

Lesotho's Demographic Dividend

in the Context of Health and Other Development Challenges

POLICY BRIEF



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Background

More than a third of Lesotho's population currently falls in the age range of 15 to 35 years, presenting a unique moment to capitalize on the economic opportunities of a rapid change in age structure – known as a demographic dividend. Appropriate policies and interventions can help build a generation that contributes to Lesotho's development through providing a skilled workforce and generating savings and investments. While the current population is relatively young, the country is also observing more people entering the older population age group (65 years or older). An estimated 123,000 people (6 per cent of the total population) are 65 years and above, creating an increased demand for social protection and care services.

UNFPA's study, *Lesotho's Demographic Dividend in the Context of Health and Other Development Challenges*, assesses resource flows across all age groups and identifies policies that could potentially support achievement of the economic benefits of a demographic dividend window of opportunity. The study analysed how demographic change in Lesotho may impact its economy, ascertained the prospects for a demographic dividend, and identified urgent policy interventions.



Objectives and methodology

This policy brief summarizes the study's findings.

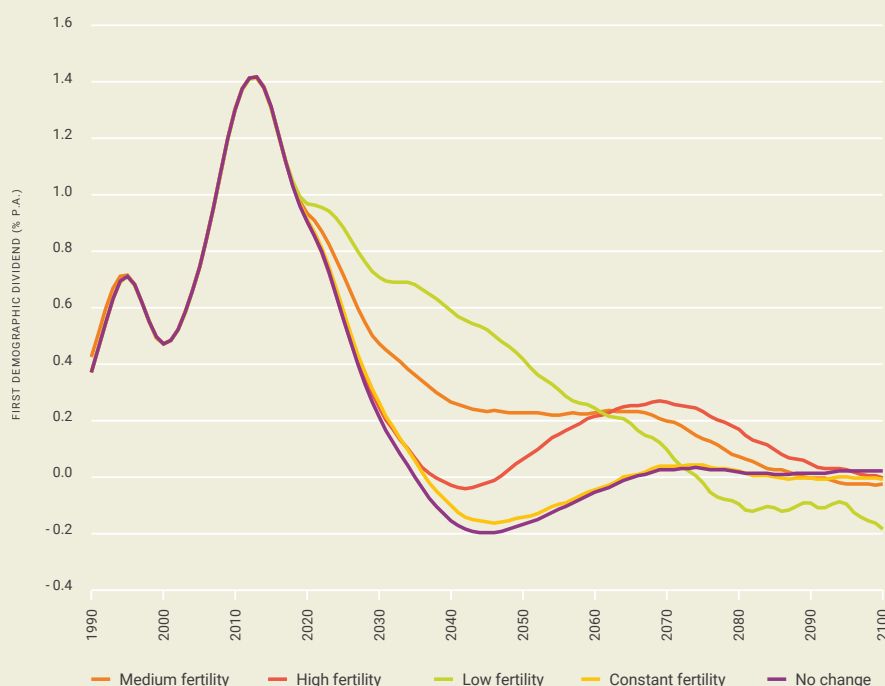
The study was the first to apply the National Transfer Account (NTA) methodology in an analysis of the patterns of production and consumption across different population age groups, to highlight the country's potential to benefit from the window of opportunity that changes in age structure present. Lesotho's economy was particularly affected by the HIV and AIDS epidemic, as well as the impact of economic restrictions during the COVID-19 pandemic. This analysis assessed how these also impacted the opportunity for Lesotho to benefit fully from a demographic dividend.

Key findings

1 Implement policies to maximize the remaining benefits of Lesotho's demographic dividend before it turns negative by 2089

Lesotho's opportunity to reap the demographic dividend began in 1990 and is estimated to turn negative in 2089, with most of the economic benefits already experienced in the past and the remaining benefits existing between 2020 and 2060 (see figure 1). These results call for urgent policies to reap the remaining economic opportunities. Additionally, the changes in age structure currently contribute to an average annual growth rate of 0.41 per cent, which is expected to reverse or turn to zero around 2060.

FIGURE 1 The Impact of Fertility on the Demographic Dividend in Lesotho, 1990–2100

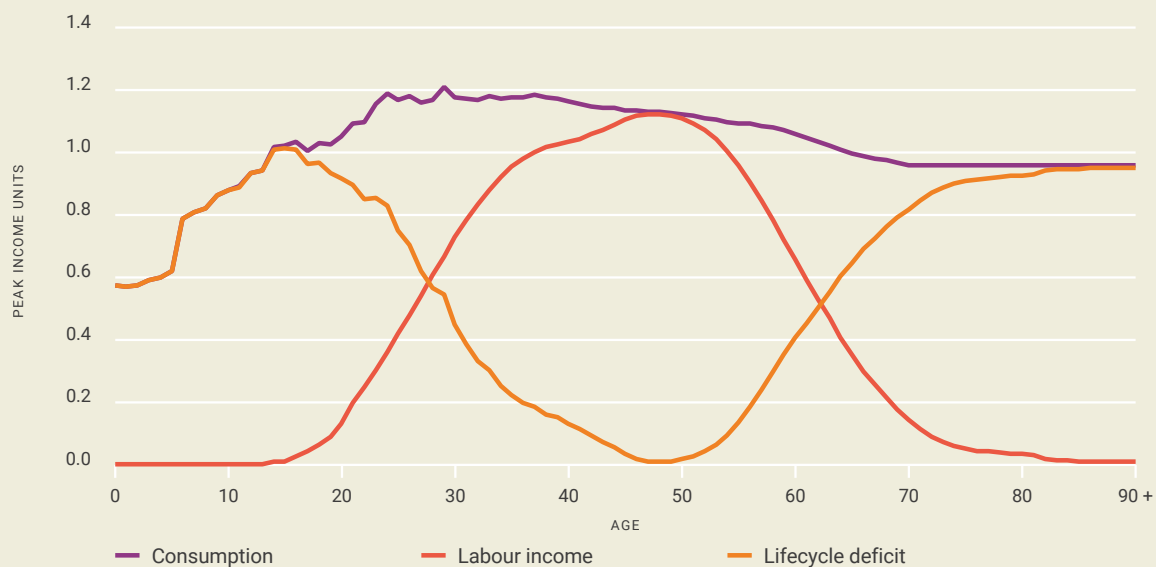


SOURCE: Own calculations, Lesotho Bureau of Statistics (2021a, c, e); United Nations (2019, 2021); World Bank (2022).

2 Improve labour market conditions to boost employment and income for youth cohorts

Young people earn much less than the highest earners in the country, and in comparison to young people in other countries. In Lesotho, young people (those in their teens and twenties) earn a smaller income than older, peak-earning adults. This specific pattern of consumption indicates that young people have limited resources to build on their economic potential, including starting a business.

FIGURE 2 The Lifecycle Deficit in Lesotho, 2018



SOURCE: Own calculations, Lesotho Bureau of Statistics (2021a, c, e); United Nations (2019, 2021); World Bank (2022)

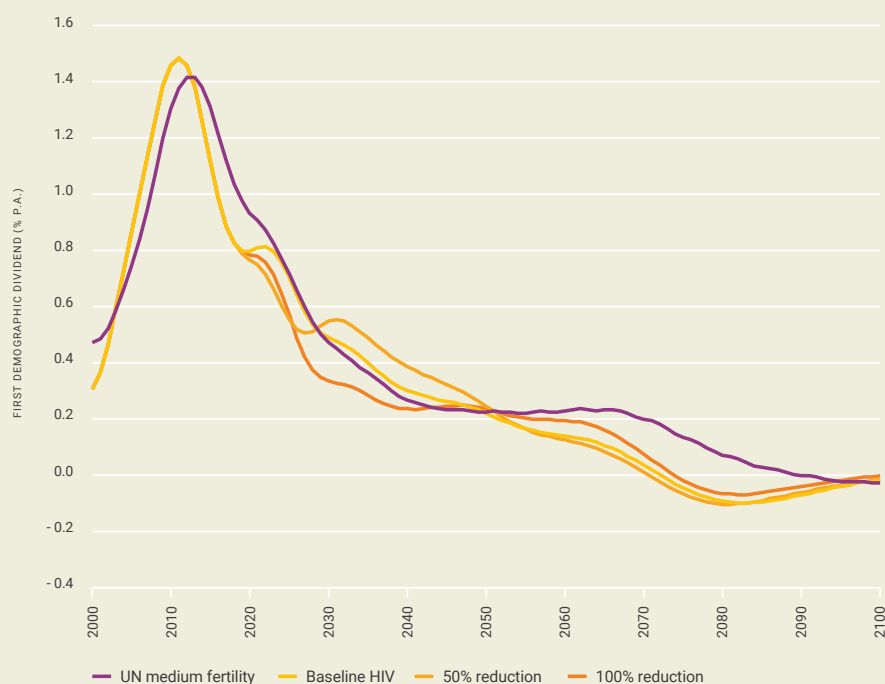
3 Create more jobs in Lesotho to reduce remittance reliance and ensure economic stability

Compared to global data and expressed as a proportion of peak labour income, per capita consumption is high in Lesotho. Indeed, per capita consumption for some cohorts is twice as high as the global median. Figure 2 compares the consumption and labour income profiles by age, showing high consumption patterns. This means that at no age is per capita labour income greater than per capita consumption, underscoring the role of remittances in the economy of Lesotho. More than a fifth of Lesotho's economy benefits from these remittance flows. Only El Salvador exhibited the same all-age life cycle deficit pattern, with consumption conceding to the income level in all cohorts. Lesotho should work on building a labour market that creates local jobs, thereby reducing over-reliance on these remittances for its economy.

4 Maintain or increase funding for HIV prevention and treatment in Lesotho to mitigate the negative impact on economic growth and the demographic dividend

More than 22 per cent of those 15 years and older are HIV positive, and the prevention and treatment of HIV and AIDS erode a large share of the overall health budget for the country. The analysis shows that the HIV and AIDS pandemic has an impact on the country's ability to reap its demographic dividend. HIV and AIDS affects not only the infected individuals but also their households and family members who care for them, thereby forfeiting their earning potential. Simulating alternative scenarios where funding for HIV prevention is either maintained or cut by up to 50 per cent, the study shows the combined effect of treatment and the impact on earning potential, indicating a potential reduction in economic growth of nearly six percentage points from 2018 to 2100. Caring for sick family members can also prevent caregivers from working, further disrupting the economy.

FIGURE 3 The Demographic Dividend under Alternative HIV Scenarios, 2000–2100



SOURCE: Own calculations, Lesotho Bureau of Statistics (2021a, c, e); United Nations (2019, 2021); World Bank (2022).

NOTE: The demographic dividend presented here is constructed based on constant gender-specific labour income profiles combined with gender-disaggregated population projections. This is slightly different to the baseline projections using the medium fertility variant, which uses labour income profiles and population projections for the population as a whole.

5 **Implement policies to support educational recovery and health monitoring post-COVID-19 to mitigate long-term impacts on employability and future labour incomes in Lesotho**

In early 2020, the COVID-19 pandemic reached southern Africa, causing serious disruptions in employment and educational activities. COVID-19 restrictions had a negative impact on earnings and per capita income. While earning and per capita income effects will be offset in the short term, effects on the education sector and future labour market potentials are likely to be higher, as only one-fifth of families with children could engage in some learning activity. These are likely to last for some years to come and will continue to affect labour skills and per capita income. It remains unclear how other long-term effects of COVID-19, including long-COVID, will manifest in the long term.

Policy recommendations

For Lesotho to achieve the 'window of opportunities' provided by the changes in age structure, urgent attention, the establishment of strong institutions, and coordinated policies in the education and health-care systems are required.

Recommendation I:
THE GOVERNMENT OF LESOTHO SHOULD CONTINUE WORKING TOWARDS ENSURING THAT THE DEMAND FOR FAMILY PLANNING IS MET.

Strengthening and expanding access to family planning services will influence the pace of demographic transition and hence the magnitude and duration of the demographic dividend period.

Recommendation II:
INVESTMENTS IN PROVIDING ACCESS TO HIGH-QUALITY EDUCATION UNDERPIN THE ABILITY OF YOUNG PEOPLE TO ACCESS GOOD QUALITY JOBS WITHIN THE LABOUR MARKET, ENSURING THAT LESOTHO IS ABLE TO MAXIMIZE THE REMAINING OPPORTUNITY FOR A DEMOGRAPHIC DIVIDEND.

It is critical to improve and expand quality education. Investing in quality education is of critical importance for young people to ensure they are equipped with skills that are valued by employers in the labour market. Better-educated workers are

generally more likely to get jobs and to enjoy higher earnings while employed. In both instances, this would raise per capita labour incomes. In addition, improved access to education—particularly for girls—also serves to reinforce the demographic dividend by encouraging labour force participation and delaying marriage and childbearing.

Recommendation III:

CONTINUED INVESTMENTS IN HEALTH AND, IN PARTICULAR, SUSTAINED FUNDING FOR THE PREVENTION AND TREATMENT OF HIV AND AIDS IS CRITICAL TO ENSURE THAT THE DEMOGRAPHIC DIVIDEND IS NOT SUBSTANTIALLY ERODED BY ILLNESS AND DEATH.

HIV and AIDS is a critical health challenge in Lesotho, as in many countries in the region, and the pandemic's management requires a significant resource commitment from the government on an ongoing basis. Therefore, the need to sustain funding for the prevention and treatment of HIV and AIDS is critical to ensure that the demographic dividend is not substantially eroded by illness and death.

Recommendation IV:

EFFORTS TO CLOSE EDUCATION BACKLOGS ARE CRITICAL IN MODERATING THE LONG-TERM IMPACTS OF THE COVID-19 PANDEMIC AND ENSURING THAT THOSE GENERATIONS CURRENTLY IN THE EDUCATION SYSTEM DO NOT BEAR A DISPROPORTIONATE COST.

Efforts to close any education backlogs are critical in moderating the long-term impacts of the COVID-19 pandemic and ensuring that those generations currently in the education system do not bear a disproportionate cost.

Recommendation V:

THE GOVERNMENT OF LESOTHO SHOULD IMPLEMENT POLICIES THAT EFFECTIVELY ADDRESS BOTH HIGH UNEMPLOYMENT RATES AMONG YOUNG PEOPLE AND GENDER GAPS IN LABOUR INCOME.

Policies that aim to improve the labour market for young people are shown to have a marked impact on the magnitude of the demographic dividend, narrowing the gap between young people in Lesotho and the rest of the world between 2018 and 2040. Similar effects can be seen in terms of addressing gender inequalities within the labour market. Thus, narrowing the gender gap in per capita labour incomes between males and females by 25 per cent between 2018 and 2040 is shown to generate a cumulative dividend of 23 per cent from 2020 to 2060.



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