Economic Review February 2012

Lesotho's 2011/2012 Crop Forecasting

Lesotho's food security is under threat………..

Introduction

The Lesotho Bureau of Statistics (BOS) launched its projections of Lesotho's production of three major food crops, maize, sorghum and wheat for the 2011/2012 agricultural year. These forecasts gave estimates of the yield that was likely to be realized after harvesting the crops. To come up with the forecasts all known facts about factors that affect production were taken into consideration and some assumptions regarding, *inter alia*, the weather and damage by pests were made. The forecasts provided early indications of food security and relevant information for the authorities to make the necessary plans regarding food availability.

This article attempts to highlight the pattern of food production in Lesotho, showing recent trends in the food production process and the forecasts of crop production in the country. It also assesses the impact of diminishing food production on the economy of Lesotho.

Recent Trends in Area Planted

The total area planted is one of the determinants of total crops production. Area planted to the three major crops in Lesotho varies considerably from year to year. A decline of 8.4 per cent in area planted with the three major crops was experienced in 2008/2009 agricultural year compared with the previous year. An improvement was observed in the two subsequent years, which were followed by a much steeper decline of 38.6 per cent in 2011/2012 agricultural year. The improvement in 2009/2010 could be attributed to the Block farming initiative through which Standard Lesotho Bank provided government guaranteed and subsidised loans to farmers since 2006/07 when the scheme was launched. The scheme was cancelled ahead of the 2010/2011 farming season as a result of non-payment of contracted loans by farmers.

Table 1: Area Planted to Different Crops in Hectares

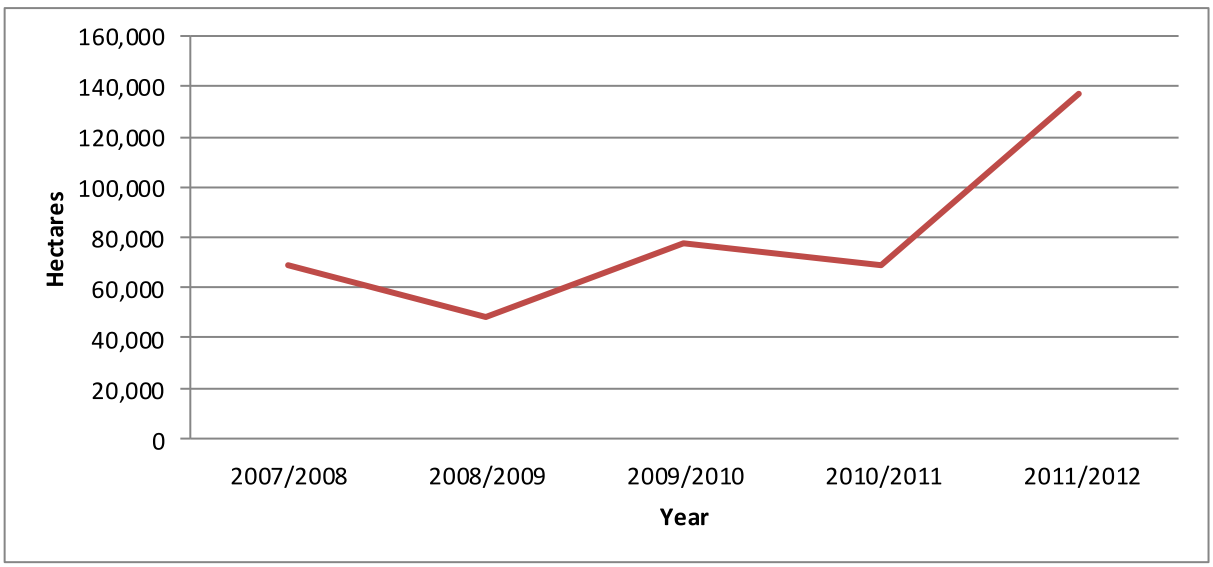
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Maize	146,863	141,607	151,718	153,348	97,711
Sorghum	36,572	19,090	35,612	28,296	14,151
Wheat	15,522	21,500	14,088	20,436	12,170
Total	**198,957**	**182,197**	**201,418**	**202,080**	**124,032**

Source: Bureau of Statistics, Lesotho

The decline in area planted in a particular year is matched by an increase in the area that stays fallow and vice versa. As demonstrated in figure 1 below, a considerable amount of arable land was not planted with any crops in 2011/2012.

What is more worrying is that the area of fields that goes unplanted has increased from year to year. This results in considerable declines in food production hence food security in Lesotho.

Figure 1: Area that lay fallow in Hectares



Source: Bureau of Statistics, Lesotho

Trends in Crop Production and Forecasts

The crop forecasts indicated a considerable decline in the output of major crops in 2011/2012. As depicted in Table 2 below, declines of 77.1 per cent, 60.7 per cent and 47.6 per cent were expected for maize, sorghum and wheat, respectively, indicating a remarkable deterioration in output in the 2011/2012 agricultural year compared with the previous year. This was not a new phenomenon in Lesotho but rather an indication that agricultural food production was continuing to deteriorate. This was substantiated by the findings of the 2009/2010 Agricultural Census, which indicated that agriculture production, particularly production of major crops and livestock, deteriorated significantly between the previous two census years and 2009/2010. The 2009/2010 Census results indicated a substantial decline in the production of crops, with all types of crops registering a decline compared with their levels in 1999/2000, except wheat, which rose by 56.7 per cent.

Table 2: Crop Production in Metric Tonnes and Forecasts for 2011/2012

	2007/2008	2008/2009	2009/2010	2010/2011	Forecasts 2011/2012
Maize	59,650	57,126	128,215	73,441	16,786
Sorghum	10,189	10,151	23,829	4,839	1,901
Wheat	2,411	4,901	20,119	20,065	10,516
Total	**72,250**	**72,178**	**172,163**	**98,345**	**29,203**

Source: Bureau of Statistics, Lesotho

The expected contraction in the output of crops in 2011/2012 was attributable to a number of factors. While the previous year's production was adversely affected by heavy rains, storms and floods, the 2011/2012 agricultural season started with a prolonged drought that discouraged many farmers from engaging in agricultural production. In addition, it followed the year in which loans for farmers under the block farming initiative were suspended. Moreover, there were a number of other structural factors that constrained agricultural production in Lesotho. These included, limited availability of arable land, declining soil fertility, erratic and unfavorable climatic conditions, particularly rain fall, poor agricultural production technologies and practices, uncontrolled grazing and the associated deterioration in the quality of rangelands, theft of livestock and crops, high production costs, lack of capital and lack of irrigation facilities and disease outbreak in case of livestock production.

Implications of the Dwindling Food Production for Lesotho

The deterioration in agricultural food production has a number of implications. Firstly, it means that an increased share of the population will be exposed to hunger and malnutrition thus making it difficult for Lesotho to attain the millennium development goal (MDG) of poverty reduction. The dwindling agricultural sector and the decline in area planted from year to year could worsen poverty in a number of ways. These include the decline in farmers' income from the sale of agricultural produce. Unemployment will also increase as the demand for labour per hectare will fall with the decline in area planted.

The economic contribution of the agriculture sector has also deteriorated significantly over the years. Agriculture's contribution to gross domestic product (GDP) has declined from 25.0 per cent in the 1980s to around 10.0 per cent in the

1990s and further to single digit rates in recent years. The projected decline in food production in 2011/2012 must have resulted in further deterioration in the sector's contribution to GDP. In addition, the deterioration in production over the years has resulted in a situation where Lesotho produces only 30.0 per cent of its food requirements and the deficit has to be imported. This puts negative pressure on the country's balance of payments (BOP) position. The pressure is going to be even more severe this year because of the much steeper projected decline in food production. Government usually intervenes in times of crisis by providing food subsidies and/or engaging in cash or food for work programs to protect the poor and vulnerable from the effects of food shortage. This usually results in increases in government expenditure and should government intervene in one form or another this type of fiscal costs would arise.

Conclusion

Lesotho's agricultural production has deteriorated considerably over the years. The projections have indicated a further and steeper decline in 2011/2012. This does not augur well for food security and poverty reduction in Lesotho. In addition, the sector's contribution to economic growth has been contracting from year to year. The decline in food production has resulted in mounting pressure on Lesotho's BOP position as more and more food has to be imported to meet the national requirement. This clearly calls for the revival of Lesotho's agricultural sector so that it could make a meaningful and sustainable contribution to poverty eradication and economic growth.

The largest share of Lesotho's population resides in the rural areas and the majority of them, estimated at 80.0 per cent rely heavily on agriculture for their livelihoods. Improved agricultural production could contribute to poverty reduction in several ways. These include, income growth for farmers, including small holder farmers residing mainly in the rural areas, increased employment brought about by increased demand for labour per hectare due to increased area cultivated and/or frequency of cropping, the positive impact of production links brought about by the demand for inputs and services by farmers and the demand for processing, storage and transportation of produce. At the macro level, increased agricultural output could lead to lower food prices, increased export earnings and reduced import bill, thus contributing to GDP growth.

Assessing Fiscal Capacity for Economic Resilience in Lesotho after the Global Financial Crisis

The country's ability to finance its large deficits without creating abrupt macroeconomic reversals can lead to resilient economic growth ………………………………………………………………

Introduction

In the run up to the recent global financial crisis, a large number of emerging market economies and developing countries had commendable macroeconomic performance. The growth rates of most developing countries were very strong and emerging market economies were challenging the pattern of the global economic developments as they gained more prominence in global output. On the fiscal and external fronts, a sizeable number of countries had surpluses in their budget balances and external current account positions. Nonetheless, the emergence of the global financial crisis due to the collapse of the U.S subprime mortgage market late in 2007 changed this landscape. The dire consequences of the global financial crisis were mainly reflected in the slump in global trade and output followed by increases in external current account deficits, fiscal deficits and government debt.

Advanced and emerging market economies, as well as developing countries took several steps to mitigate the impact of the crisis. Most of the countries engaged in fiscal stimulus packages, trade policy changes and regulatory reforms, inter alia. Some of these economies did not have adequate resources to fight the crisis and started to engage in extensive borrowing either from their domestic markets or from the international financial markets.

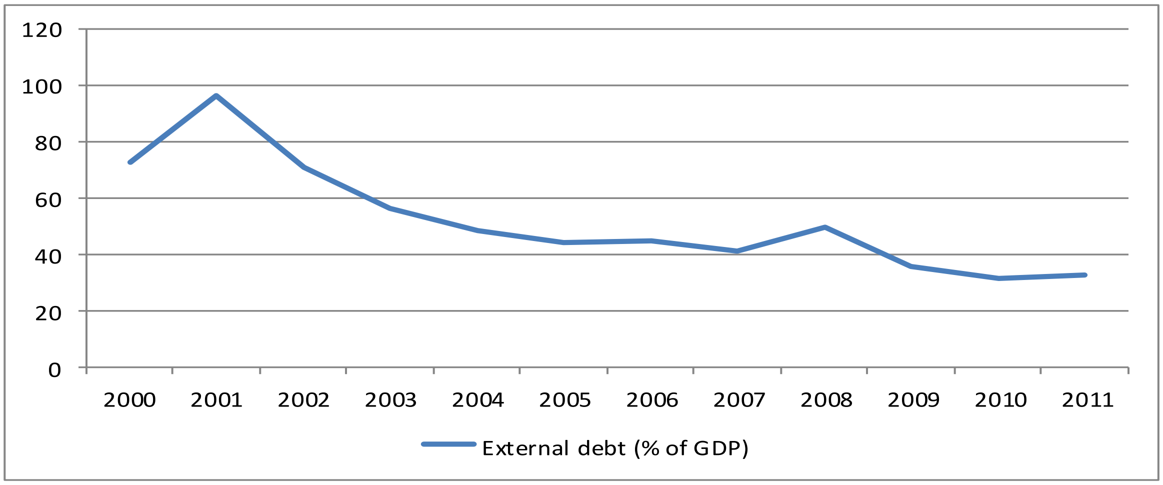
The global financial and economic crises have tested the fiscal capacity - ability to finance large fiscal deficits without jeopardizing macroeconomic stability and debt sustainability of the world economies. In the aftermath of the crisis, the foreign exchange reserves that some of the countries had accumulated before the crisis dwindled and fiscal balances deteriorated. These, together with the surge in government debts have reduced the ability of countries to engage in deficit spending without jeopardising macroeconomic stability and debt sustainability. As part of the global village, Lesotho was also negatively affected by the global financial crisis. Exports and output contracted. Government revenue, particularly the South African Customs Unions (SACU) revenue dwindled resulting in deterioration in Lesotho's fiscal position from surpluses during the decade leading to the crisis to deficits in the aftermath of the crisis. Thus this article attempts to assess Lesotho's fiscal capacity in the aftermath of the global financial crisis by reviewing trends in fiscal capacity indicators. Policy recommendations for increasing fiscal capacity in Lesotho are also provided.

Trends in fiscal capacity in Lesotho

A number of indicators that have been used in many studies are employed here to assess Lesotho's fiscal capacity. These measures of fiscal capacity include the external debt, fiscal balance, external current account balance, level of savings and international reserves.

External Debt: The country's level of debt is an important indicator of fiscal capacity. The high and increasing level of external debt raises issues of sustainability and concerns regarding the country's ability to service its debt. It could have negative implications on the exchange rate and macroeconomic stability.

Figure 2: External debt-to-GDP ratio for Lesotho, 2000-2011



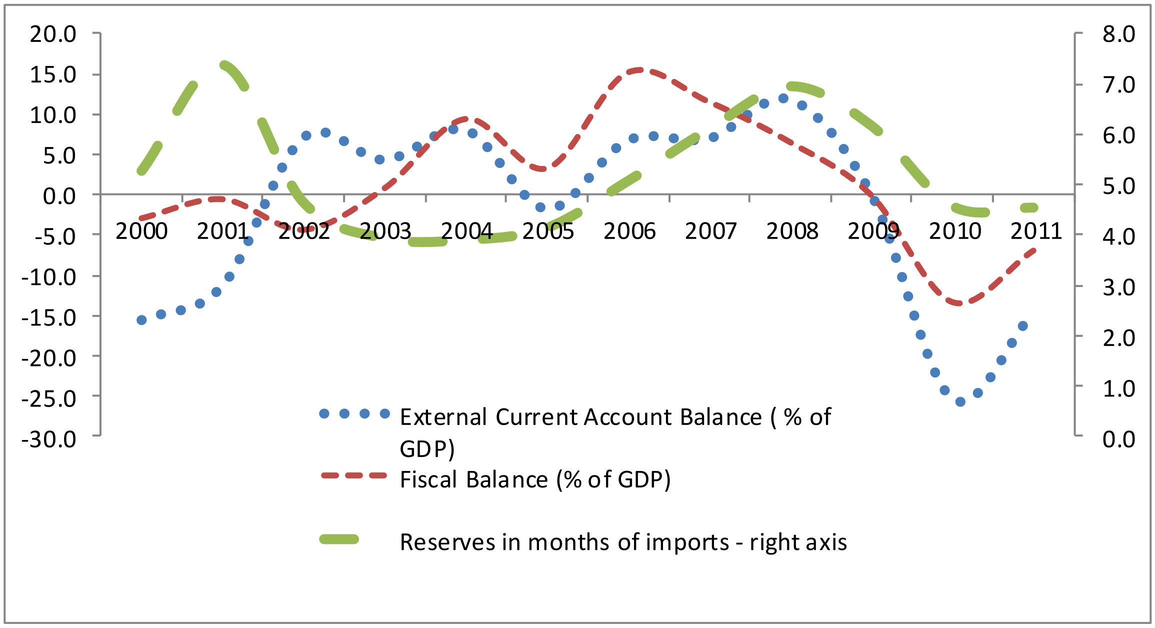
Source: Central Bank of Lesotho estimates

Figure 1 above shows Lesotho's degree of external indebtedness measured by the ratio of government external debt to GDP. The external debt-to-GDP ratio declined substantially from 96.5 per cent in 2001 to 32.6 per cent in 2011. External debt is generally countercyclical, that is, it grows during economic downturns and falls during booms. The improvement in Lesotho's external debt between 2001 and 2007 reflected the favourable macroeconomic conditions that prevailed during that time. Real GDP grew at an average rate of more than 4.0 per cent per annum; external current account registered a surplus of 5.2 per cent of GDP on average, while the fiscal surplus increased from 0.8 per cent of GDP in 2003 to 11.5 per cent in 2008.

Fiscal Balance: The country's fiscal balance is another important indicator of fiscal capacity. It can show when the deficit financing of a country becomes a cause for concern for macroeconomic stability. In Lesotho, the fiscal sector recorded surpluses of 0.8 per cent of GDP in 2003/2004 to 6.5 per cent of GDP in 2008. The large fiscal surpluses recorded in 2006 and 2007 were mainly due to significant SACU receipts and increased tax revenue.

Nonetheless, the economic picture changed in 2009 and in the following years as the impact of the global financial crisis intensified. Government's total expenditure increased in 2009/2010 while total government revenue declined. As a result, the fiscal balance deteriorated to deficits of 13.3 per cent of GDP in 2010 and 7.0 per cent of GDP in 2011. Unlike government debt, fiscal balances are generally procyclical, that is, they fall during economic downturns and rise during economic booms.

Figure 3: Import Cover, Fiscal and External Current Account Balances (% of GDP) 2000-2011



Source: Central Bank of Lesotho estimates

The External Current Account Balance: This macroeconomic indicator is also critical for building the fiscal capacity of a country and the overall economic resilience. An external current account surplus implies an increase in foreign exchange earnings while a deficit implies a drawdown of foreign currency reserves of a country. On average, Lesotho's external current account recorded a surplus of 6.2 per cent of GDP per annum between 2002 and 2008 (figure 2 above). This was mainly due to improved performance of the textiles and clothing manufacturing sub-sector, hence increased exports and the continued significant receipts from the SACU revenue pool. However, on account of the global economic slowdown and the decline in world trade during the crisis, the current account recorded a deficit of more than 20.0 per cent of GDP in 2010 and 14.6 per cent of GDP in 2011.

Gross savings: High levels of savings augment available domestic resources thereby increasing a country's resources that could be used as a buffer in times of economic shocks. The level of national gross savings can increase the productive capacity of a country as they can be used to finance productive investment which is necessary for economic development. On average, Lesotho's gross savings as a percentage of GDP was 25.7 per cent between 2004 and 2008. It declined by 17.0 percentage points between 2008 and 2010.

The increase in gross savings as a percentage of GDP prior to the global economic crisis reflected the impact of significant SACU revenue receipts and increased tax revenue, amongst other things. Nonetheless, the global financial crisis drastically changed this landscape and gross national savings declined from 27.8 per cent of GDP in 2008 to 10.8 per cent of GDP 2010.

Foreign Reserves: The stock of international reserves held by the central bank or monetary authority of a country determines its liquidity position and is an indication of the extent to which a country can repay its foreign debt and finance its imports. A sufficient level of foreign reserves may strengthen the country's ability to weather the effects of economic shocks.

Lesotho's total reserves in months of imports cover increased from below 4.0 months in 2003 to 7.0 months in 2008 (figure 3 above). This was mainly due to the rise in exports especially exports of clothing and textiles and significant receipts from the SACU revenue pool. During the same period, diamond exports increased and also contributed to the rise in reserves. Nonetheless, the onset of the global financial crisis dealt a heavy blow on the reserves, leading to their deterioration from 7.0 in 2008 to 6.2, 4.6 and 4.5 in 2009, 2010 and 2011, respectively. The deterioration was at the back of a significant drop in SACU receipts in 2009 and 2010 and the drawdown of government deposits at the Central Bank of Lesotho to finance the budget deficit.

As mentioned above, the accumulation of international reserves stands as a good indicator of fiscal capacity of a country since reserves are used as a cushion against economic shocks in the short run. In the case of Lesotho, maintenance of an adequate level of reserves is also important for maintaining the one to one loti-rand peg.

How can Lesotho build its fiscal capacity? - Policy Options

The foregoing assessment of the indicators of fiscal capacity indicates that Lesotho's fiscal capacity has deteriorated since 2008, reflecting the negative impact of the global financial and economic crises. As the above figures show the government external debt is not a concern because it has been declining over time. However, the external current account and fiscal deficits remain a real drain on the available domestic resources, leading to a decline in savings and foreign exchange reserves. Given the deficit in the trade account and a slow recovery of the receipts from the SACU revenue pool, the country needs to undertake measures to build its fiscal capacity and strengthen its ability to minimise the effects of economic shocks.

Debt accumulation should be such that it is in line with debt workout mechanisms. That is, Lesotho should have a clear exit strategy to follow should it find itself on the brink of high debt distress. However, most of the current external debt for Lesotho is concessional and according to the IMF, Lesotho is at a moderate risk of debt distress. This does not really pose a threat in the near term but the concessionality of the debt should not be an excuse for contracting additional debt without taking the ability of the country to service it into consideration.

The Government is in the process of improving the effectiveness and efficiency of the revenue management system in Lesotho. In recent years, the Lesotho Revenue Authority has embarked on improving tax administration and compliance by automating the cashier system at border posts in an effort to boost tax collection. Fiscal consolidation measures are also being undertaken to ensure fiscal prudence and macroeconomic sustainability. However, more needs to be done to stimulate the productive capacity of the economy and increase employment so that the country's revenue sources and the tax net could expand. This is also important for reducing the heavy reliance of fiscal operations on SACU revenue.