

Economic Review December 2004

WORLD DEVELOPMENT REPORT 2005:

The World Bank launched the World Development Report 2005. The report highlights opportunities for governments to improve their investment climates by expanding the opportunities and incentives for firms of all types to invest productively, create jobs, and expand...

Introduction

The World Development Report (WDR)-2005 was launched by the World Bank(WB) in Lesotho in November this year. WDR is about creating opportunities for people to escape from poverty and improve their living standards. It is about creating a climate in which firms and entrepreneurs of all types have opportunities and incentives to invest productively, create jobs, and expand, and thereby contributing to growth and poverty reduction.

The 2005 report focused on what the governments can do to create better investment climates for societies to increase growth and reduce poverty. Improving investment climate is the first pillar of the WB's overall development strategy. This report offers practical insights for policy makers and advisors as well as all those with an interest in growth and poverty reduction in developing countries.

Challenges faced by governments

The report identifies the challenges governments face in making improvements in investment climate and suggests practical strategies for accelerating progress. Central to the report are the following main points:

- The goals for countries should be to create an investment climate that is better for everyone. That is, investment should benefit society as a whole, not only firms. Investment climate should also embrace firms of all types, not just large or influential firms. All firms regardless of their size have important and complementary contributions to make to growth and poverty reduction.
- Efforts to improve the investment climate need to go beyond just reducing business costs. Governments need to address all spheres of good investment climate.
- Progress requires more than changes in formal policies. Governments need to bridge the gaps between policies and their implementation, and address sources of policy failure that can undermine a sound investment climate.
- Progress requires governments to address important constraints in ways that give firms the confidence to invest and to sustain a process of ongoing improvements.
- *Restraining corruption and other forms of rent-seeking.* The majority of firms in developing countries report having to pay bribes when dealing with officials, and many rate corruption as their most pressing obstacle. Policies and their implementation are also distorted by the disproportionate influence exercised by politically-connected firms.
- *Building the credibility of government policies.* Passing new laws has little impact if firms don't believe they will be enforced or sustained.
- *Fostering public support for policy improvements.* Failure to build public support for creating a more productive society slows reforms and jeopardizes their sustainability.
- *Ensuring policy responses are adapted to local conditions.* Approaches that are transplanted uncritically from other countries often lead to poor or perverse results.

How the Investment Climate Influences Growth and Poverty

As population increases, economic growth provides the only sustainable way of improving living standards. A good investment climate drives growth by encouraging investment and higher productivity. The report highlights that a good investment climate encourages firms to invest by reducing unjustified costs, risks, and barriers to competition. A good investment climate also encourages higher productivity by providing opportunities and incentives for firms to develop and adapt better ways of doing things.

Improving the investment climate is therefore critical in the fight against poverty. At an aggregate level, economic growth is closely correlated with reductions in poverty. Investment climate improvements deliver broad benefits across society, such as macroeconomic stability and less corruption.

Lesotho's Investment Climate

The report draws its conclusions from several investment climate indicators. Among several indicators, It specifically looks at the following:

- Number of calendar days and procedures for starting a business
- Number of calendar days and procedures for enforcing a contract
- Number of calendar days and procedures for registering property
- Transparency of government policy-making
- Intensity of local competition
- Regional disparities in quality of business environment

The first three of the above investment climate indicators are discussed in turn. The other indicators are not discussed due to the fact that there is missing data in the case of Lesotho.

Starting a Business

The report shows that in Lesotho, in January 2004, the number of calendar days needed to complete all the required procedures for legally operating a business is 92 days. In addition, 9 stages/procedures are followed when starting a business in the country. These indicators are more or less the same as those in other countries in the Southern African region. For instance, in Zimbabwe, it takes 96 days to start a business, in Namibia it takes little fewer days (85) and Botswana (38). South Africa (SA) is reported as the most attractive country with only 35 days.

Table 1: Starting a business

Country	Number of days	Number of procedures
Botswana	108	9
Lesotho	92	11
Namibia	85	10
South Africa	38	9
Zimbabwe	96	10
Source: World Development Report 2005		

Looking at the number of procedures to be followed when starting a business, Lesotho is recorded to exhibit 9 procedures. This is similar to the number of procedures followed in SA. The reason behind this similarity could be the fact that most businesses in Lesotho are subsidiaries of SA enterprises. The number of procedures followed is also the same in Zimbabwe, Malawi and Namibia at 10.

Enforcing a Contract

Table 2 below looks at the number of calendar years from the moment a plaintiff files the lawsuit in court until the moment of final determination and, in appropriate cases, payment. The number of procedures is also reported.

Table 2: Enforcing a Contract

Country	Number of days	Number of procedures
Botswana	154	26
Lesotho	285	49
Namibia	270	31
South Africa	277	26
Zimbabwe	350	33
Source: World Development Report 2005		

The table above depicts that as far as the number of days is concerned, Zimbabwe is the worst in the Southern African region with 350 days. This is followed by Lesotho at 285 days. Botswana is reported to be the best with only 154 days.

On the number of procedures front, Botswana and SA exhibit the lowest figure of 26 stages or procedures that need to be followed when enforcing a contract. Lesotho is reported to be the worst at 49 procedures.

Registering Property

The time and number of procedures to register property is depicted in table 3 below. This basically looks at the requirements to officially register property in an urban area.

Table 3: Registering property

Country	Number of days	Number of procedures
Botswana	69	4
Lesotho	101	6
Namibia	28	9
South Africa	20	6
Zimbabwe	30	4
Source: World Development Report 2005		

The table shows that in the region, Lesotho has the highest number of days that need to be spent on registering property in the country. SA is reported to be the country with the lowest number of days.

As far as the number of procedures is concerned, Botswana and Zimbabwe exhibit the lowest number in contrast to Namibia with the highest number. Lesotho and SA follow the same number of procedures.

Conclusion

The statistics provided in the report show that the investment climate in Lesotho must improve to make it attractive as compared to the other countries in the region. A reason for a comparatively low attachment could be due to political instability in the country in 1998, which to a large extent reduced the investors' confidence in the country. However, the economy is recovering from that unrest and foreign direct investment (FDI) seems to be on an upward trend, especially in the manufacturing sub-sector. The country could benefit more if the number of days for enforcing a contract and for registering property could be reduced as this seems to be hampering investors' sentiments towards the country and hence diverting their interests to other countries.

Table 2. Monetary and Financial Indicators+

	Sept	Oct	Nov
1. Interest rates (Percent Per Annum)			
1.1 Prime Lending rate	12.17	12.17	12.17
1.2 Prime Lending rate in RSA	11.00	11.00	11.00
1.3 Savings Deposit Rate	1.35	1.35	1.35
1.4 Interest rate Margin(1.1 – 1.3)	10.82	10.82	10.82
1.5 Treasury Bill Yield (91-day)	8.27	8.44	7.90
2. Monetary Indicators (Million Maloti)			
2.1 Broad Money (M2)	2474.3	2360.70	2429.1
2.2 Net Claims on Government by the Banking System	-572.91	*-1058.59	-875.33
2.3 Net Foreign Assets – Banking System	4039.88	4303.20	4145.04
2.4 CBL Net Foreign Assets	3350.34	3741.50	3523.59
2.5 Domestic Credit	-2.89	-433.16	-263.76
2.6 Reserve Money	133.33	111.04	156.80
3. Spot Loti/US\$ Exchange Rate (monthly average)	6.5445	6.3829	6.0536
4. Inflation (year-on-year percentage change)	4.7	4.6	4.7
5. External Sector (Million Maloti)	2004		
	Q1	Q2	Q3
5.1 Current Account Balance	-319.7	-281.2	-275.2
5.2 Capital and Financial Account Balance	146.8	319.3	155.5
5.3 Reserves Assets	282.8	-0.8	391.7

+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 2. Selected Economic Indicators

	2000	2001	2002	2003
1. Output Growth(Percent)				
1.1 Gross Domestic Product – GDP	1.3	3.2	3.5	3.3
1.2 Gross Domestic Product Excluding LHWP	0.0	3.5	3.3	3.2
1.3 Gross National Product – GNP	-3.2	0.2	1.6	6.3
1.4 Per capita –GNP	-5.2	-1.9	-0.4	4.1
2. Sectoral Growth Rates				

2.1 Agriculture	2.8	0.5	-4.2	-1.9
2.2 Manufacturing	4.4	7.8	6.9	5.2
2.3 Construction	9.7	1.4	6.9	4.3
2.4 Services	-0.9	2.2	2.2	4.4
3. External Sector – Percent of GNP Excluding LHWP				
3.1 Imports of Goods	64.4	68.2	82.8	74.5
3.2 Current Account	-21.3	-17.4	-24.5	-21.1
3.3 Official Reserves (Months of Imports)	8.9	11.7	6.4	5.5
4. Government Budget Balance (Percent of GNP)				
	-4.9	-1.0	-2.7	-2.5

*Preliminary Estimates +Projections