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The Economic Impact of Youth Unemployment in Lesotho

Youth unemployment is escalating……..

Introduction

The problem of chronic youth unemployment is a global issue. According to International Labour Organization (ILO), the global youth unemployment rate started to rise in 2007 and the situation worsened in 2009 due to the global financial crisis and recession. The global youth unemployment remained high at 12.6 per cent in 2011 and it was projected at 12.7 per cent in 2012. The ILO estimated that nearly 75 million youth are unemployed globally. Africa is not immune to this crisis. Many young Africans find themselves unemployed or underemployed in informal jobs with low productivity and pay. According to the World Bank, unemployment of the youth population aged between 15 and 24 years has been increasing faster in Africa than in other parts of the world. In addition to the global economic crisis other factors behind the increase in youth unemployment include, the inefficiency of global labour markets, strict rules on hiring and firing, and the increasing mismatch between the skills that the youth have and those required by employers.

Lesotho, like other countries of the world, is faced with the problem of high youth unemployment. The problem of youth unemployment is very evident in Lesotho. While the number of university and college graduates increases from year to year, most of these graduates are not able to get employment. Lesotho's youth unemployment rate is estimated at 38.0 per cent in 2010 by ILO. It was also estimated that of the 7,500 graduates who enter the labour market each year, half do not get jobs. Even those who are employed are mainly working in subsistence agriculture where they do not earn salaries or if at all very meager wages. The LFS estimated that 60.0 per cent of the employed youth were in subsistence agriculture.

This is despite the fairly positive economic performance displayed by Lesotho over the last decade. Lesotho's economy has enjoyed sustained high growth, which was temporarily interrupted by the global financial crisis and recession. GDP grew by 3.6 per cent in 2009 and 5.7 per cent in 2010. The growth rate decelerated slightly to 4.2 per cent in 2011.

This article highlights the implications of youth unemployment. It also reviews the initiatives that the Government has undertaken to alleviate the problem and also provides policy recommendations for addressing this challenge.

Economic Impact

The high and increasing youth unemployment presents a number of economic and development challenges, both at the macro and micro levels.

Macroeconomic Implications

High unemployment means that resources that should be engaged in the production of goods and services are lying idle; hence it causes a waste of scarce resources and dampens the long run growth potential of an economy. It results in lower incomes, hence lower aggregate demand and GDP growth rates. It is also associated with high levels of poverty and income inequality.

Lesotho's high youth unemployment presents a number of implications for the fiscus. The Lesotho Government provides study loans to virtually all Basotho who get admitted to tertiary institutions in Lesotho and South Africa. After graduating, the beneficiaries are expected to repay a specified percentage of the loan. This cannot be possible without a job and income. The rising unemployment of youth who have graduated from tertiary institutions reduces the inflows to government hence the sources of funds for future financing of study loans. Consequently, funds that would otherwise be used to finance development projects and other important initiatives are used to close this gap. In addition, high unemployment and high youth unemployment imply that the economy is generating tax revenues that are far below its potential. This leads to increased government borrowing and/or slow delivery of public goods, hence slow economic development.

If young people are left with no alternative but unemployment and poverty, they are more likely to join a rebellion as an alternative way of generating an income. Unemployment among the youth is associated with an increase in crimes such as robbery, drug related offences and murder.

Microeconomic Implications

Labour economists generally agree that a spell of unemployment at an early stage of a worker's career imposes a persistent wage penalty that could last for their entire working lifetime, the effect known as "scarring". The youth who experience an unemployment spell in the preceding period enter the job market with a lower stock of human capital than otherwise identical individuals who did not experience unemployment. The effect of the unemployment spell on potential earnings diminishes over time, depending on the optimal response to the human capital shock by the affected individuals. Persistent and high youth unemployment also reduces employability of youth and results in a prolonged period of unstable jobs as prospective employers tend to develop negative perceptions of youth who have been out of work for prolonged periods.

Youth unemployment can also increase vulnerability of households to future shocks. The unemployed youth become overly dependent on their parents. This is because while they may be unemployed, other aspects of their lives still continue. For example, they may still marry and start having children. Their parents then have to take care of them and of their families. This increases the pressure on households' income forcing some to sell their assets and borrow money which increases the vulnerably of households and the youth to ongoing or future shocks. In order to meet consumption needs during periods of unemployment or erratic wages households draw down savings and sell possessions.

Recent Responses by the Government of Lesotho

The Government of Lesotho has identified employment creation as one of the key concerns in the major national policy documents, including the Vision 2020 and the Poverty Reduction Strategy Paper (PRS) and recently the National Development Strategy. It is in this spirit that the Government, in collaboration with some development partners has undertaken some initiatives to address the problem of youth unemployment.

The Government of Lesotho through the Ministry of Gender and Youth, Sports and Recreation collaborated with United Nations Development Programme (UNDP), United Nations (UN) agencies such as the ILO, the United Nations Children's Fund (UNICEF) and other partners such as the Commonwealth Youth Foundation (CYF) to implement the Youth Employment Project (YEP) aimed at promoting youth employment for poverty reduction. The YEP was piloted in 2006 with the aim of giving young people in urban and rural areas the entrepreneurial training and resources to develop small businesses. In 2007, UNDP engaged the support of youth organizations, business and community groups, the United Nations (UN) and agencies such as the Mineworkers Development Agency (MDA). This partnership gave birth to the Lesotho Youth Credit Initiative (LYCI), which provides micro financing for the YEP's trainees. LYCI was formed with the hope of fostering an environment where the youth can access credit to implement their business ideas.

In 2009, the Government of Lesotho launched the National Volunteer Corps Project (NVCP) as part of its strategy to respond to the issue of youth unemployment in partnership with the UNDP. The NVCP was designed to serve as a mechanism for young graduates from tertiary institutions to gain practical hands-on working experience by accessing volunteer opportunities in various work spaces in the public and private sectors. The exposure and the work experience gained is expected to boost the beneficiaries' chances of employment in a highly competitive labour market.

Measures are being taken to facilitate access to finance by business enterprises. The Government signed a Memorandum of Understanding (MoU) with commercial banks on the establishment of a M50.0 million Partial Credit Guarantee Fund (PCGF) in May 2012. The Lesotho National Development Corporation (LNDC) also established a Partial Credit Guarantee Scheme towards the end of 2012. The main objective of these facilities is to support investors who wish to start or expand MSMEs as well as large businesses but are not able to access loans from the Banks due to lack of collateral. The partial credit guarantee ensures that the banks will be able to recover a portion of their money in the event of a default. Consequently, the domestic commercial banks have recently begun to introduce easily accessible loan instruments for the business sector, especially the MSMEs.

Youth Employment Policies

There is a need for clear policies aimed at addressing the problem of youth unemployment. The ILO puts emphasis on the following policies. Macroeconomic and fiscal policies should support measures that have the potential to create employment. Financial resources should be invested in youth employment promotion. In addition, business climate reforms need to be speeded up to create a conducive environment for private sector expansion and diversification, hence job creation. Active labour market policies and programmes, including direct employment generation through wage subsidies, public works, guaranteed job schemes; labour exchanges and employment services that facilitate young people's transition into the labour market and skills development programmes; and policies aimed at improving the quality of jobs, for example by ensuring decent wages and working conditions. Programmes aimed at improving dialogue among all stakeholders could strengthen commitment and yield tangible results.

These policies have the potential to eradicate youth unemployment in Lesotho. Some of them are already being implemented as indicated in the preceding Section. Nonetheless, given Lesotho's peculiarity, there are additional strategies that could be much more applicable to Lesotho. The education system should be streamlined to promote entrepreneurship and business mindedness in youth so that they can create jobs for themselves and for others rather than groom them to look for employment. Growth policies should focus on removing constraints on private sector investment and growth, especially for small enterprises, encouraging economic diversification and productive transformation so as to influence youth employment. The revival of agricultural productivity has the potential to reduce youth unemployment in Lesotho. Strong support to the sector by Government through increased public investment, particularly in water management and irrigation infrastructure, research and development could enhance the sector's contribution to employment generation.

Doing Business 2012: Doing Business in a more Transparent World

Introduction

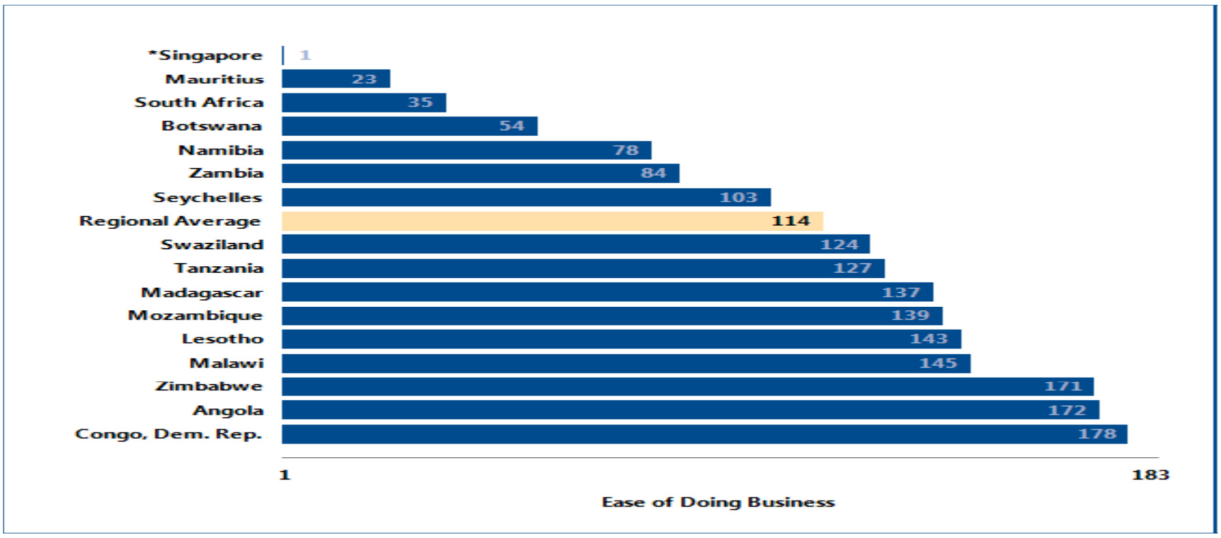
Doing Business Report assesses regulations affecting domestic firms in 183 economies and ranks the economies in 10 areas of business regulation. This article presents a summary of doing business indicators in Lesotho compared with economies in the Southern Africa Development Corporation (SADC) region and best practice economies globally for each indicator.

Overview of Doing Business 2012

According to Doing Business 2012, economic prosperity requires transparent rules and regulations that are easy to comply with. Where business regulation is difficult and competition is limited, success depends more on who you know than on what you can do. The Report ranks countries according to their ease of doing business.

In 2012 Lesotho was ranked position 143 out of 183 countries on the ease of doing business. Lesotho's position in the global ranking has deteriorated from position 124 to 128 and 130 to 138 in 2008 to 2009 and 2010 to 2011, respectively, despite the investment reforms undertaken during these years. In this round of Doing Business, Lesotho launched a commercial court in an effort to make enforcing contracts easy. This indicates that other countries are reforming faster.

Figure 2: SADC Economies Rank on the ease of Doing Business



*The economy with the best performance globally is included as a benchmark.

Source: Doing Business 2012

Lesotho fell far below the SADC region's average rank of 114, just 5 places from the bottom. Mauritius took the first position, followed by South Africa, Botswana and Namibia. At the global level Singapore remained in the lead followed by Hong Kong, New Zealand and the United States.

Starting a Business

Studies have shown that simple and easy business startup is critical for fostering formal entrepreneurship, while cumbersome regulations and administrative procedures for starting a business are found to be associated with a small number of legally registered firms. The starting a business indicator is based on four sub-indicators, namely: the number of procedures involved in starting a business, the number of days required, the associated costs and the minimum capital requirement. In this indicator, Lesotho was ranked number 144 in 2012, which was 4 positions lower than its rank in 2011. To start a business in Lesotho required 7 procedures, 40 days and 24.9 per cent of income per capita as costs associated. The minimum capital of 11.2 per cent of income per capita was required. Regionally, Mauritius was the best performer on the ease of starting a business, while New Zealand was ranked the highest globally.

Dealing with Construction Permits

Excessive constraints and regulation of the construction sector should be avoided to enhance the sector's efficiency. This can be achieved by, amongst other things, ensuring that construction permits are easy and less costly to obtain. The dealing with construction permits indicator is based on 3 sub-indicators of the procedures involved, time taken and the cost for a business to obtain all the necessary approvals to build a simple commercial warehouse in the economy's largest city. In this indicator Lesotho ranked position 157 out of 183 countries. It took 12 procedures to obtain a construction permit, 510 days and 1,038.7 per cent of income per capita to obtain all the necessary approvals. With regard to this indicator, Lesotho appeared far below the regional average of 109. At position 157, Lesotho was the fourth from the bottom in the SADC region. Regionally, South Africa was the best performer and globally Hong Kong revealed the best performance.

Getting Electricity

Studies have shown that poor electricity supply adversely affects the productivity of firms. Electricity services are among the most regulated areas of economic activity and the connection process is governed by many laws and regulations that are meant to protect the quality.

The getting electricity indicator involves 3 sub indicators of the procedures involved to get connected, time taken and the associated costs. In this indicator Lesotho was ranked number 141 in 2012. There were 5 procedures involved and it took 140 days and the associated cost was 2,456.7 per cent of income per capita. In the SADC region, Lesotho was below the regional average rank of 131. This was despite the introduction of a connection fee policy that enables customers to pay the cost of connection over 24 months. The best regional performer on this indicator was Mauritius and at the global level Iceland was the best performer.

Registering Property

Evidence shows that property owners with registered titles are more likely to invest and also have a better chance of getting credit when using their property as collateral. In 2008 property registration was made easier for women in Lesotho by allowing married women to transfer land without their husband's consent.

The registering property indicator is grounded on 3 sub-indicators of the necessary procedures for a business to purchase property from another business and transfer the property title to the buyer's name, the time taken and the minimum cost requirements. Lesotho was ranked number 150 in this indicator. In Lesotho, the process of registering property required 6 procedures, 101 days and the minimum cost associated was 8 per cent of income per capita. Lesotho was below the regional average rank of 111. Botswana was the best performer on the ease of registering property at the regional level and globally New Zealand showed the best performance.

Getting Credit

Lack of access to finance is considered one of the main obstacles to growth of businesses in Lesotho, particularly small and medium size enterprises. This is because frameworks that can facilitate access to credit, such as credit information systems and laws governing legal rights of borrowers, issues of collateral and bankruptcy are lacking. Sound collateral laws also facilitate the use of property as security to generate capital.

This indicator is based on 4 sub indicators, namely; an index that measures the rules and practices affecting the coverage, scope and accessibility of credit information, an index that measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders, public registry coverage and private bureau coverage. Lesotho was ranked number 150 on the ease of getting credit. Lesotho scored 6 out of 10 on the strength of legal rights index, 0 on the depth of information index as there was neither public registry coverage nor private bureau coverage. Lesotho was far below the regional average rank of 100. South Africa was the best performer on the ease of getting credit regionally and globally the United Kingdom was the best performer.

Protecting Investors

This indicator measures the strength of legal protection of minority investors against misuse of corporate assets by company directors for their personal gain. The protecting investors indicator distinguishes the following 3 dimensions. The extent of disclosure index, which measures the transparency of related party transactions; the extent of director liability index, which measures the ability of shareholders to hold interested parties and members of the approving body liable in case of related party transactions; and the ease of shareholder suits index, which measures access to internal corporation documents and information available during trial.

Lesotho was ranked number 147 in this indicator in 2012. The scores on the extent of disclosure index, extent of director liability index and the ease of shareholder suits index were 2, 1 and 8, each out of 10, respectively. The average of the three, making the ease of investor protection index was 3.7. Lesotho was number 2 from the bottom in the SADC region below the regional average rank of 79. South Africa was the best performer in the region and New Zealand was the best performer globally.

Paying Taxes

Exorbitant tax rates and burdensome tax administration can hinder the growth of the business sector. The paying tax indicator is based on the number of payments made per year, time and total tax rate as a percentage of profits. Lesotho was ranked number 61 in 2012, which was an improvement of 3 positions from 2011. In the SADC region Lesotho was number 8 and above the regional average rank of 76. Mauritius was the best performer on the ease of paying taxes, while globally Canada portrayed the best performance.

Trading across borders

Trade promotes economic growth. Excessive required documents, burdensome customs procedures, inefficient port operations and inadequate infrastructure hamper trade. This indicator is based on time and cost (excluding tariffs) associated with exporting and importing a standard shipment of goods by sea and the number of documents necessary to complete the transaction. Lesotho was ranked number 147 in 2012 on the ease of trading across borders. 8 documents had to be completed to export from Lesotho. It took 31 days to complete the regulatory processes for exporting and the cost of exportation was US$ 1,680 per container. With regard to importing, 8 documents had to be filled. It took 35 days to import and the associated cost was US$ 1,665 per container. In the SADC region Lesotho was below the regional average of 130.

Enforcing contracts

Efficient and transparent courts encourage new business relationships because businesses know they can rely on the courts if a new customer fails to pay. The indicator on the ease of enforcing contracts is based on time, cost and procedural complexity of resolving a commercial lawsuit between 2 domestic businesses. In this indicator Lesotho was ranked number 102 in 2012, which was 14 positions improvement from 2011. It took 41 procedures and 785 days to resolve a lawsuit, and the cost was 19.5 per cent of the claim. Lesotho appeared above the regional average rank of 106. In 2012, Lesotho made enforcing contracts easier by launching a specialized commercial court.

Resolving Insolvency

A good insolvency regime should prevent early liquidation of sustainable businesses, discourage lenders from issuing high risk loans and managers and shareholders from taking imprudent loans. The resolving of insolvency indicator is measured on the basis of the time and the cost of resolving insolvency, and the recovery rate.

In this indicator, Lesotho was ranked number 125. It took 4 years for the process to be finalized, costing 22 per cent of the total estate and the recovery rate was 20.6 cents of the dollar invested in the business. On the ease of resolving insolvency, Lesotho was ranked number 4 in the SADC region above the regional average of 112. Botswana was ranked number one in the region while globally the best performance was by Japan.

Conclusion

There are a lot of cumbersome procedures coupled with unnecessary bottlenecks which make it comparatively difficult for investors to do business in Lesotho. Despite the several recent reforms, the country is declining in regional and international rankings because other countries are reforming faster and more aggressively. With a ranking way above 100 and being in a continuing declining trend means that Lesotho is losing competitiveness and as a result may be forfeiting potential investment opportunities which are required for sustainable economic growth and employment which are key in poverty alleviation.

A number of reform areas for making it easy to start and operate a business in Lesotho have been identified and initiatives are being undertaken to implement reforms in some areas. Nonetheless, the Doing Business clearly indicates that Lesotho is moving at a snail's pace and as a consequence is losing the chance to attract investors and expand its private sector to faster reformers.