

COMMON FUND FOR COMMODITIES
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INTERACTIVE THEMATIC SESSION ON
INTERNATIONAL TRADE, COMMODITIES AND SERVICES/TOURISM

Presentation by

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The Co-Chairmen:

The Minister for Industry and Trade of Tanzania, the Honorable Mr. Iddi Simba and
The Commissioner for Development and Humanitarian Aid of the European Commission, Mr. Poul
Nielson,

Excellencies,

Ladies and Gentlemen,

During the first part of this Thematic Session on “International Trade, Commodities and Services/Tourism” we have heard about the perspectives for trade and its potential impact on development. It must be mentioned that the majority of the export trade of LDCs is commodity based. This leads us directly to the center of our current discussion.

Firstly, commodities, such as the main tropical agricultural products and certain minerals and ores, provide employment and income for hundreds of millions of people in LDCs. With regard to trade, an analysis by the World Bank demonstrated that more than 50 developing countries depend on three or fewer leading commodities for more than half of their export earnings. This is particularly so for the Least Developed Countries. Therefore, commodities form the backbone of the economies of LDCs.

Secondly, volatile prices for commodities strongly affect small producers in Least Developed Countries. Also, commodity related export dependency makes LDCs more vulnerable to external and internal shocks.

Thirdly, falling commodity prices have led to a significant deterioration in the terms of trade of LDCs over the last decades. In real terms, LDCs are receiving fewer and fewer goods in exchange per unit of their commodity exports.

Fourthly, LDCs are losing market share in world trade, despite preferential treatment and tariff reductions. This is so because producers in LDCs are disadvantaged compared to their competitors in other countries as a consequence of structural weaknesses.

Fifthly, there exists a close link between commodity dependence and indebtedness. Of the 48 LDCs, 29 are classified as Heavily Indebted Poor Countries (HIPC). It should be noted that 27 of these 29 HIPCs are commodity dependent. The debt trap is linked to the declining level of export revenue which follows from the worsening terms of trade.

Sixthly, the future prospects of growth, employment generation and poverty reduction is inextricably linked with the viability of the commodity sector. Given that the commodity sector is the single most important employer of the populations in LDCs, any effort aiming at halving poverty by the year 2015 and raising incomes must begin with the strengthening and transformation of the commodities sector.

Seventhly, we should realize that commodities are an asset of LDCs and provide an enormous potential for development. Many LDCs are endowed with rich natural and human resources, which can be harnessed to generate needed domestic savings for investment and foreign exchange. The comparative advantage of LDCs in a number of commodities can be used for building up diversified economies and commodity based processing

capacities. Success stories of a number of countries that have achieved high levels of growth and diversification by developing their commodity sector affirm that high merchandise exports and per capita income growth can be accomplished through the development of the commodity sector. The full involvement of the private industry in this process is vital. The task before us is therefore to unlock the potential embedded in LDCs' natural endowments and to make commodities truly a growth factor.

The Common Fund has conducted, jointly with UNCTAD, a number of consultations with experts from LDCs in the preparation of this conference. At these consultations, seven key actionable areas were identified. These seven points are echoed in a number of the Action Programmes prepared by LDCs for this Conference.

In this context, I like to explain that the Common Fund plays a catalytic role and provides seed money for targeted projects promoting the economic development of LDCs. The Common Fund operates under the novel approach of commodity focus which means addressing, in a multi-country context, general problems in commodity production, processing, marketing, horizontal and vertical diversification. In this way, resources can be leveraged to reach a large number of beneficiaries.

I will now go through the seven areas identified by the LDCs where action is needed.

1. Enhancing Productive Capacities

The capacity of LDCs to accelerate their growth and to eradicate poverty is inhibited by various structural and supply side constraints. LDC economies are largely subsistence oriented on small plots, using primitive production methods, with limited surplus being marketed. These small farmers face difficulties in accessing agricultural inputs such as improved seeds, fertilizers and pest control applications. Inadequate research and development capacities have also a limiting effect on growth.

Without strengthening the productive capacities of LDCs, the best efforts to alleviate poverty through reducing tariffs and opening markets of industrialized countries will be in vain. The HIPC debt initiative will only be sustainable if the productive capacities of LDCs are enhanced.

In the light of the foregoing, the key measures identified by LDC participants are:

- Transfer and adoption of suitable production technologies, including for small scale operations;
- Strengthening research and development capacities in LDCs;
- Availability of improved seeds and planting material at the local and regional level;
- Institutional and human capacity building; and
- Investment in supportive infrastructure.

As far as deliverables are concerned, I would like to mention a few examples of projects targeting LDCs which will be financed by the Common Fund and which will commence shortly:

- (1) Testing and introducing new disease resistant and high yielding staple banana varieties;
- (2) Developing a new technology for the use of green jute as a renewable source of raw material for the paper industry;
- (3) Piloting the rehabilitation of coffee and banana production and of marketing capacities in countries affected by civil strife.

2. Quality and Safety Standards

LDCs should be supported in developing their institutional and human capacities for ensuring compliance with regional and international quality and safety standards, particularly in the field of Sanitary and Phytosanitary Standards. This will be indispensable to gain and maintain market access.

Mainly the following measures would be necessary:

- Harmonization of national and regional standards; and
- Building of national and regional capacity for testing and certification.

The Common Fund is already co-operating with other institutions in this area and will strengthen this collaboration.

3. Post Harvest Measures and Appropriate Storage

are needed to minimize post-harvest losses, since such losses often account for over one third of production in many LDCs.

Measures in this area will flank the Enhancement of Productive Capacities mentioned earlier.

An example of a deliverable is a CFC project in preparation, aiming at the improvement of post-harvest technology for sorghum and millet.

4. Horizontal and Vertical Diversification

LDCs should seek to diversify their exports particularly through domestic value-addition and develop both traditional and new export capacities. Broadening and deepening the commodity base is essential.

The measures which are deemed important include:

- Assessment of the feasibility of horizontal and vertical commodity diversification;
- Expansion of production and trade in non-traditional commodities;
- Value addition through local processing, particularly at the small and medium scale level;
- Development of new uses; and
- Valorization of by-products and co-products.

Examples of deliverables are CFC projects, which will start up later this year, on promoting small-scale cassava processing, upgrading meat processing and developing jute as reinforced composites.

5. Marketing and Market Development

The creation of efficient local and regional markets in a liberalized environment in LDCs would require physical market development, the promotion of commodity exchanges, market intelligence, the use of e-commerce, the enhancement of market infrastructure and support services with a view to stimulating private sector initiative.

Special attention should be given to:

- Product differentiation and development of niche markets;
- Entering new regional markets and development of the home market;
- Market information and commodity exchanges; and
- Ways of addressing the transport cost and other disadvantages of landlocked and small island countries.

An example is a CFC project, due to start-up, improving the processing and marketing of value added fisheries in small island countries.

6. Financing

Access to and cost of financing is a perennial problem for producers and processors in LDCs. Support should be provided in particular in the following areas:

- Availability of input credit for small farmers;
- Price risk management to mitigate the effects of volatile commodity markets; and
- Creating enabling conditions to attract foreign direct investment (FDI).

Regarding deliverables, the CFC will soon launch a pilot project aimed at testing viable means of providing input credit to small farmers. Further, three projects are due to start later this year on the testing and possible introduction of price risk management instruments for cocoa, cotton and coffee farmers and their co-operatives in several LDCs.

7. Strategic Partnerships

The Common Fund already forms a strategic alliance with 24 intergovernmental organizations which concentrate on particular commodities, the so-called International Commodity Bodies or ICBs. In preparation for this Conference, the Common Fund has urged these International Commodity Bodies to come forward with new projects which would particularly benefit LDCs. In the short period since this appeal was made about six weeks ago already quite a number of new project concepts were submitted.

The Common Fund has further launched an initiative to strengthen the co-operation with other international organizations in the field of commodity development with the view to increase overall efficiency and achieve synergies. The response was encouraging and we hope that this initiative will lead to better use of scarce development resources.

We would like to invite other development institutions as well bilateral donors to join us in these efforts to reduce poverty and advance economic development through co-financing or parallel funding of projects in the above key areas.

Chairmen,

We look forward to strengthening our cooperation with other development partners in the interest of the hundreds of millions of people in Least Developed Countries by working towards a world free of poverty, with more equality and providing the disadvantaged with fresh opportunities.

Thank you, Chairmen