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Recommitting to commodity sector development as
an engine of economic growth and poverty reduction

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BACKGROUND NOTE



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INTRODUCTION

Since 2002, commodities prices have staged the longest and most sustained rally in modern history, after three decades of stagnation at relatively low levels.¹ For commodity-dependent developing countries (CDDCs),² export revenues increased along with prices, but this windfall was accompanied by less comparable rates of economic growth or poverty reduction (Loayza & Raddatz, 2010).

For CDDCs, commodities sectors are often one of their most important sources of earnings and employment. Therefore, their inability to translate the recent commodities-led growth into generalized growth and poverty reduction calls into question their development model: what changes to their policies, institutions and infrastructure are necessary to link commodities revenues with the achievement of development outcomes, including the Millennium Development Goals (MDGs)?

The above question is similar to those raised by Prebisch and Singer's seminal works observing and predicting long-term deterioration in the terms of trade for developing countries. Nowadays, there appears to be a consensus on long decades of steady deflation of primary commodities prices relative to those of manufactured goods (e.g. Brown et al. 2008). However, the high commodity prices have led some observers to posit whether the reverse is now true (Farooki and Kaplinski, 2011). Other aspects of the "commodity problem" facing commodity-dependent developing countries, such as the "Dutch disease" and the "resource curse" concepts, have also come under greater scrutiny. For example, in the extractive sectors, the then prevailing common wisdom of their enclave nature has been challenged based on available best practices (Morris et al., 2012). One observation from this empirical research is the existence of fewer opportunities for forward linkages than for backward linkages. Therefore, the latter linkages could serve as powerful leverage tools for decent job creation and poverty reduction. Indeed, diversification is important – as are comprehensive policies that are not limited to a "ministry of agriculture" or "ministry of mines," but instead incorporate rural development, banking and credit, the environment etc. (UNDP, 2011). Equally important is an enabling global context in which commodity-producing countries could fulfill their development aspirations.

The 2013 Global Commodities Forum (GCF) provides participants with a platform to debate potential solutions to these challenges, at the vital intersection of commodities, economic growth and poverty reduction.

AGRICULTURAL DEVELOPMENT BACK ON THE POLICY AGENDA

Throughout the 1980s and 1990s, international policy orthodoxy encouraged developing countries to cut public budgets and privatize public assets, including the parastatal agricultural marketing boards that were seen to distort and hinder market-based opportunities for development (Poulton et al., 2006). During this so-called Washington Consensus era, prices for agricultural commodities stagnated at low levels, discouraging both public and private investment in the sector, and therefore relegating agriculture to the policy wilderness.

Beginning in the mid-2000s, and particularly after the food price crisis of 2007-8, agriculture returned to prominence in the public policy discourse. In developing countries, this renewed attention has highlighted the dilapidated state of the institutions and infrastructure after two decades of relative neglect. Although the retreat of the state in the 1980s and 1990s from participation in the sector was meant to create incentives for private actors to drive development, a void remained in the functions,

¹ Source: UNCTADStat

² A commodity-dependent developing country relies on commodity exports for 60% or more of its export earnings.



such as regulation and promotion, which can only be effectively provided by a single legitimized authority. Similarly, the private sector underprovided public goods, such as infrastructure and extension services, which are difficult to deliver profitably.

As governments in developing countries continue to re-enter vacated policy roles in agriculture and rebuild neglected public goods, they do so amid a policy discourse on the subject that is both rich and challenging. Recent research has highlighted lessons from the outcomes of past policies, and points to the need for nuanced agricultural development policies.

At a macro level, agriculture is the ideal engine of both generalized growth and poverty reduction in low-income countries, most particularly in sub-Saharan Africa. As countries move into middle-income levels, other sectors tend to drive growth and agriculture remains as the most important activity for reducing rural poverty. Above middle-income levels, national economies employ agriculture as one of several components in a multi-sectoral growth and poverty reduction strategy (World Bank, 2007a).

Just as research shows that macro agricultural development policy evolves as national income levels rise, so too does it show that governments must calibrate micro policies to a variety of sector-, firm- and household-level outcomes. The smallholder has rightly re-entered the agricultural policy discourse as key actor: after all, the small farming household is often involved both as a producer in growth strategies and as a subject of poverty reduction strategies. Indeed, among the poorest rural households, increased opportunities in agriculture represent the most poverty-reducing vector (Christiaensen et al., 2011; Lipton, 2006).

The rural-urban migration component evokes the dualistic growth model proposed by Lewis (1954), with agricultural productivity improvements freeing up rural inhabitants to work in higher-growth industries in the city. Indeed, the imperative remains for modern rural development models to increase agricultural productivity and provide more productive and remunerative activities for underemployed rural inhabitants (Loayza & Raddatz, 2010). But the modern development experience has balanced the Lewis growth model with poverty reduction imperatives, and thus has included rural-urban migration and increased agricultural productivity, not as two absolute points on a linear development path, but instead as two of the many elements in improving the livelihoods of rural households.

In the specific case of Africa, a recent report by the World Bank highlighted the importance of clear and predictable trade policies in achieving food security in order to contribute to the first goal of the MDGs on the continent. The report identifies removing trade barriers in general but also enhancing market transparency and building resilience as possible entry points to an effective contribution of the continent to its food self-sufficiency.

EXTRACTIVE SECTOR: BUILDING LINKAGES

As stated above, although there is acknowledgement of fewer opportunities for forward linkages, backward linkages could serve as powerful leverage tools for the creation of decent jobs and therefore for poverty reduction. It should be noted that up until now, the political focus of most developing countries was outward-looking, which means seeking to respond to the needs of foreign investors and at the inducements offered by other States. Although it is recognized that extractive activities have intrinsic characteristics that result in weak linkages with the rest of the economy, recently there has been a shift in focus towards the services sector and affected communities (UNCTAD, 2012).

The so-called local content can be obtained through value addition in the host country economy either directly (employment, profits and taxes) or indirectly (purchase of goods and services). Under these circumstances, the model would suggest an arbitrator role for the State, negotiating between the private investor and the local community. Therefore, appropriate economic policies ensure that jobs are



created and that they are durable enough to provide long-term development beyond the operational life of the extractive project. This requires not only natural resource management, but a wider economic management including planning capacity.

EXPECTED OUTCOMES

As an outcome of this meeting, we expect to arrive at clear cut multi-stakeholder policy consensus to address the following issues:

1. Risk management and resilience in low income agricultural dependent economies;
2. Developing infrastructure and services to support the agriculture sector;
3. Improving transparency in commodities markets and value chains at national and global levels;
4. Developing production linkages from the extractive sector with the objective of enhancing local employment, local content and local value addition.

CONCLUSION

As shown above, discussions about commodities development policies quickly spill beyond the narrow policy files of agriculture, natural resources and trade. They sweep into areas such as taxation, rural development, human resources and the environment, among others. From this perspective, it is imperative that governments formulate their commodities development policies as part of a comprehensive growth and poverty reduction strategy (World Bank, 2007b). Prerequisites to such holistic policy approaches are appropriate responses to the challenges of price volatility at the global level and weak infrastructure.

Moreover, in order to have a balanced structure of an integrated commodities sector, countries would need improved transparency in commodities markets in general, through effective data collection systems within an enabling global context. As a result, one would expect better analyses of the data that would lead to the formulation of the policies and their dissemination.

With a view to building consensus around the above-mentioned issues and others related to risk management and resilience, the 2013 Global Commodities Forum will provide participants with a platform to debate potential solutions to the identified challenges of linking commodities revenues to the achievement of development outcomes, including the MDGs, and, more specifically, the daunting challenge of poverty reduction.



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