1990s, infant and child mortality fell by approximately 60 percent, and life expectancy at birth increased by almost 19 years. The average number of children per woman fell from 5.7 to 3.1 between 1978 and 2015.

Changes in mortality and fertility imply changes in the population age structure: the proportion of young dependents will fall steadily in the decades to come (Figure 1), at the same time as the proportion of working-age population will increase (Figure 2). This is a *demographic window of opportunity:* if productively employed, the larger workforce can trigger an increase in output per capita - a phenomenon referred to in the literature as the *demographic dividend*. In Lesotho, this window will open in 2040 and stay open up to 2086 (Figure 1), an exceptionally long period by international standards.

FIGURE 1. THE WINDOW OF DEMOGRAPHIC OPPORTUNITY WILL OPEN LATE, BUT WILL LAST LONG

Share of population aged 0-14 and 65+ and the resulting demographic window of opportunity

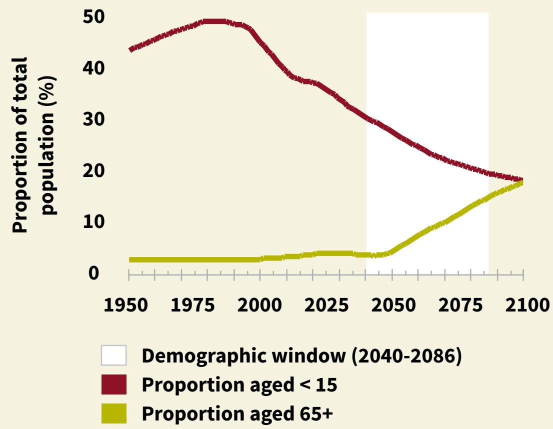
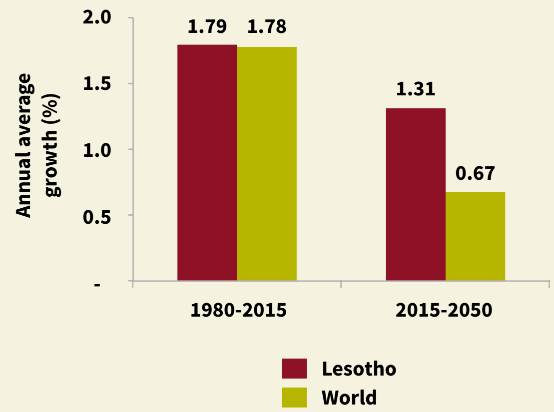


FIGURE 2. THE GROWTH RATE OF THE WORKING AGE POPULATION WILL STILL BE HIGH IN THE YEARS TO COME

Annual average growth rate of working age population (%)



Note: As defined by United Nations, the window of demographic opportunity opens when the proportion of the population under the age of 15 is less than 30 percent, and the proportion aged 65 and over is less than 15 percent. *Source:* Moultrie 2015.

BOX 1. THE HIV/AIDS EPIDEMIC HAS SLOWED DOWN, BUT NOT STOPPED, THE DEMOGRAPHIC TRANSITION

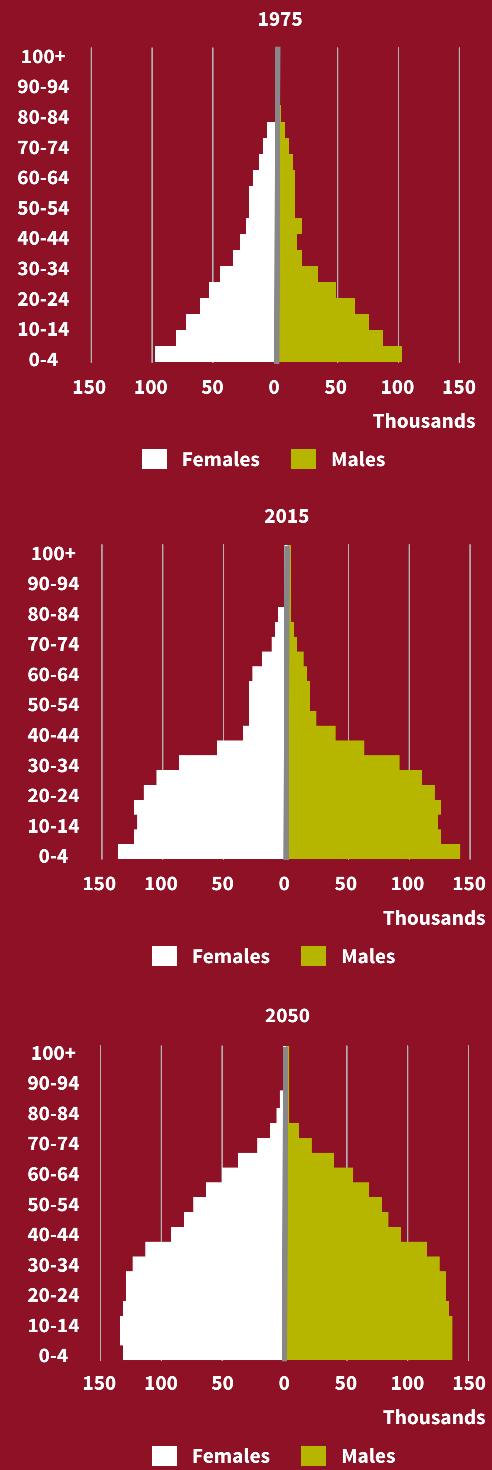
The HIV/AIDS pandemic had severe effects on demographic trends in Lesotho, as life expectancy reversed its course and decreased dramatically between 1990 and 2005. The country will likely only regain the levels achieved prior to the epidemic in the late 2030s.

However, the HIV/AIDS pandemic has only slowed, not stopped, the ongoing demographic transition. Figure 3 illustrates the age-sex structure of the population between 1950 and 2015. The effects of male labour migration to the South African mines is evident in the population pyramid for 1975, while the effects HIV/AIDS mortality is clear in the 'hollowing-out' between ages 40 and 60 in the population pyramid for 2015.

Projections for 2050 however predict a more standard shape for the population pyramid, as the deployment of anti-retroviral treatments allows for a drop in AIDS-related deaths. Simulations confirm that the epidemic will affect the expected level of population in Lesotho, but less so its projected age structure.

FIGURE 3. PERIOD EVENTS SUCH AS MIGRATION AND HIV/AIDS HAVE NOT STOPPED THE DEMOGRAPHIC TRANSITION

Lesotho population age structure, 1950 -2050



Source: Moultrie 2015.

THE DEMOGRAPHIC DIVIDEND IS JUST A MIRAGE IF LESOTHO DOES NOT INVEST IN HUMAN CAPITAL AND EMPLOYMENT

A long window of demographic opportunity is a welcome news for Lesotho, as the country will need time to implement strategic policy reforms to make sure to harness the demographic dividend.

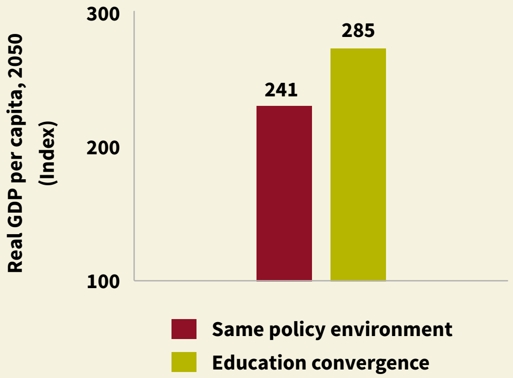
In particular, large cohorts of children and youth will soon reach working age. The effects of good (or bad) social policies for children and youth will therefore be amplified in the years to come. For example, if Lesotho were to increase its investment in the education of the young generations so to converge to the educational level of upper-middle-income countries by 2050, its GDP per capita in that year would be as much as 18 percent higher than under the current policy conditions (Figure 4).

On the other hand, if the current large gaps in coverage (Figure 5) and poor quality of education (Figure 6) persist, the country will soon have to face large cohorts of poorly educated adults, that will be less likely to find productive jobs. This would be a curse for a country that is already suffering from high unemployment, especially among the youth (Figure 7).

Surely, social policies cannot do the job alone. A sound macroeconomic environment, policies favoring private-sector development, and investment in labor-intensive sectors will be needed to employ the future large cohorts of working age population.

FIGURE 4. INVESTING IN HUMAN CAPITAL COULD LEAD TO A SIGNIFICANT INCREASE IN INCOME PER CAPITA

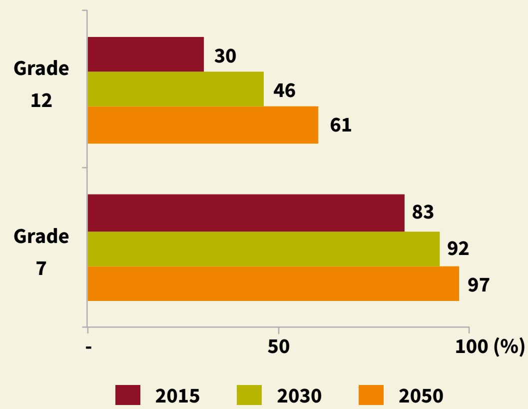
GDP per capita in 2050
(expressed as a ratio of GDP per capita in 2014=100)



Source: Ahmed & Cruz 2015.

FIGURE 5. THERE ARE STILL LARGE GAPS IN EDUCATION COVERAGE

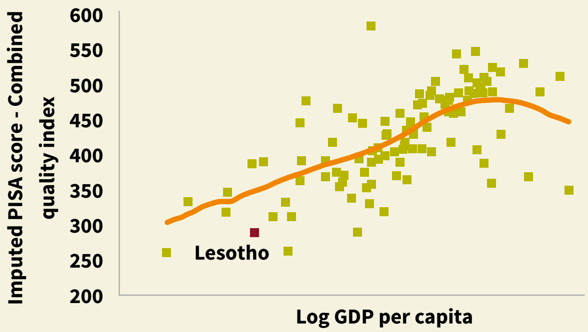
Projected completion rates



Source: Van der Berg & Knoesen 2015.

FIGURE 6. LEARNING PERFORMANCE IS LOWER THAN IN ECONOMICALLY COMPARABLE COUNTRIES

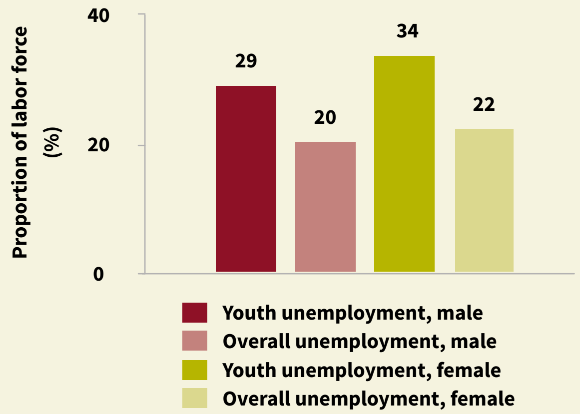
Learning performance in PISA metrics by per capita GDP (PPP$), around 2011



Source: Van der Berg & Knoesen 2015.

FIGURE 7. HIGH UNEMPLOYMENT IS A MAJOR CHALLENGE TO REAP THE DEMOGRAPHIC DIVIDEND

Overall and youth unemployment rate by gender



Source: Margolis & Yassine 2015.

SAVINGS FROM A MORE EFFICIENT PUBLIC SPENDING WILL BE NECESSARY TO INVEST IN THE YOUNGER GENERATIONS

Implementing strategic reforms to boost human capital and employment will require increased efficiency in social spending. In education, for example, *ad hoc* programs like the Tertiary Bursaries Scheme and administrative inefficiencies cause per capita spending to be higher than in OECD countries (Figure 8). Converging to the OECD's education spending profile would imply a decrease in public spending in education from 12.2 of GDP in 2010 to 5.7 in 2050 (green line in Figure 9): resources that could be reinvested to improve both coverage and quality of education, and provide employment services to the youth.

Instead, social assistance spending currently accrues mostly to the elderly: resources per individual in the age group 65-plus are twelve times those available to individuals aged 0-19, although there are six times more poor children than poor old people. Social pensions are more generous than in the OECD (Figure 8). A benefit incidence analysis confirms that the impact of social grants on poverty among the non-elderly remains negligible (Figure 10). The demographic moment urges Lesotho to improve coordination among social programs along the life-cycle (Figure 11), and to rebalance social assistance towards the younger generations.

FIGURE 8. PER CAPITA SOCIAL SPENDING IS HIGHER IN LESOTHO THAN IN OECD: MORE GENEROUS BENEFITS OR INEFFICIENCIES?

Per capita social spending by age

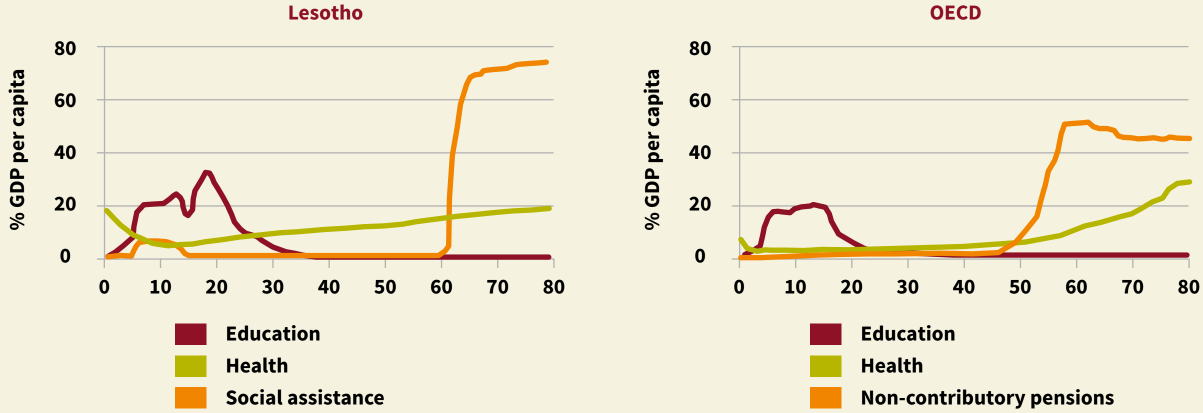
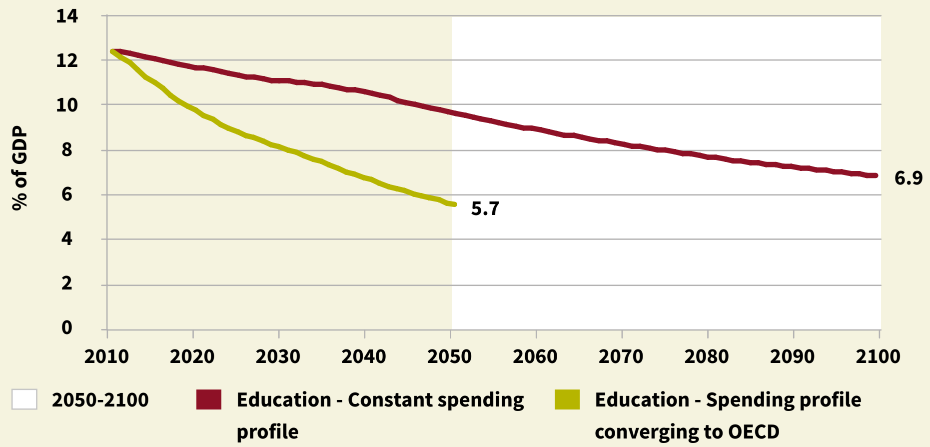


FIGURE 9. CONSIDERABLE SAVINGS FROM INCREASING EFFICIENCY IN SPENDING

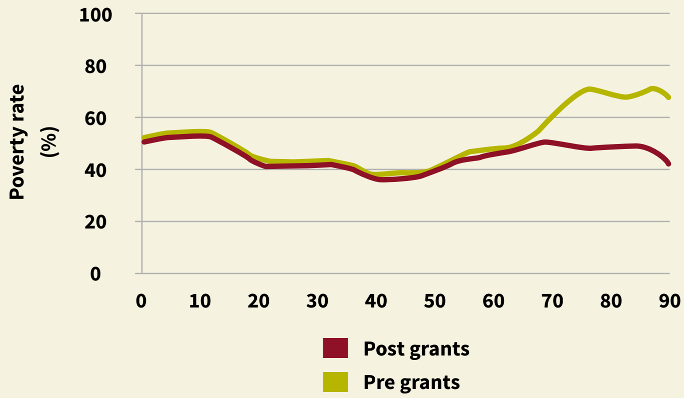
Aggregate spending as a % of GDP, 2010-2100



Source: Oosthuzein 2015.

FIGURE 10. THE POVERTY IMPACT OF CASH TRANSFERS ON CHILDREN AND YOUTH REMAINS NEGLIGIBLE

Poverty rates before and after cash transfers to households



Note: The estimates are based on the national poverty line. *Source:* Oosthuizen 2015.

Under the right set of policies, healthy and educated children can become large cohorts of productive adults. With access to jobs and social services, these adults can fulfill their earning potential, save, invest, and contribute to the country's fiscal revenues. And they can be more likely to raise healthy and educated children, leading to a virtuous cycle of social welfare. But realizing the dividend is by no means assured. If the right policies are not in place, the high levels of unemployment and the fiscal challenges that are already troubling Lesotho could escalate and bring on a vicious intergenerational cycle of poverty, unemployment, and vulnerability. Lesotho needs to act now if the country is to move to a virtous cycle and reap the benefits of the demographic moment.

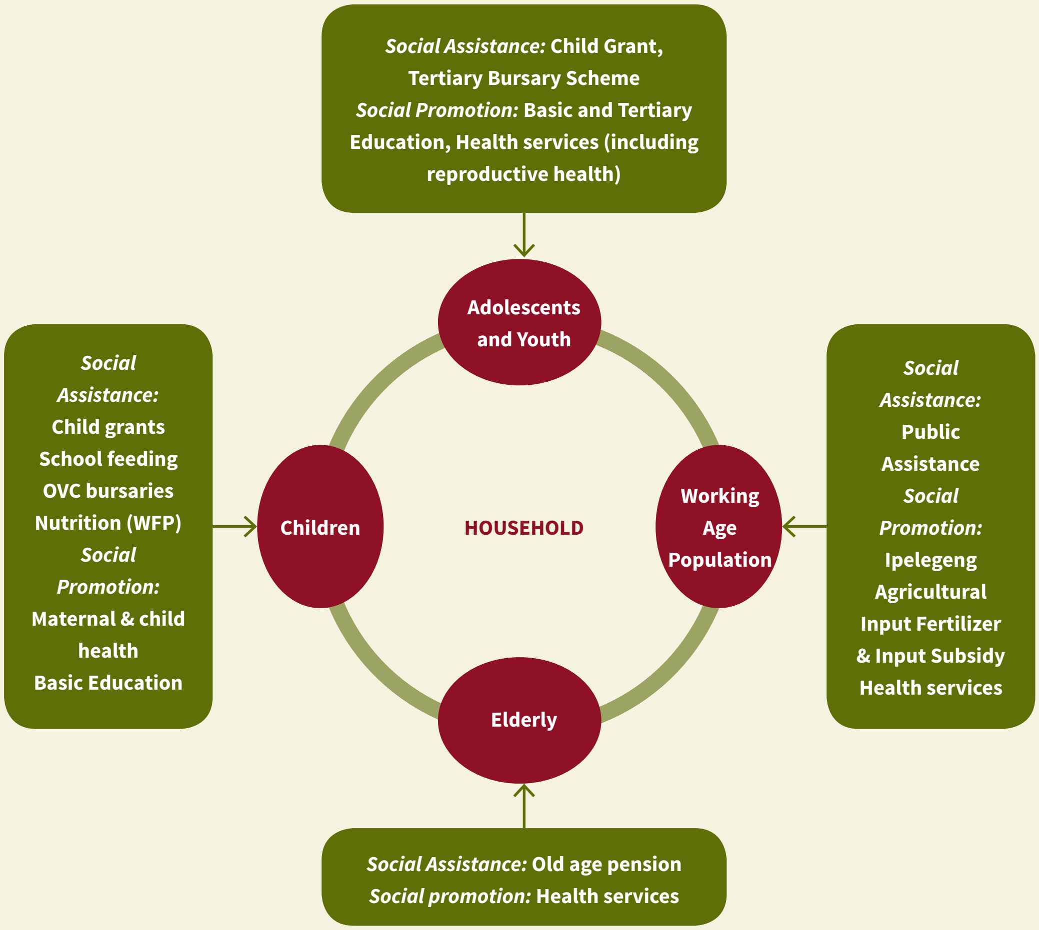
BOX 2. UNCERTAINTY IN REVENUES TO FINANCE SOCIAL SPENDING

In Lesotho, roughly 40 percent of government expenditures are financed by the Common Revenue Pool (CRP), which is fed by revenues from the Southern African Customs Union (SACU) (SACU 2014). Revenues from SACU have recently declined due to lower-than-expected import receipts, and are projected to continue on a low trajectory in the medium term.

If SACU revenues continue along these grim forecasts, and the government does not offset the fall through such steps as improving efficiency of the public sector, Lesotho will find it increasingly harder to keep up current levels of social expenditure, and invest adequately in the young generations.

FIGURE 11. A MOMENT TO REORGANIZE SOCIAL ASSISTANCE AND PROMOTION PROGRAMS IN AN INTEGRATED LIFE-CYCLE APPROACH, TO IDENTIFY AND ADDRESS BLIND SPOTS

Mapping of main social services available by age group, around 2012



Source: Troiano 2015.

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