

## **CFC 20<sup>th</sup> Anniversary Seminar**

### **The Role of Commodities in Development**

Seminar organized by the Common Fund for Commodities

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#### **INTERNATIONAL COMMODITY GOVERNANCE AND THE ROLE OF INTERNATIONAL COMMODITY BODIES**

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#### **I. Introduction**

1. It is a great privilege to be associated to the commemoration of the XX Anniversary of the Common Fund of Commodities (CFC) and to have the opportunity to make a contribution in the analysis of the Role of Commodities in Development. I would like to congratulate the Managing Director, Ambassador Ali Mchumo and the Members of the Common Fund for hosting this Seminar and to acknowledge the prominent role and effective support given by the CFC to the Commodity Bodies (ICBs).

2. I would also like to thank the Heads of ICBs for giving me the honour to speak on their behalf and thus represent a wide range of products, like grains, mineral ores, tropical timber, bamboo, cotton, coffee, cocoa, sugar and many more. Some of my colleagues are present here today and I also thank them for their contribution to these reflexions.

3. Over the last twenty years, the commodity organizations have developed a close and constructive relationship with the CFC. The CFC has provided funding for more than 280 projects covering around forty commodities. These projects with a total value of over US\$500 million, approximately 51% of which came from the CFC and the rest from bilateral and multilateral donor institutions in the form of co-financing, and from beneficiary countries in the form of counterpart contributions. This is a tremendous achievement for both the CFC and ICBs in fulfilling their mission to support commodity development.

4. Agricultural commodities continue to be at the heart of social and economic life in a great number of developing countries, in many cases affecting their very political stability. Dependence on a few commodities remains a constant factor in the developing world. In fact, some 38 Least Developed Countries (LDCs) depend on a single commodity for over 50% of their export revenues. These characteristics illustrate the need for institutions such as the CFC and ICBs.

## **II. Relevance and role of ICBs in a liberalised global economy**

5. As we are all aware, most ICBs were established in a very different political and economic context to that which prevails today and initially had as their main role the regulation of the markets for their respective commodities. While the role of ICBs as market regulators is no longer relevant, these institutions are positioned to contribute positively to the development of commodity producing countries.

6. ICBs, which bring together all the major stakeholders in the respective commodity sectors in developing instruments for cooperation and specific initiatives, are firmly oriented towards development for the following reasons:

- The economic performance and development prospects of many developing countries are highly dependent on commodity production and exports. The heavy dependence of such countries on a few commodities has in general had an adverse economic impact, with harmful consequences for growth and the reduction of poverty.
- Commodities provide an important share of the export earnings of developing countries, and the large number of growers who depend on these products for most of their income have been hard hit by price volatility.

- By their very nature, the production of most commodities requires substantial amounts of labour. Commodities are a key source of rural employment and help discourage migration to cities that are already overcrowded and unable to absorb more people in a sustainable way. Within the framework of the fight against poverty in producing areas, ICBs are able, through development projects and other actions, to promote activities that can improve the livelihood of producers and thus living conditions in rural areas.

7. In defining and coordinating development initiatives, ICBs have the capacity to mobilize all stakeholders in the sector, and contribute their specialist knowledge of the issues concerning specific commodity chains that are highly complex in terms of the range of technologies and economic factors involved in production, trade and consumption.

8. Many ICBs have established mechanisms to integrate the work of the private sector in their activities, thus enriching the pool of knowledge and expertise. It is important, therefore, that they receive the necessary support to work effectively in pursuance of their goals. Herein lies the particular value of the approach of the CFC, which can address the specific characteristics of commodity issues through projects involving a range of countries rather than through the conventional model of projects involving donors and a single target country.

9. Cotton provides a good example of the need to take into account the specific features of each commodity. A project financed by the CFC to improve the marketing of cotton from zones with a reputation for “stickiness” has been highly effective, increasing the revenues of producers in Sudan and other African producing countries by approximately 10% a year, for an annual gain of approximately US\$10 million.

10. I would also like to share with you the experience of bamboo. A project in East Africa, which is in its final stages, seeks to promote the development of the sustainable production and use of bamboo products, with a focus on markets as the driving force behind such development. The project is contributing to the reduction of poverty in rural, degraded and marginalized areas by turning

bamboo – as a "pro-poor timber" into a cash crop for wood substitution creating rural and urban employment and value-addition, while preventing further deforestation. The project has trained over 1,500 people in Ethiopia, as well as establishing nurseries, a training centre, processing facilities and providing equipment. Nationally, the inherent economic value of bamboo plant is now recognized at all levels in Ethiopia, encouraging farmers to pay due attention to this resource.

11. ICBs also have a significant role in helping commodity dependent countries achieve the Millennium Development Goals. Problems related to rural development and poverty reduction remain closely linked to commodity trade issues.

12. In the specific case of coffee, it is becoming increasingly clear that the value chain is all too often skewed against producing countries and that growth in world consumption could be even more dynamic. The world coffee economy experienced the worst crisis in its history during the last decade, with low prices giving rise to growing levels of poverty, unemployment and social unrest in producing countries. The International Coffee Organization worked not only to increase awareness of the problem in the global community but has also appealed to international cooperation agencies to collaborate with it in channelling efforts aimed at solving the problems created by the crisis, which have increasingly become problems of development rather than of the market.

13. The growing awareness of the problem in the international community together with the measures proposed by the Organization to address the market imbalance have generated widespread support at a conceptual level, but still need adequate funding to implement them effectively. I very much hope that the gap between conceptual agreement and incorporation of the necessary resources within development cooperation budgets can be reduced.

14. The challenge now is to build on these expressions of support to ensure that ICB initiatives receive the fullest possible support for them to be effective and that financial support is mobilized for development projects, in particular for those aimed at diversification and market development activities.

15. Meanwhile, many instances exist where the challenges faced by ICB stakeholders, especially smallholders, transcend the scope of any single commodity body. For this reason, ICBs welcomed proposals, which were discussed in a preliminary manner at the 16th Meeting between the CFC and ICBs held earlier this year, at INBAR in Beijing, to work together with the CFC to raise the global visibility of commodity issues. We look forward to continuing this dialogue and taking concrete steps to put this in practice.

16. There are common issues that are important for many - if not all - commodities in developing countries. By combining experiences and lessons learned, and coordinating communication about the subject, the CFC and the ICBs can increase their efficiency and raise a much stronger voice in the international arena.

17. One particular area where collaborative action may be fruitful is that of certification. While the demand of consumers for 'fair' and 'green' production and trade is understandable and justified, the requirements this may create, in particular for small producers, are often akin to unintended 'non-tariff barriers'. At a workshop (Certification of Commodities: Opportunities and Challenges for the Rural Poor) held during the Beijing meeting, ICBs shared their experiences with each other, the CFC and experts from various certification schemes.

18. The meeting provided useful signposts for certification schemes in commodities and will help facilitate the full participation of smallholders, so as to ensure a more equitable playing field for the rural poor in commodity production and trading in the future.

### **III. The regulatory role of National Commodity Institutions and their interface with ICBs.**

19. As with the ICBs themselves, the role of National Commodity Institutions in producing countries has changed since the end of market regulation and increased liberalization from the late 1980s onwards. These developments have produced some significant benefits, particularly a boost in the proportion of the sales value (FOB price) that reaches producers. However,

the last two decades have also brought problems in many commodities, such as reductions in yields and quality as a result of a decline in support and quality control services that used to be provided by national authorities. Nonetheless, the National Commodity Boards continue to be important partners in activities of the ICBs.

20. In producing countries, the main beneficiaries of projects financed by the CFC, the following aspects underline the need for close collaboration between the ICBs and National Commodity Institutions:

- Many commodity-producing countries are LDCs, and project activities favour targeting this category effectively since LDCs often require international assistance to tackle major commodity problems effectively. Indeed, the geographical breakdown of CFC projects reflects a definite priority given to LDCs.
- The main target groups of beneficiaries for commodity development projects represent the core constituencies of the National Commodity Boards and can be identified with reference to:
  - (a) populations suffering substantial poverty;
  - (b) populations and economies heavily dependent on a commodity;
  - (c) areas where there are few viable economic alternatives to the commodity; and
  - (d) areas where the commodity provides stable rural employment, where the alternative may be disruptive movements of population to urban areas, illegal emigration or cultivation of socially harmful products.
- The dedicated participation of National Commodity Institutions in project implementation not only guarantees sustainability of the activities promoted by the project over time, but also represents an effective way of supporting capacity building at a national level and technology transfers between producing countries.

#### **IV. Commodity strategy**

21. The starting point for projects financed by the CFC is the definition of a clear development strategy for the commodity. This makes sense given the expertise in each commodity held by the designated ICBs and the fact that they bring together major stakeholders and decision-makers. As the designated ICB for coffee, the ICO is also responsible for prioritization, formulation and supervision of projects and for seeking stakeholder, and, more particularly, target beneficiary participation. It is important to highlight that the key overall aim of the development strategy for any commodity should be to make a practical contribution to sustainable development and poverty reduction, giving due importance to the economic, environmental and social aspects of sustainability. Within this context, all projects are intended to be sustainable.

22. In the specific case of coffee, important aspects of the development of a coherent strategy include:

- The preparation of an ICO development strategy for coffee to provide a frame of reference for project activities. The strategy is periodically revised taking into account due consideration both of the priorities of the CFC and of coffee development issues put forward by ICO member countries. On this basis, a set of areas for action is identified, discussed and approved by the International Coffee Council. Additional contributions are also obtained from the experience of concluded projects, suggestions arising from major events, such as periodic World Coffee Conferences, and surveys carried out on specific technical issues, such as diversification and sustainability.
- In general, projects sponsored by the ICO contribute to sustainable development and poverty reduction as they seek to:
  - (a) encourage stability and reasonable living standards for those involved with coffee by securing adequate returns to producers, while ensuring that adequate care is given to

maintaining quality rather than the volume of coffee produced;

- (b) encourage – without intervening in the market – the development of balance between supply and demand, particularly through developing consumption in areas such as the producing countries, where the private sector may not be able to act comprehensively by itself.
  - (c) promote the use of environmentally friendly technologies, such as integrated biological pest control, throughout the production and processing chain;
  - (d) assist in finding alternative sources of income in many coffee growing areas – in particular through diversification programmes (both horizontal and vertical) as part of the new strategic vision of the Organization to fight against poverty in coffee producing areas.
  - (e) explore synergies and establish partnerships with other bodies promoting sustainability in order to avoid duplication of efforts.
- Establishment of guidelines for the prioritization of projects for which funding is sought. Particular emphasis has been given to the **supply chain concept**, which has been an essential element in project design, implementation and monitoring together with sustainable development and diversification.
  - CFC action plans are developed in consultation with the ICBs. To help the CFC to develop its Five-Year Action Plan (FYAP) for 2008 to 2012 a number of consultations were held with ICBs, such as the CFC/ICO Forum on coffee development priorities in September 2006.

## **V. Market information**

23. One particular area where ICBs provide relevant services is in assisting commodity producers to move up the value chain through the provision of market information. In today's world, commodity value chains are often characterized by a large number of smallholder producers on one side and a much smaller number of large traders, processors and retailers on the other. These developments lead to a situation of information asymmetry, where an imbalance of power can sometimes skew transactions.

24. The supply of market information is made more challenging by the deficiencies in the collection, accuracy and dissemination of statistics in many commodity producing countries, especially LDCs. At the same time, value chains have become more complex, as shown by the increasing demand for niche products, such as those covered by certification and verification programmes, geographical indications and the like. These characteristics pose a particular challenge, since collection and analysis of statistics must go beyond the traditional emphasis on international trade flows, which are more readily measurable, and encompass all elements of the value chain. As we say in the world of coffee, we must go from "seed to cup".

25. In this respect, ICBs have an exceptional technical capacity to provide technical assistance to their member countries in order to improve their ability to furnish reliable statistics and are uniquely placed to enhance transparency by providing statistics, research studies and other information on the market for a specific commodity, thereby reducing transaction costs to the benefit of all members of the value chain and enabling economic decisions to be taken on the basis of timely and accurate data.

## **VI. Membership of ICBs and CFC**

26. ICBs have developed a close and constructive relationship with the CFC in the last eighteen years by working closely to monitor and supervise the operational and financial side of projects. This mutual collaboration has yielded substantial knowledge and expertise for the benefit of their member countries.

In particular, ICBs have developed effective selection mechanisms of proposals to be submitted for CFC consideration. ICBs also conduct continuous monitoring and supervisory field visits to ensure that successful results are obtained for subsequent replication and dissemination to other member countries.

27. More specifically, dual membership in the CFC and ICBs facilitates:
- consultation between producing and consuming countries on key issues to address by means of projects;
  - mutual contributions to the development of policies and priorities relating to important objectives of the respective commodity sectors;
  - strengthening of existing synergies between the Fund and ICBs, especially with regard to procedures for securing the effective use of the resources;
  - access to co-financing from bilateral and multilateral donor institutions; and
  - technology transfer between producing countries.

28. For the above reasons, ICBs support the general principle that dual CFC-ICB membership should constitute a pre-requisite for the participation of any country in projects.

## **VII. Conclusion**

29. In conclusion, I would like to stress once more the high regard of ICBs for the CFC and the results of our mutual collaboration. The project work funded by the CFC is an essential part of the services ICBs render to their members. The challenges faced by the commodity sector are increasing in both scale and complexity. Climate change is one example of an area in which much work must still be done. Therefore, ICBs believe that ensuring the long-term financial sustainability of the CFC is a key element in addressing the problems faced by commodity producers. All ICBs look forward to continue working for many years with a strong and vibrant partner in the Common Fund for Commodities.