PRESENTATION ON THE
POLICY IMPLICATIONS OF
UNCTAD/CFC/ICO PROJECT

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Project title:
"Economic Crises and Commodity Dependent
LDCs*: Mapping the exposure to market volatility
and building resilience to future crises"

- Project Executing Agency: UNCTAD
- Funding Agency: CFC
- Supervisory Body: ICO
- Countries covered: Benin, Burundi, Tanzania and
  Zambia (Africa), Cambodia, Lao PDR and Nepal (Asia)
In the subsequent slides ....

- Objectives of the project
- Project implementation and impact
- Role of commodities and agriculture
- Persistent and emerging challenges
- Impact of the recent global crisis
- Policy implications/recommendations

I. Objectives: the project was designed to

- examine the role of commodities and agricultural productivity in LDCs graduation;*
- assess structural weakness, fragility and vulnerability of LDCs economies to shocks;
- analyze the impact of volatility of the commodities markets and the multiple global crises; and
- propose policies and actions to enhance the role of commodities
II. Implementation and Impact

- The project assisted in undertaking sector-specific studies in the countries covered,
- Successful/less successful experiences or best practices were identified and synthesized,
- Regional expert meeting was convened,
- High-level meetings were organized
- Commodity issues figured prominently in the outcome documents,
- Commodities considered as priority issues for trade and development policies.

III. Why commodities and agriculture?

- Commodities and agriculture play crucial role:
  - 38 of the current 48 LDCs are commodity and agricultural exporters,
  - Commodities accounted for four-fifths of LDCs’ goods exports during 2007–2009,
  - The share of commodities in total export exceeds 50% in 38 of the 48 LDCs,
  - Agriculture accounts for 65% of employment, 25% of value added and 40% of GDP in 2008–2009,
- Further graphs below illustrate the crucial role of commodities
Surging exports driven by commodities

Value added by economic activity 1990-2009 (% of GDP)

- Despite its dominant role, value added by agriculture declined from 35% in the 1990s to 25% in 2008-09.
- The share of services remained high and stable during the last two decades.
- Value added by manufacturing including mining and utilities increased steadily and surpassed that of the agriculture sector.
IV. Challenges and opportunities

- Heavy dependence on handful export items,
- Natural resources, in particular oil, plays significant role in driving economic performance of LDCs;
- Integration of LDCs is through commodities,
- The boom-bust cycle is evident in a number of other indicators than GDP growth rates

Evolution of monthly commodity price indices, Jan 2000–Jan 2012 (2000=100)

- Commodity price volatility (high commodity prices drive growth in LDCs; when prices are low the economy collapses)
Further challenges……

- Despite the dominant role of agriculture.
- 25 LDCs (of 34 countries) required food assistance in 2012,
- 42 LDCs (of 66 countries) are classified as low-income food-deficit countries (LIFDCs) in 2012,
- Their food import bill tripled from $9 billion in 2000 to $24 billion in 2008
- Main reasons: policy neglect and increasing food prices

V. Impact of the recent crises

- Impact on the economy:
- In 2008-2009, export revenues collapsed by as much as 50% in value terms,
- Consequently their GDP growth rate declined from 7.1% in 2002-07 to 4.5% in 2008-09;
- FDI-to-GDP ratio declined from 6.8 per cent in 2008 to 4.7 per cent in 2010,
- Since the crisis ODA flows to LDCs has fallen by about 9%
Impact on income, employment 
and food security…

• Between June 2007 and June 2009 Zambia, lost 22% of government revenue through lost mining production and reduced exports, low mining royalties paid, as well as lost income.
• The largest copper mine in Zambia, reported a 40% reduction in all supplier contracts.
• In the same period, the total job loss in Zambia's mining sector amounted to 30.4%.

Impact….(continued)

Between June 2007 and June 2008

• In Benin, absolute poverty increased to 33% to 35%.
• In Cambodia, the share of households that did not have sufficient money for food and other essential expenses increased from 62% to 69% between.
• It was also estimated that 63,000 jobs were lost in Cambodia's garment sector and that employment in its construction sector shrank by 30%.
VI. Key Policy recommendations

- Define long-term visions that link the commodity sector to national development strategies,
- Prudent policies that improve natural resource management,
- Boost investment in agriculture and ensure that it is well targeted
- Promote increased transparency in the commodity industry,
- Make concerted efforts to address commodity price volatility