



**LATEST DEVELOPMENTS IN PRODUCTION AND PRICES OF FOOD COMMODITIES:
A REVIEW AND PREVIEW OF GRAIN PRICES**

Background

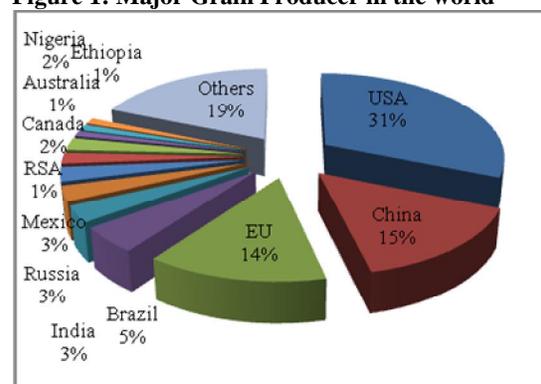
Food is the most basic necessity for mankind to survive on earth and current production levels are not enough for the world population as 1.02 billion people are undernourished and suffer from hunger. This is about 15 per cent of the estimated world population of 6.8 billion. The major contributors to this staggering statistic are Asia and the Pacific together with Sub-Saharan Africa. Production and price levels have been volatile in recent years. The 2008 price boom spurred planting and production of many food crops, resulting in a recovery in inventories and boosting stock-to-use ratios. These increasing world supplies turned the situation around in 2009/10 because they were the leading factors behind the sharp declines in international prices of major food staples.

However, the second half of 2010 witnessed several catastrophic events that may result in lower than anticipated production levels and hence a possible rise in price levels going forward. Some major producers have experienced dryness, some have been hit by wild fires and some realised excessive rains and flooding. These developments imply that the world production and yield of grains is certainly going to be lower than anticipated. Demand on the other hand is increasing along with the world population growth rate. As the “law of demand and supply” asserts, this envisaged imbalance between demand and supply may be compensated for by the price increase, as has been the case since July 2010.

The State of Food Production in the World

The main categories of foods are classified by their type, nutritious values, and their shares of world production. These are: cereals (mainly wheat, maize, rice, oilseeds and sugar); meat; dairy products; and fishery products. Cereals (particularly grains) are the highest produced food items in the world and form staple foods in most countries. Grain and other food prices are set based on demand and supply in the global food markets. Therefore, prices are determined by major food producers and traders in the world. Figure 1 below presents the shares by the leading countries in grain production.

Figure 1: Major Grain Producer in the world



Source Data: FAO

The US has the largest harvest in grain production and contributes about 31 per cent of the world production at 346 million metric ton (mmt). China, EU, Brazil, India, Russia and Mexico are the other countries which contribute significantly to the world grain production. In Africa, Nigeria, South

Africa and Ethiopia are the leading grain producers with just 2.3 per cent, 1.2 per cent and 1.0 per cent, respectively. These are very small shares and their contributions to global price variations are almost negligible.

Cereal Market

Table 1 presents the world cereal balance sheet and FAO's food price indices. Production of cereals was increasing rapidly up to 2008/09 but it is estimated to have declined by 0.9 per cent in 2009/10 and forecasted to decline further by 1.0 per cent

in 2010/11. The expected decline is mainly driven by several floods, dryness and fires which recently occurred in some of the main cereal producing countries. Russia experienced the worst drought in 130 years and numerous fires which destroyed 25 to 30 per cent of all their crops. Pakistan, Germany and Canada, on the other hand experience flooding which not only destroyed their agriculture fields, but also killed some livestock. Dryness has also become a worrying factor in USA, China, Argentina, Australia and South Africa.

Table 1: World Cereal Balance Sheet and Price Index

	2006/07	2007/08	2008/09	2009/10 <i>Estimates</i>	2010/11 <i>Forecast</i>	Change: 2010/11 over 2009/10
WORLD BALANCE SHEET						
	<i>Million tonnes</i>					<i>%</i>
Production	2050.3	2131.8	2282.2	2261.0	2239.5	-1.0
Wheat		611	685.8	682.4	650.0	-4.7
Maize			771.2	821.1	842.0	2.5
Rice		440	458.2	454.0	467.5	3.0
Trade	247	272.6	282.3	264.8	262.2	-1.0
Total utilization	2033.5	2120.2	2187.3	2223.4	2268.1	0.5
Ending stocks	471.5	444.6	510.4	528.1	532.8	-3.0
SUPPLY AND DEMAND INDICATORS						
Per capita Food Consumption			152.2	152.1	152.6	0.3
World stock-to-use ratio	22.8	20.2	23.2	24.0	23.0	-4.2
	2006	2007	2008	2009	2010	
FAO Price Indices						
Food Price Index	122.4	154.1	190.9	151.5	188.0	24.1
Cereal Price Index	123	167	238	174	208*	19.5
Meat Price Index	106.7	112.1	128.3	117.7	138.0	17.2
Dairy Price Index	128.0	212.4	219.6	141.6	198.5	40.2

Source: FAO

*September 2010

These activities will lead to lower trade as countries like Russia have subsequently banned exports of grains for the next two years. Contrary to lower production, total utilization is expected to increase against lower stocks which are forecasted to be depleted by 3 per cent. Per capita food consumption is also expected to increase and lower stocks are forecasted to push down the stock-to-use ratio by 4.2 per cent. The final impact of all these activities is

expected to be compensated for by a price increase and the FAO's cereal price index has been increasing since July. In September the index closed at 19.5 per cent higher than 2009. In addition, there remain many uncertainties with respect to demand. A faster recovery in the world economy than currently envisaged may foster stronger growth in animal feed and ethanol production, a development which would

support world prices as the season progresses.

Wheat Market

World wheat production is currently forecast to reach nearly 650 million tonnes, boosted by favourable weather in recent weeks. However, the forecast world wheat production would still be 4.7 percent down from 2009 mostly reflecting the sharply reduced output in the major wheat producing countries, the Russian Federation, as well as in the EU and North Africa. The growth in food use is likely to keep pace with the average population growth and food consumption could total 467 million tonnes. Based on the latest production and utilization projections, the forecast for world wheat ending stocks in 2011 are down 9 percent from their 8-year high opening level. The stock-to-use ratio for wheat in 2010/11 is currently put at 27.7 percent, down 2.5 percentage points from the previous season but 5.5 percentage points higher than the 30-year low registered in 2007/08.

Grain Market

Global production of coarse grains is forecast to reach 1,122 million tonnes, slightly below the previous year's level. World maize production is forecast to reach 842 million tonnes, up 2.5 percent from the previous year's level. Both the US and China (the largest maize producers in the world) are expecting a record high crop production this year. By contrast, world production of barley is likely to register a sharp drop of almost 14 percent, this year, to 130 million tonnes, the lowest level in almost four decades. This is mostly the result of a sharp drop in production in the major grain producing countries, mostly due to unfavourable weather conditions.

Food use of coarse grains is forecast to grow by nearly 2 percent to 195 million tonnes, with the bulk of the increase occurring in the Sub-Saharan region of Africa following this

year's expected increase in production. The industrial usage of coarse grains is also anticipated to expand further, albeit at a slower rate than in the past few years, mostly on expectation of a deceleration in maize-based ethanol production in the United States. However, other countries that previously registered big surpluses, like South Africa, are contemplating the exploration of maize-based ethanol production. The world's stocks-to-use ratio for grains in 2010/11 is expected to fall just below 18 percent, 1 percentage point below 2009/10.

Rice Market

After a brief rebounding late last year, international rice prices resumed a downward trend in the first five months of 2010, reflecting sluggish import demand and ample supplies in exporting countries. Despite some setbacks that impaired crops in Pakistan, where floods have caused havoc in the Punjab and Sindh, the forecast of global rice production in 2010 points to 467 million tonnes, representing a 3 per cent growth, a new record low growth rate. Pakistan is the fourth largest producer of cereals in Asia behind China, India and Indonesia.

Meat and Meat Products Market

A brisk expansion in poultry and pig meat is expected to boost growth in overall meat production in 2010. Herd rebuilding, however, will constrain bovine and ovine meat outputs. World trade in meat is anticipated to stagnate in 2010, although pig meat exports may recover slightly. Low supplies are likely to limit trade growth in bovine and sheep meat while prospects for trade in poultry products are uncertain because of a tightening of import restrictions.

International Prices of Food Commodities

International wheat prices continue to rise. In August 2010, markets reacted to the

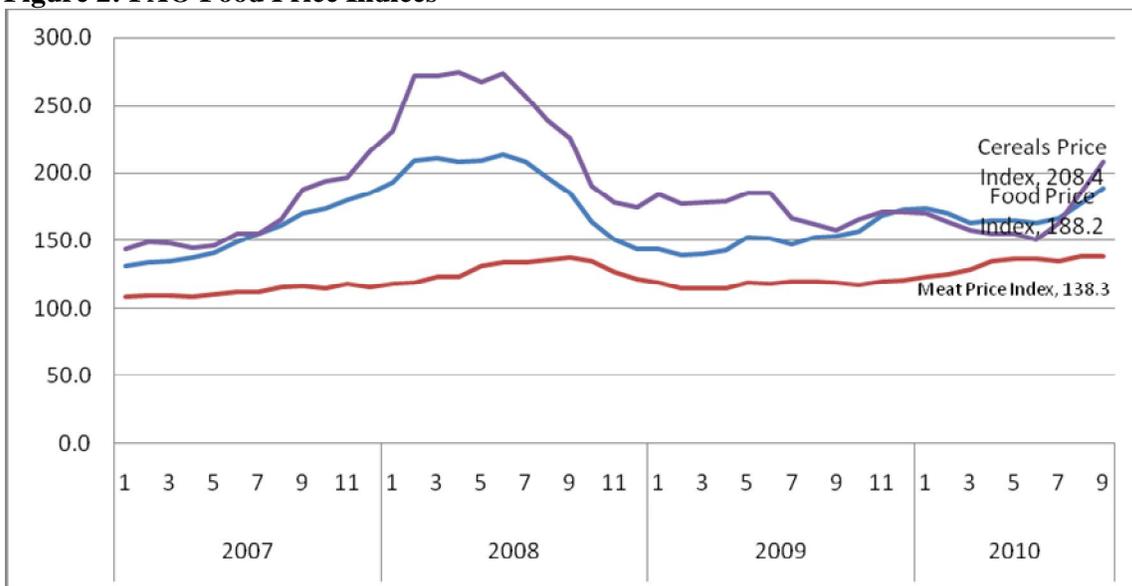
introduction of an export ban in the Russian Federation to last from mid-August until 31st December 2010. An announcement on the 2nd September 2010 that the ban could remain in place until the next harvest in 2011 fuelled further increases in world prices. In the first three weeks of September this year, the price of United States' wheat averaged USD 309 per tonne, up 55 percent from the September average last year. Wheat prices are however still 36 percent below March 2008, when they peaked to an all-time high (in nominal terms).

Grain prices have also increased significantly since July and barley prices rose the sharpest. At over USD 250 per tonne, barley prices (feed barley) have nearly doubled from last year. The increase in maize prices accelerated during the second half of August 2010 and into September 2010, especially after the downward adjustment to the forecast for maize production in the United States. In the first three weeks of September 2010, the price of United States' maize averaged USD 204 per tonne, the highest since September 2008 but still 27 percent below the peak reached in June 2008.

Prices in the futures market have also increased sharply and by the third week of September 2010, the maize futures for December 2010 delivery stood at USD 199 per tonne, up 30 percent since the start of July 2010. Speculation also plays a big role in determining prices in the futures market. Major investment funds are investing heavily in grains basically for speculative purposes. That seems to be escalating the demand and prices further.

After several months of relative stability, rice prices gathered strength between June and August 2010, especially, in September 2010, when the FAO Rice Price Index averaged 232, up from 217 in August of the same year. The upward pressure on world rice prices intensified in September 2010, on concerns over the impact of floods in Pakistan, which in 2009, had become the third largest international rice supplier on par with the United States. Rice prices were further underpinned by high international quotations for wheat, which encouraged a shift of importers towards rice. According to the FAO Meat Price Index, world meat prices were, on average, 12 percent higher in the first three months of 2010 than in the corresponding period of 2009.

Figure 2: FAO Food Price Indices



Source: FAO

Figure 2, is the graphical representation of the FAO's food price indices since 2007 to September, 2010. The first half of 2007 witnessed the highest food price levels and it is also discernible that there have been sharp increases since July, particularly the general food price and cereal price indices. Cereal price index was up 37.8 per cent, general food price index was up 15.8 per cent, whereas, the meat price index witnessed a modest 1.3 per cent increase.

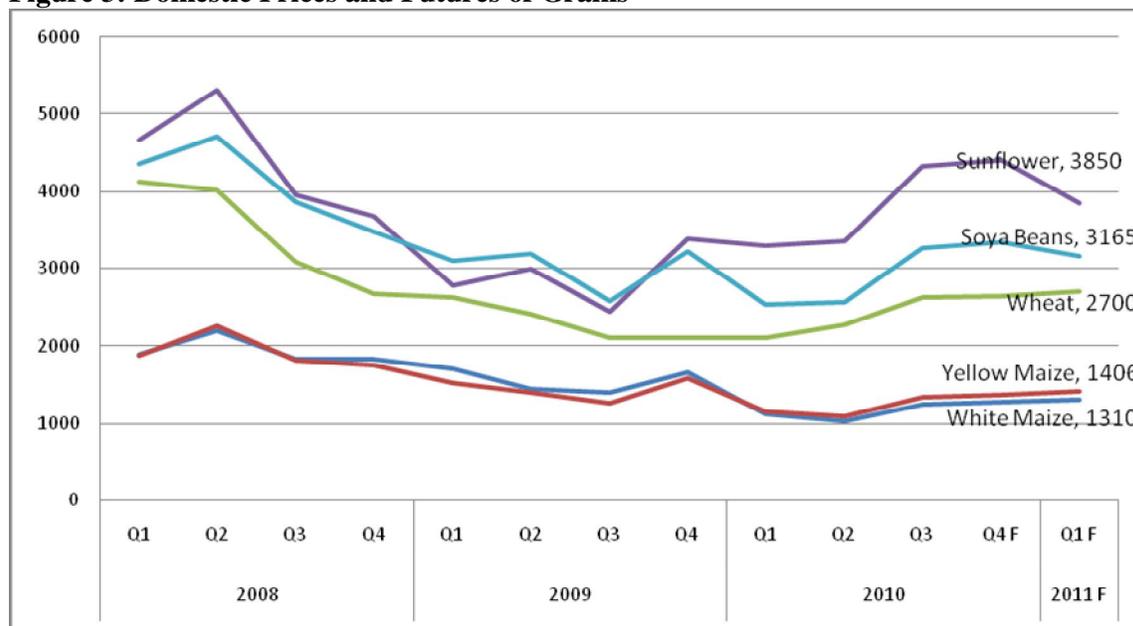
Domestic Grain Prices

Agricultural activity in Lesotho is mainly dominated by subsistence farming and does not meet the domestic requirements for grains. South Africa is the main producer of grains in the region while Lesotho, like most

countries in the region, imports much of its grains from South Africa. Maize is the staple food in Lesotho and hence it is the most produced food commodity, followed by sorghum, wheat, beans and peas.

Food prices in South Africa and in the region followed the trends in international food prices as already pointed out. However, the strengthening of the Rand against the US Dollar has offset the sharp increases realised in the international market. Sunflower seeds and sugar beans and wheat have risen sharply at the start of the second half of 2010 but are projected to slow down as shown on Figure 3. Both white and yellow maize showed the slightest increase and is projected to maintain the same trend going into the first quarter of 2010.

Figure 3: Domestic Prices and Futures of Grains



Source: SAFEX
F – SAFEX Futures

Although it is still early to panic, these developments in grain and other food prices will certainly shake the current low inflationary environment. Inflation rates in September for Lesotho and South Africa were 3.3 and 3.2 per cent, respectively. Food and non-alcoholic beverages category takes a large share of Lesotho's and SA's CPI

basket. The recent food price increase may push up inflation in general and the low prevailing inflation rates may be the lowest in this cycle. Higher food prices will also have a big impact on the already high levels of poverty in Lesotho.

Conclusion

The price levels of food commodities in general are most certainly bound to rise both in the domestic and international markets. However, these prices are still significantly below the 2008 price boom. Furthermore, certain conditions which were prevailing then are on the opposite side now. For instance, a relatively lower inflationary environment, cheaper oil prices and a significantly stronger Rand.

Going forward, there are several factors that pose the upside risks to food prices. These include the increasing electricity tariffs, wages and ocean, rail and road transport rates for grains. The long queues and slow entry into the borders also pose a threat as road transporters are considering adding demurrage charges for long waits.

2010 Ibrahim Index of African Good Governance: Lesotho Maintains the Top Ten Position

Overview

The Ibrahim Index of African Governance (IIAG) is a ranking of African countries according to governance quality. The Index was created in recognition of the need for a robust, comprehensive and quantifiable tool for citizens and governments to track governance performance in Africa. It is published by Mo Ibrahim Foundation, which is an organization committed to supporting good governance and great leadership in Africa. The assessment of good governance is based on the delivery of public goods and services to citizens by governments and non-state actors across 88 indicators. Ibrahim index uses indicators across four main categories, which include:

- ❖ Safety and Rule of Law;
- ❖ Participation and Human Rights;
- ❖ Sustainable Economic Opportunity; and
- ❖ Human Development.

These categories are used as proxies for quality of processes and outcome of governance. The Foundation first published the index in 2007, at the back of realization that for Africa to be solving the problem of

poverty and other economic ailments, governance could play a major role.

The purpose of this article is to highlight recent trends in Ibrahim index (A measure of governance) for selected African economies. It will also touch on the relationship between governance and economic growth and the Ibrahim index for Lesotho. It will lastly highlight implications/policy recommendations for the economy of Lesotho.

Trends in 2010 Ibrahim Index for Selected African economies.

As mentioned earlier, the index ranks African countries according to their level and quality of governance. The highest ranking country is the one whose government and the private sector have delivered the best services and public goods to its citizens. In this regard, Mauritius is the first ranking country among the 53 countries according to the Ibrahim index, scoring a total of 82 points. Nonetheless, in one pillar namely, human Development, Seychelles, which is the second ranking country overall, took the first stage, with a score of 83.0 points compared with 75.0 points scored by Mauritius.

Other countries that appear in the top ten ranking of good governance include: Botswana (3-74.2); Cape Verde (4-73.8); South Africa (5-70.2); Namibia (6-66.6); Ghana (7-63.9); Tunisia (8-60.3); Lesotho (9-59.7) and Egypt (10-59.0), {where the first number represents the rank and the second one separated by hyphen is the

score}. Table 2 below shows the ranks as well as the scores of the top ten countries whose governance is commendable according to the Ibrahim Index for 2010. Different pillars of governance are also included in order to capture the country's specific areas of strength in governance.

Table 2: Ibrahim Index and the Four Pillars of the Governance

Rank	Country	Overall Score	Safety and Rule of Law	Participation and Human Rights	Sustainable Economic Opportunity	Human Development
1	Mauritius	81.8	90.2	77.5	84.2	75.3
2	Seychelles	74.5	80.8	68.7	66.0	82.5
3	Botswana	74.2	88.0	69.1	69.8	69.9
4	Cape Verde	73.8	83.9	79.7	66.8	64.9
5	South Africa	70.2	71.7	73.4	65.3	70.5
6	Namibia	66.6	80.4	65.7	63.5	56.9
7	Ghana	63.9	74.8	67.9	53.5	59.7
8	Tunisia	60.3	63.6	37.7	65.9	73.9
9	Lesotho	59.7	69.8	67.8	51.7	49.6
10	Egypt	58.9	67.4	35.3	65.7	67.5

The linkages between Governance and Economic Growth; Views and Perspectives

Economists as well as policy makers across the globe often agree that good governance is the precursor for economic growth and thus development. They argue that good governance is the single most important factor in promoting economic growth and fostering poverty eradication. For example, Kaufman and Kraay (2002) have found a positive relationship between the two variables. They observed that good governance constrains the actions of corrupt officials and reduced corruption, thereby stimulating technological change and encouraging economic growth. This is because the national resources that are in the hands of these individuals would be discharged efficiently.

Good governance is generally thought of as the exercise of economic, political as well as administrative authority to manage the country's affairs at all levels (UNDP, 1997). Good governance is regarded as a vehicle through which all of a country's resources are harnessed effectively and fairly in order to translate in improved quality of life for its people.

Furthermore country specific studies show that good governance is the main driver of economic growth and human development. For example, taking Poland and Hungary after the fall of Berlin Wall, it can be noted that the growth rates improved owing much to the political freedom given to these countries. Between 1990 and 2000, GDP growth rates increased from a negative 3.5 per cent to 5.2 per cent annually. Inflation rates also fell from around 30.0 per cent to a

single digit of around 9.0 per cent during the same period and fertility rates decreased from 1.8 births per woman to 1.3 births per woman. Poland also followed the same trend during the same.

Nonetheless, it should be noted that governance is the key determinant of economic growth and human development insofar as the quality of institutions is improving. In addition, it is very important to also take into consideration that compromising some of the governance indicators cannot by itself lead to slow or negative growth rates. For example, some of the South East Asian countries like Singapore have demonstrated high rates of economic growth despite the fact that it restricted political and civil rights.

Ibrahim Index for Lesotho

In the year 2007/2008, Lesotho scored 61.2 points out 100 and was ranked ninth out of 53 African countries. Within the Southern African region, Lesotho ranked fifth and was above the regional average which was 58.1 points. At the continental level, she scored above average 51.2 points and also scored above the continental average in the categories of Safety and Rule of Law, Participation and Human Rights, and Sustainable Economic Opportunity. Nonetheless, Lesotho scored low in the

category of Human Development. This year, Lesotho ranked ninth in the overall index. It has over half a decade been among the top ten performers in good governance. On Safety and Rule of Law, she ranked eighth, seventh in Participation and Human Rights. Nonetheless, Lesotho failed to rank higher on Sustainable Economic Opportunity and Human Development.

Conclusion

As mentioned earlier, good governance is a very vital tool in economy growth and human development. Countries like Botswana have been hailed as the most well governed countries in the Southern African Region and this has led to the reaping of economic benefits. This is mainly due to reduced level of corruption at the national level and increased levels of participation and human rights. This is a challenging phenomenon to Lesotho to imitate and copy what her sister is doing. In particular, Lesotho should strengthen those pillars such as Safety and Rule of Law; and Participation and Human rights. It should ensure that in those in which she failed, the belts are tightened and make sure the institutions responsible for these pillars are unshakable. This will lead her towards the path of sustainable growth and hence human development