



ORGANIZACIÓN INTERNACIONAL DEL CAFÉ
ORGANIZAÇÃO INTERNACIONAL DO CAFÉ
ORGANISATION INTERNATIONALE DU CAFÉ

ICC 106-17

14 April 2011
Original: English

E

International Coffee Council
106th Session
28 – 31 March 2011
London, United Kingdom

**Economic Crises and Commodity
Dependent LDCs: mapping the exposure to
market volatility and building resilience to
future crises**

Briefing by the representative of UNCTAD

Background

The representative of the United Nations Conference on Trade and Development (UNCTAD), Mr Mussie Deleegn, Economic Affairs Officer, Division for Africa, Least Developed Countries (LDCs) and Special Programmes, gave the attached briefing to the Council at its 106th Session on the joint UNCTAD/CFC project 'Economic Crises and Commodity Dependent LDCs: mapping the exposure to market volatility and building resilience to future crises'. The ICO is the Supervisory Body for this project. Document PJ-6/11 contains a copy of the project proposal.

**ECONOMIC CRISES AND COMMODITY DEPENDENT LDCS:
MAPPING THE EXPOSURE TO MARKET VOLATILITY
AND BUILDING RESILIENCE TO FUTURE CRISES**

BRIEFING BY THE REPRESENTATIVE OF UNCTAD

Mr Chairman, Distinguished Delegates, Ladies and Gentlemen

It is an honour for UNCTAD to be given this opportunity to brief members of the Council of the International Coffee Organization on a joint UNCTAD/CFC project: Economic Crises and Commodity Dependent LDCs: Mapping the exposure to market volatility and building resilience to future crises. The project has two major objectives: a) analysing the impact of the recent multiple crises on commodity dependent developing countries and their food security, and b) proposing policy measures for action at the national, regional and international levels to build resilience in these countries and stave them off future crises.

The issue of market volatility is a perennial concern to most commodity dependent developing countries, but more so for the most economically vulnerable group of countries that are classified by United Nations as the least developed. Of the 48 least developed countries, 33 are in Africa, 14 in Asia, and 1 in Latin America (Haiti). Two-thirds of these countries are categorized as commodity dependent developing countries, and out of 70 countries identified as low-income net food importing countries, 46 are LDCs. Clearly, this situation demonstrates the value and critical importance of issues related to commodities dependence, food security, price volatility and the need for building economic resilience in these countries. Understandably, therefore, the focus of my briefing today will be on LDCs, although most of the issues raised are also relevant for other commodity dependent developing countries.

Earlier research and policy analysis work of UNCTAD, including through its annual publication on LDCs, articulated three fundamental commodity related problématiques: first, there is international poverty trap constraining the growth and development prospects of commodity dependent countries – most of which are also LDCs. The interplay between dependence on exports of primary commodities and volatility of world commodity prices has enormous influence on economic growth and incidence of poverty, in these countries. Secondly, while the level of commodity exports from LDCs increased substantially over the years, their purchasing power remains stagnant or only increased marginally. For instance, while volume of commodity exports from LDCs increased on average by 40% between 1980s and the year 2000, the purchasing power of commodities exports increased only by about 3%.

Thirdly, primary commodity dependence amplifies poor countries' indebtedness as the fall in export earnings directly undermines their debt repayment obligations. A major conclusion of UNCTAD's research and analysis work – with direct implication to the work of commodity bodies, including the ICO – was that poverty itself affects not only economic growth but also the form of a country's pattern of trade integration with the global economy.

This does not mean that all is doom or negative in LDCs – whether they are commodity dependent or otherwise. Most of these countries have a potential that needs to be harnessed for the good of their people. The most recent work undertaken by UNCTAD reveals that, despite the many and complex obstacles they face, there is considerable scope for many commodity dependent countries to join the group of successful exporters, not only in traditional exports such as coffee, cocoa and cotton but also in non-traditional exports such as horticulture, fishing and tourism, which have significant growth potential for LDCs. Clearly, traditional and non-traditional exports are key in improving the socio-economic conditions in poor countries. Horticulture is particularly emerging as an extremely promising source of export diversification and employment creation for many countries, especially in Africa. In some countries covered by the project, about 70-80% of workers employed by horticulture estates or packhouses were female, with some impact on poverty reduction.

Changing the socio-economic landscape of LDCs for the better requires the right mix of national policies and international economic environment. *Activist but less interventionist government policies* and attractive incentives for investors, effective domestic policies and institutions, a favourable environment for private-sector led growth and targeted donor support are key ingredients for harnessing the potential and natural comparative advantages of these countries for their socio-economic progress. It is important to note that, before the global economic and financial crises, many LDCs exhibited impressive economic performance with real GDP growth averaging 6% per annum for the last five consecutive years

It is against the above-mentioned background that UNCTAD and CFC designed the current project. The project is expected to contribute to efforts to closely examine the impact of global economic and financial crises on commodity dependent countries. With this broad objective in mind, the project was launched in five countries – Benin, Burundi, Tanzania and Zambia from Africa – and Cambodia from Asia. Preliminary or initial draft reports are trickling in from four of the five countries, with interesting policy insights.

The following tentative policy lessons are common to the countries covered by the study.

- International commodity price changes (volatility) in a typical commodity dependent country can induce positive or negative shocks to the economy, depending on the direction of price movements for commodity exports and imports. When export commodity prices are high but import prices are stable or low, commodity price volatility results in a positive shock. Negative price shock occurs when export prices are low or stable but import prices tend to increase. In the case of LDCs, the case studies point out that the variation in percentage real price change is largely negative, entailing a larger negative shock to the economy. For instance, in Tanzania and Ethiopia, while agricultural price rises may imply a positive shock to their respective economies, the large petroleum crises and substantial rise in food prices imply an even larger negative price shock. The same happened to several net food exporting countries where higher export prices were not enough to cover even higher prices for agricultural inputs such as fertilizers, pesticides and fuel.
- Increasing the volume and quality of exports is a characteristic feature of all successful emerging economies in containing the negative impacts of external shocks. The case studies indicate that there are many routes to export growth and diversification in commodity dependent countries. Exports of labour intensive manufactured goods are of course the best known. Several Asian LDCs and a few African ones have experienced strong growth of clothing exports over the past decade. However, manufacturing is hardly the only path to export diversification. Rwanda's new and increasing exports of high-quality specialized coffee are an example. Horticultural exports of fruits, vegetables and flowers are another important opportunity, which a number of African LDCs have recently been exploiting with evident success.
- On food security, in some of the African countries, it appears that there is a shift in consumption patterns in favour of cheap imported food items – with negative implications for local food production and productive investment in agriculture. In Burundi, rice consumption (mainly in urban areas) is in the range of 3% total staple food consumed in the country. However, over 90% cent of the rice consumed in Burundi is produced locally. In contrast, rice accounts for 11% of the staples consumed in Benin, but is mostly imported. Similarly, in Zambia, rice consumption has now reached 7% of the total staples locally consumed but Zambia produces 75%, whereas in Tanzania, the same accounts for 9% but, like Benin, it is mostly imported. The implication of such a situation is that, during food price spike, food security problems amplify the vulnerability of the countries and, more importantly, of the

poorest segments of their population. The recent global food crisis and the policy responses including export bans and panic buying that followed are a wake-up call for many poor countries.

- Access to finance, including credit to agriculture is key in boosting the role of commodities and in ensuring food security in commodity dependent countries. However, our work indicates that in sub-Saharan Africa, where agriculture plays a dominant share in GDP and employment, local lending to the agriculture sector is only about 10% (on average). In Nigeria where agriculture contributes to about 40% of GDP of the country, direct loans to the sector from private and public banks stand at a mere 1%. In Burundi, while agriculture accounts for more than 60% of GDP and employs more than 70% of the productive labour force, government expenditure on agriculture is only about 3%. Overall total public investment in agriculture in commodity-dependent developing countries declined from 7% to 4% over the last 30 years. In the Maputo Declaration, adopted in July 2003 at the African Union Summit, although African countries pledged to devote at least 10% of their budget on agriculture, so far only a handful of countries have managed to achieve the agreed budgetary target.
- There is a general recognition that the private sector is the engine of growth and governments should support the growth and expansion of the sector. In many commodity dependent countries, however, relations between business and government are weak and, in some cases, unnecessarily adversarial. Governments in LDCs have generally done too little to enhance the role of the private sector. There have been in fact, also instances where excessive and counterproductive interventions in productive sectors undermined the role and contribution of the private sector. In almost all commodity-dependent countries, weak infrastructure, overly complex business regulations, and ineffective support agencies hold back investment and entrepreneurship. A necessary condition for sustainable growth is a national government committed to economic development. There is no blueprint for the measures such a government should adopt, as policies must be adapted to local conditions. It is essential for building public-private partnerships and more public investment in infrastructure and support services are needed.

In conclusion, the project has generated interesting findings that are useful for policy formulation. These findings and the policy recommendations thereof will be presented at a Special Event to be organized as part of the LDC IV Conference in Istanbul, Turkey. The Special Event will take place on 8 May – on the eve of the official inauguration of the Conference. At the event, developing countries and their development partners will

deliberate on the challenges and prospects of commodity dependent countries. UN agencies and other international organizations, the private sector and civil society actors will also take part in the discussions. National and international experts in the field will make presentations on the basis of country case studies. The studies will particularly assist in examining practical experiences and coping mechanisms 'on the ground' and provide policy lessons from successful experiences and best practices of different LDCs in mitigating the impact of the crises on their economies.

I thank you for your attention.