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Innovative approaches to resolving commodity-related problems based on effective multi-stakeholder partnerships

Note by the UNCTAD secretariat*

Executive summary

Over the past century or so, a variety of approaches have been devised and implemented at different levels to address the "commodity problématique "with mixed outcomes. The persistence of the commodity problématique into the 21st century, therefore, calls for innovative, pragmatic and effective approaches that embrace multi-stakeholders who are among key actors in global commodity value chains – public and private sectors, not-for-profit civil society organizations (CSOs). This note begins with a rationale for, and a primer on, multi-stakeholder partnerships. It then focuses on several key commodity issues that could be addressed through effective partnership programmes, including commodity policies and strategies, market access, commodity finance and futures exchanges, and governance and accountability (in extractive industries). The final chapter contains some concluding remarks.

* This document was submitted on the above-mentioned date as a result of processing delays.

Introduction

1. Commodities and poverty are inextricably linked. In the developing world, an estimated 2.3 billion people, particularly the rural poor and women, are engaged in small-scale agriculture.[1] Agriculture is the lead sector which drives broad-based economic growth and sustainable development, whilst extractive non-renewable resource endowments and/or tourism industry are key to a select few countries. It is imperative, therefore, that the battle against poverty, the number one goal of the Millennium Development Goals (MDGs) process, should begin with resolving the commodity problématique that remains omnipresent in most commodity-dependent developing economies (CDDCs), particularly in the least developed countries (LDCs).

2. The commodity problématique has been on the radar screen of many international institutions, private sector organizations, donor agencies and CSOs, some dating back to the 1800s.[2] In the early 1960s, the Kennedy Round focused on tariffs and the need for a mechanism at the international level to address the commodity issues. Both issues featured prominently in UNCTAD I (1964, Geneva) and UNCTAD II (1968, New Delhi), which in part led to the creation of International Commodity Agreements (ICAs) for key agricultural commodities. During the 1980s, the Bretton Woods institutions (BWIs) espoused neo-liberal policies to deal with policy distortions, including the dismantling of agricultural marketing boards and price stabilization schemes. The results of these well-meaning landmark initiatives, among others, have at best been mixed. At present, the delay in the completion of the Doha Round of trade negotiations, which aims to achieve further liberalization in global agricultural trade, is a major setback for CDDCs and LDCs.

3. The fact that the commodity problématique endures into twenty-first century, despite numerous initiatives, past and present, is a testament that all is not well in the commodity dependant economies, especially in developing and least developed countries.

4. Over that past decade, these issues and other key events have catapulted commodities back into the international spotlight: the recent commodity boom (2002–2007), world food and energy crisis (2008), global financial crisis (2009) and recent volatility in commodity markets (last quarter of 2010). However, the limited results from past and present initiatives, the complexity and enormity of the challenges, and the persistence of the commodity problématique into the twenty-first century, calls for innovative collaborative approaches between governments, private sector and CSOs to tackle them.

5. This background note begins with a rationale for multi-stakeholder partnerships among key players in global commodity supply chains – public and private sectors, including the United Nations and CSOs. It then highlights selected trade-related issues on market access, including non-tariff measures, commodity finance and futures exchanges,

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[1] Census data show about 450 million smallholder households with 2 hectares or less are involved in agriculture in developing countries. Assuming an average farm household size of five, this equates to about 2.25 billion people engaged in agriculture, a third (33per cent) of total world population (6.8 billion).

[2] In the 1840s, extreme fluctuations in the annual supplies of grains in the Midwestern United States led to inefficient price discovery and financial hardships for both producers and consumers. The feast-or-famine cycles propelled a handful of grain traders to pool their resources to create "a futures exchange", the Chicago Board of Trade (CBOT). The CBOT ensured price and grains stability throughout the year. In 2007, the CBOT and the Chicago Mercantile Exchange (CME) merged to form the CME Group, the world's largest derivatives market.

market information and services, and governance, transparency and accountability (in extractive industries). The paper concludes with some policy recommendations.

I. Rationale for multi-stakeholder partnerships for addressing commodity production, trade and related problems

A. Commodities and poverty inextricably linked

6. In the developing world, agriculture remains the lead economic sector, accounting for about 30-65 per cent of gross domestic product (GDP) and a large share of domestic savings. It is also the source of employment and livelihood for 2.3 billion people, particularly the rural poor, women and children. It is therefore imperative that the battle against poverty (MDG 1) should begin with resolving the long-standing issues and problématique pertaining to commodity production and trade in CDDCs and LDCs. Improved market access opportunities and reduction in trade distorting measures in international trade (MDG 8) offer, all things being equal, improved opportunities to attain trade-led economic growth and sustainable development in these countries.

7. Modern commodity production and trade could be traced back to "The Silk Road" in the first century, which lasted 3,000 years.[3] Since then, commodity-related issues and problématique have been on the radar screens of international institutions, donor agencies, private sector and CSOs.

B. Past and present initiatives

8. In the early 1960s, the Kennedy Round of trade negotiations focused on tariffs and stability of international commodity prices and supplies. Commodity issues and problems have been at the centre of UNCTAD's work programme since its inception in 1964.4 The Bretton Woods Institutions (BWIs), in the 1980s, espoused neo-liberal policies which led to the dismantling of State-owned and managed agricultural marketing boards and price stabilization schemes. And agriculture was one of five new areas addressed by the Eighth General Agreement on Tariffs and Trade (GATT) Round of Trade negotiations (the Uruguay Round) which resulted in the World Trade Organization (WTO) Agreement on Agriculture (AoA). The objective of the AoA was to attain greater liberalization in international trade in agriculture in three main areas: domestic support, export subsidies and border measures as a means of addressing some of the long-standing problems in the agricultural sector.

9. The outcomes of these initiatives, aimed at addressing different aspects of the commodity problématique, have been mixed. Most International Commodity Agreements have collapsed or lapsed for various reasons,[5] while commodity price volatility persists and has arguably increased in recent years in a context of increasing linkage between commodity and financial markets, and climate change. Macroeconomic policy reforms of the BWIs have had limited success in addressing commodity production and trade in

[3] In the first century, "The Silk Road" comprised important routes for exchanging commerce, culture, trade and technology between many countries, particularly in Asia. China traded silk, spices, teas and porcelain, while India traded ivory, textiles, precious stones and pepper.

[4] See UNCTAD (2010). Recent developments in key commodity markets: trends and challenges. TD/B/C.I/MEM.2/13, prepared for this meeting.

[5] For details see, Ibid.

CDDCs. To date, the delay in the conclusion of the WTO Doha Round of negotiations, which cover key issues, such as domestic support and export subsidies in agriculture, has been a major setback for CDDCs and LDCs.

C. Persistence of the commodity problématique

10. The persistence of the commodity problématique (box 1) into the twenty-first century, despite numerous initiatives, and research and analysis, has undermined the development efforts of several CDDCs.

Box 1. The "Commodity problématique"

Agriculture

This includes (a) high dependency on few low-value, bulky products; (b) sluggish, oversupplied and volatile world markets; (c) long-term declining real prices and deteriorating terms of trade along global commodity chains; (d) supply-side inefficiencies – limited access to affordable credit, financial and insurance services, low entrepreneurial skills, high costs of productive inputs (energy, transport, agrochemicals); (e) lack of competitiveness, limited horizontal and vertical diversification, and value addition; (f) high export market and product concentration; (g) proliferation of stringent agrifoods safety standards, food laws and technical regulations; (h) plethora of trade–distorting measures (e.g. tariff and non-tariff barriers, export subsidies, domestic support); (i) tariff peaks and tariff escalation; (j) declining official development assistance (ODA), and foreign and national investment in agriculture, including in research and development (R&D).

Mining and metals, oil and energy

Most of the problems in agriculture can also be found in the non-renewable resources (NRRs) sectors. There are, however, issues peculiar to NRRs, among them (a) "Dutch Disease" and "resource curse" issues and problems; (b) governance issues, especially transparency, accountability and rent-seeking behavior; (c) poor to non-existent national framework legislations on fiscal and taxation regimes; (d) inefficient extraction and use of resource rents, especially reinvestment in capital-generating initiatives (e.g. education, health and infrastructure); (e) low local content (e.g. mining development, service contracts); (f) lack of capital, advanced technologies and business skills; rising environmental concerns (e.g. greenhouse gas emissions and related enactment of national legislation, such as on energy, climate change, and higher renewable fuel requirements).

11. These long-standing problems that have afflicted commodity production and trade are at present being exacerbated by a new set of problems, which are more complex and demanding. For example, the proliferation of non-tariff measures (e.g. food quality and safety standards), and growing environmental concerns (climate change) and enactment of related legislation in support of renewable fuels, in particular biofuel. Similarly, knee-jerk national policy responses of governments (e.g. export restrictions) to recent volatility in global food markets not only distort trade, but send the wrong market signals that inhibit investments, diversification and productivity growth. Furthermore, the increasing dominance of transnational corporations and large supermarkets of global value chains, internal operational restructuring (e.g. downsizing, layoffs, mergers and acquisition) in response to the global financial and economic meltdown hurts CDDCs not only because they are price-takers but also because they operate at the low ends of value chains where their share of profits gets squeezed with upstream restructuring. Finally, the growing economic importance of emerging economies, for instance the BRICs, in particular China

and India,[6] has changed the economic and geopolitical landscape of the global commodity trade, with significant implications for investments in the commodity sector, and subsequently commodity production and trade, in CDDCs and LDCs.

D. Multi-stakeholder partnerships – a viable route?

12. The sheer magnitude, depth and complexity of the commodity problematic are such that no government, private sector or CSO, acting alone, would be able to resolve them all. Furthermore, the increasingly interconnected world, thanks to greater trade liberalization and globalization, and the growing importance of non-State actors in development, necessitates collaborative efforts between key partners in global commodity chains towards finding mutually beneficial, effective and sustainable solutions to commodity problems, most of which are global in nature. The following chapter provides a primer on multi-stakeholder partnership

II. Overview of multi-stakeholder partnerships

13. Multi-stakeholder partnerships describe the voluntary alliance between key players in or outside the global commodity supply chains who agree to work together for a common outcome. This could be "private–public partnerships", which also include CSOs.

14. There has been a proliferation of multi-sectoral partnerships in the past 10 years. Functionally, four groups could be identified, focusing on (a) advocacy; (b) developing norms and standards; (c) sharing and coordinating resources, including expertise; and (d) harnessing markets for development.[7]

15. The public–private partnership (PPP), like a chain, is as strong as its weakest link. Therefore its performance and success depends on what each partner brings to it. The motive of the private partner is profit. It contributes financial and technical expertise, management and innovations. The public sector motive is often societal service. The sector's contribution spans policy and regulatory powers, investment and complementary capital. CSOs contribute local knowledge, community perceptions and local content.

16. Successful PPPs fully capture the core competencies and comparative advantages of each partner. They have clearly defined (and agreed) aims, responsibilities and governance mechanisms, clear timelines and delivery schedules, share risks and investment costs, and offer benefits to all parties. Trust and honesty among partners are therefore important for attaining objectives.

17. Examples of successful PPPs, relevant to commodities, include the following globally recognized ones.

(a) Chevron Corporation: Angola Partnership Initiative;

(b) Consultative Group on Agricultural Research (CGIAR);

(c) Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF);

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[6] BRIC denotes Brazil, Russian Federation, India and China. First coined by Goldman Sachs economist Jim O'Neill, BRIC encompasses the "Big Four" economic powers from the developing world.

[7] For details, see Witte MJ and Reminisce W (2005). *Business Unusual – Facilitating United Nations Reform Through Partnerships*. United Nations Global Compact Office, United Nations: 10.

(d) UNCTAD Global Commodity Forum (GCF);

(e) United Nations Global Compact (UNGC); and

(f) World Cocoa Foundations: Sustainable Tree Crops Alliance (STCA).

III. Selected commodity–trade and development problems, and innovative approaches through multi-stakeholder partnerships

A. Commodity policies and strategies

18. Pursuant to the Accra Accord (para. 93(a) (b)), UNCTAD discussed the issue of trade-related policies during the second session of its Multi-year Expert Meeting on Commodities and Development in 2010. The debate was facilitated by a background issues paper relating to developing and mainstreaming commodity policies into national and regional development strategies, building supply-side capacity and attaining competitiveness. The paper also examined value addition, diversification of commodity sectors, as well as promoting intergovernmental cooperation and consensus-building on trade-related policies and instruments for resolving commodity problems.[8]

19. Several trade-related policy interventions were identified in the paper cited above, which include creating an enabling environment in CDDCs and LDCs as the sine qua non for all the other inputs and services to work so that these countries are able to avoid market failure, attract foreign and local investment, improve supply-side capacity and competitiveness, and access international markets.

20. Unfortunately the ideal enabling environment situation is often missing or weak in many CDDCs and LDCs. This is an area in which PPPs could make a contribution.

21. The role of the State is crucial in this context. The State's primary role, besides providing social services (e.g. education and health) is also to provide policies and regulatory and legislative frameworks that support the commodity sector. Where the State lacks the necessary technical and financial resources to develop and implement "home-grown" trade policies then, concerted multi-sectoral support is required to fill this void. Integrating commodity-related trade policies in national, regional and international cooperation policies is equally important. Key commodity-trade related policies and issues should be placed back onto the agenda of such bodies as the European Commission (EC), WTO, United Nations system including the General Assembly, United Nations Global Compact, and donor agencies (e.g. World Bank, Organization for Economic Cooperation and Development and the G–8). The commodity problématique is a global issue, and as such, should get the necessary attention and resources it deserves.

22. This is not entirely new. Commodities have been recognized as an integral part of major international development goals (e.g. MDGs 1, 7 and 8) and programmes such as the Aid for Trade (AfT) initiative, and the Enhanced Integrated Framework for LDCs. The African Union's Comprehensive African Agriculture Development Programme (CAADP) also recognizes the important role agricultural commodities in development.

[8] UNCTAD (2010). Addressing the commodity problematique through trade-related policies. TD/B/C.I/MEM.2/9. Trade and Development Board, Multi-year Expert Meeting on Commodities and Development, Second session, 24-25 March 2010, Geneva. Report available online at www.unctad.org/en/docs/cimem2d9_en.pdf.

Notwithstanding these, the sector is still starved of the necessary financial resources and attention in national and regional development strategies.[9]

23. Political will is crucial towards integrating and mainstreaming commodity-related policies into national and regional policy space. Without it, resource allocation into commodity sectors, particularly agriculture, is stifled.

B. Comprehensive policy support actions in CDDCs

24. Integrating commodity-related policies in national and regional settings is important for attracting resources from international financial institutions and donor agencies. In this type of setting, multinationals, such as DuPont,[10] may be motivated to enter into partnerships and deliver innovative products and technologies in agriculture, that it would not be able to accomplish on its own.[11]

25. Backed with appropriate technical and financial assistance from multi-stakeholder partners, CDDCs are capable of improving agricultural productivity.[12] Malawi's Economic Growth Strategy (2004) enabled the Government to supply smallholder farmers with storage facilities, stable prices, and productive inputs (e.g. fertilizers and improved seeds) through agro-dealers using a voucher system. The programme has achieved outstanding results. Today, Malawi is not only self-sufficient in maize, but is also a net-exporter of maize. Malawi also supplies maize as food aid, about 10,000 metric tons, to Swaziland and Lesotho.

26. There is a need for international cooperation or partnerships that focus explicitly on commodity issues and problems. There are examples of such cooperation which involves UNCTAD. First, the European Union (EU)-funded "All ACP Agricultural Commodities Programme" (AAACP) is jointly implemented by five international organizations, leveraging on the core competencies of each organization. This has helped the programme optimize resources and expertise, and deliver on its objectives.[13]

27. Second, UNCTAD's Global Commodity Forum (GCF) discusses the key issues of commodity economy, including commodity trade, finance and logistics. The GCF is premised on the understanding that "no institution or group of interests holds all the keys to a solution" to the commodity problématique. The Forum brings together high-profile people and institutions to map out action plans towards finding appropriate solutions.[14]

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[9] UNCTAD (2010). Trade-related policies and instruments and how to use them for resolving commodity problems: 4.

[10] DuPont (United States) is a world leader in science and innovation, particularly in agriculture and industrial biotechnology, chemistry, biology, materials science and manufacturing.

[11] Niebur B (2009). The Power of Partnerships: A Private-sector perspective. In *World Food Security – Can Private Sector R&D Feed the Poor*? A.G. Brown (ed.), The Crawford Fund, Canberra: 46–49.

[12] Today, African governments on average spend 4–5per cent of their national budgets on agriculture. The African Union's Comprehensive African Agriculture Development Programme commits governments to allocate 10 per cent of national budgets to agriculture, although few countries have so far met this commitment.

[13] The AAACP is funded by the EU with 45 million euros, which is implemented by five international organizations – Common Fund for Commodities, Food and Agriculture Organization of the United Nations (FAO), International Trade Centre UNCTAD/WTO (ITC), UNCTAD, and the World Bank. Details on the AAACP programme are available online at www.euacpcommodities.eu.

[14] Details on the GCF are available online http://www.unctad.info/en/Special-Unit-on-Commodities/Events-and-Meetings/Global-Commodity-Forum.

C. Multilateral trading system and market access

1. Doha Development Round

28. Besides realignment and integration of commodity policies at all levels – national, regional and international – it is necessary to conclude the Doha Development Round in a manner that addresses the development concerns of developing countries, particularly CDDCs. The success of Doha has far-reaching implications for commodity production and trade in these countries, as this will enable CDDCs to reap the benefits of a secure and fair rules-based trading system that provides an open, transparent and stable environment for all countries irrespective of their level of development.

2. Non-tariff measures and market access: addressing agrifoods safety regulations and quality standards

29. Market access has improved over the past half century as tariff rates and quantitative restrictions have declined in developed-country markets. Despite these improvements, deeper concerns remain about tariff escalation and tariff peaks. However, market access alone is not a sufficient condition to assure development gains flowing downstream to commodity producers, traders, processors in developing countries.

30. Free trade agreements – bilateral, regional, – are meant to, among others, promote and expand trade. But no matter how noble and well-intentioned these agreements are, they may not amount to much if their provisions are not implemented, and if the potential beneficiaries do not have the capacity to produce competitively for these markets. For example, duty-free and quota-free market access for products from Africa, Caribbean and Pacific (ACP) countries to the European market, under the Economic Partnership Agreements (EPAs), means little if the ACP countries cannot meet the standards.[15]

31. One of the major impediments of market access and trade has been the proliferation of stringent agriculture, food safety and quality standards, not to mention divergent food laws and technical regulations. This is, perhaps, largely a result of varying interpretations, design and implement of both tariff- and non-tariff measures (e.g. for food safety and quality) stipulated in the Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade agreements of WTO.

32. Concerns have also increased in recent years over food safety and quality in international trade because of health risks associated with avian influenza in poultry, *Bovine Spongiform Encephalopathy* (BSE, or "mad cow disease") in cattle, dioxin in eggs and pork, melamine in dairy (infant milk) products and swine flue. There have also been cases of mycotoxin in agrifoods, salmonella in peanut products and pesticide residue levels in plants, among other health scares.

33. Developed countries, in particular, have responded to this by developing and setting a plethora of agrifoods safety and quality standards, food laws and technical regulations to safeguard the health of humans, animals and plants.[16] Most CDDCs are ill-equipped technically to comply with these regulations or have scarce financial resources to offset the

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[15] Over the past 30 years or so, exports from the ACP countries to the EU market dropped from 7 per cent to 3 per cent. This is despite the generous preferential market access provisions under several free trade agreements, the latest being the EPA between the EU and ACP countries.

[16] The EU, for example, requires agrifoods exporters to implement the HACCP system at all levels of the supply chain, and is moving towards mandatory traceability for all foods products.

prohibitively high costs of compliance, for both public and private standards.[17] Also, several do not have well-resourced competent national authorities to efficiently manage and implement safety and quality controls that are vital for agrifoods exports.[18]

34. Numerous donor agencies, intergovernmental agencies and CSOs have stepped into the void to provide technical and financial assistance to developing counties to enhance their capacities to meet these standards, or gain accreditation to reputable certification schemes. FAO/WHO Codex Alimentarius funds developing-country participants to its standard-setting meetings. The WTO Standards Trade and Development Facility (STDF) finances projects in developing countries to enhance their capacities to implement SPS requirements and facilitate market access.[19] The United States and EU also have technical assistance programmes that assist LDCs to meet these standards in their markets.

3. Enhancing supply-side capacity

35. Besides having to meet stringent agrifoods safety and quality standards, and comply with regulations imposed in export markets, there is a critical need to enhance the supply-side capacities of key stakeholders – farmers, traders, small and medium-sized enterprises (SMEs), exporters, producer organizations, national competent authorities, etc. in CDDCs (see Accra Accord, para. 93(a) and São Paulo Consensus, para. 74).[20] This is because the export performance of these countries in commodity markets is contingent on the availability and quality of the services (e.g. banking and finance), physical and soft infrastructure (e.g. roads, wharves, airports,), appropriate technologies (e.g. laboratories) and expertise, including technical skills.

36. Indeed, the enhancement of supply-side capacities requires a gamut of key services, facilities and infrastructure as illustrated in figure 1 below.

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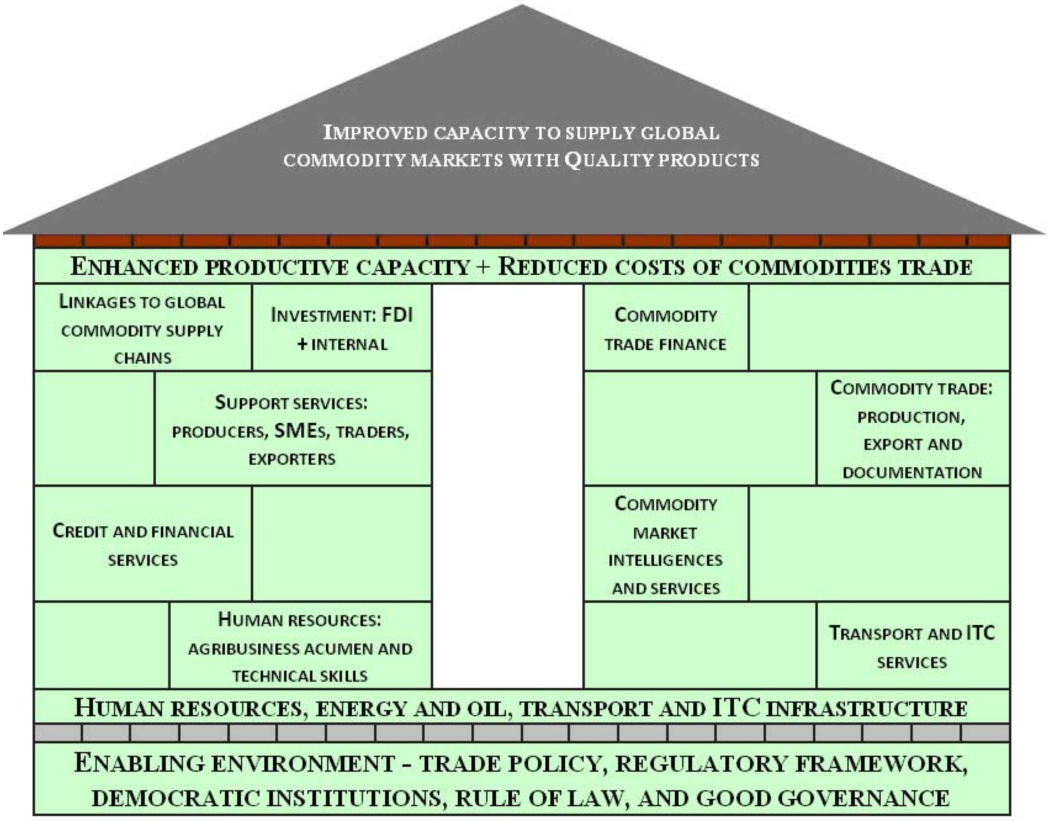
[17] Public (mandatory) standards are set by the public organizations including international standardization bodies such as the WHO/FAO Codex Alimentarius. These standards provide the minimum safety requirements which food and agriculture (agrifoods) exporting countries should meet in order to trade. Private (voluntary) standards are set by the private sector, and as such, are outside the ambit of the WTO framework. Examples of globally recognized private or voluntary standards include British Retail Consortium (BRC) Global Standard, Dutch HACCP, Fairtrade, GlobalGAP, International Food Standards (IFS) and ISO 22000. The safety and quality requirements of private standards are much higher than those of public standards, and are increasingly becoming the benchmarked de facto public standards in international agrifoods trade.

[18] Henson S (2003). Food safety issues in international trade. In: Laurian J. Unnevehr (ed.). Food Safety in Food Security and Food Trade, Focus 10 – Brief 5, IFPRI, Washington D.C.

[19] STDF provided project funds which enabled UNCTAD to implement capacity-building – training of inspection force - and GlobalGAP certification of pilot farms in Guinea, and organic certification and capacity-building project in the horticultural sector in Mozambique.

[20] UNCTAD (2004). São Paulo Consensus. TD/410.

Figure 1
Building blocks for enhancing supply-side capacities in CDDCs



Source: Adapted and modified from ESCAP (2004).
Addressing supply-side constraints and capacity-building, Bangkok, Thailand (p.3).

37. The schematic overview clearly shows that an enabling environment is a *sine qua non* for all the other key inputs and services that would enable developing countries improve supply-side capacity and access commodity markets and supply quality products.

38. The two vertical pillars support the mutually reinforcing objectives: (a) enhancing productive capacity of key stakeholders in commodity sectors (left-hand pillar); and (b) reducing the cost of production and trade in commodities (right-hand pillar). Access to productive inputs (e.g. agrochemicals, seeds, land, affordable credit, labour,), business and technical skills, strong linkages to global value chains, and investment – FDI and domestic – are necessary prerequisites to address supply-side constraints.

39. To increase returns on investments, cost reduction is key (right-hand pillar). Fixed and running costs, including transaction costs (e.g. information and contracting, finance, transport, and administrative fees), [21] must be minimized so that it is financially rewarding for those engaged in the commodity sectors.

40. For example, border delays caused by cumbersome administrative obstacles – customs, tax procedures, quarantine inspections – reduced trade volumes by 1 per cent. And

[21] ESCAP (2004). Addressing supply-side constraints and capacity-building, Bangkok, Thailand.

a day delay at the wharfs reduced exports of highly perishable products, particularly high value fruits and vegetables, by 7 per cent.[22]

41. UNCTAD and several other international and regional agencies – ITC, UNIDO and the multilateral and regional development banks – have programmes to assist CDDCs to improve their productive and trade capacity. However, the persistence of the commodities problématique into the twenty-first century suggests that these efforts are insufficient. And in the light of the multiple inputs and services required to develop supply-side capacities in these countries, multi-sectoral partnerships are key in leveraging the core competencies of partners, networks, complimentary resources and expertise.

42. One area would be to scale up financial and trade-related technical assistance to help strengthen local capacity including small producers and producer organizations through AfT.[23] The AfT facility has a large portion of its funds earmarked for infrastructure development and institutional capacity-building. Supply-side capacity enhancement in commodities sectors should be an integral part of AfT, with specific budget allocations.

D. Market-based instruments

1. Commodity finance

43. Finance is the lubricant for sustained economic growth and development. However, CDDCs, access to affordable agricultural commodity credit, financial services and investment, remain critical impediments to productivity, competitiveness, expansion and growth, and benefitting from higher commodity prices in international markets. Often, fixed capital investments in, and financial support to, agriculture in most developing countries have not only declined in real terms in the past 30 years, but they are also disproportionate to the sectors' contribution to broad-based economic growth, including employment creation and domestic savings, and livelihood sustenance.

44. Total public investment in CDDCs, for instance, had declined from 7 per cent to 4 per cent over the past 30 years. Similarly, ODA flows to agriculture have declined sharply, from 18 per cent in 1979 to 4 per cent in recent years.[24]

45. Although agriculture contributes 36 per cent of the GDP of the West African Economic and Monetary Union (WAEMU), it receives the lowest share of private credit. This limits access to affordable bank credit and financial services for small producers and SMEs.[25] Nigeria's agriculture accounts for 40 per cent of GDP, yet receives only 1 per cent of commercial bank loans.

46. Access to affordable credit is limited due to many obstacles such as high costs of financing, lack of collateral, insufficient information and limited business skills.

47. Key concerns from the commodity financier's perspective include low capacity of domestic banks to design appropriate financing products, high operational costs and price

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[22] World Bank (2006). *Trading on Time*, International Finance Corporation, The World Bank, Washington, D.C.

[23] The European Union remains the largest contributor to trade-related assistance (TRA) worldwide, which amounts to around euro 1 billion per year (or nearly 50per cent of all TRA)

[24] UNCTAD (2010). UNCTAD Policy Brief No. 18 December 2010 (UNCTAD/Press/PB/2010/8). Available online at http://www.unctad.org/en/docs/presspb20108_en.pdf.

[25] IMF (2010). Short- Versus Long-Term Credit and Economic Performance: Evidence from the WAEMU. IMF Working Paper (WP/10/115). Available online at http://www.imf.org/external/pubs/ft/wp/2010/wp10115.pdf.

volatility, and lack of confidence in the ability of small producers to meet volume quality and volume requirements. Medium- and long-term agricultural commodity financing is also subject to political instability, poor macroeconomic performance, weak or missing enabling policy environment and supportive services.

2. Structured commodity financing

48. Over the past two decades, structured commodity finance (SCF) has been developed to address the financing needs of main operators of commodity supply chain in developing-country markets. Compared with traditional balance-sheet based financing which focuses on the creditworthiness of borrowers, SCF is based on transactions, and focuses on the performance capacity of borrowers. That is, structured finance mechanisms encourage banks to finance borrowers throughout the supply chain (i.e. producers, traders, transporters, processors and exporters).[26] As such, an understanding of business relationships, financial skills and cooperation between banks' key players in commodity supply chains is necessary.

49. In recent years, some local banks and microfinance institutions (MFIs) in some CDDCs have applied or are developing structured finance tools to meet their agricultural commodity financing needs, in particular, that of small producers and SMEs. These market-based financing tools include warehouse receipt financing and inventory credit, financing under contract farming and factoring/receivable discounting.[27]

50. The development of structured financing instruments is an alternative, market-based mechanism that may help resolve agricultural commodity financing problems facing CDDCs. However, it is not a "magic bullet". Like all new techniques, there are teething problems, in particular because it entails significant risks, requires higher management skills, and adaptation to existing regulatory and legislative frameworks in CDDCs. Several Eastern and Southern African (ESA) countries have made remarkable progress in piloting warehouse receipt system and inventory credit. The United Republic of Tanzania uses warehouse receipt financing for coffee, cashew and cotton and paddy rice. Madagascar's inventory credit system is being developed in collaboration with MFIs.

51. However, the further development of these instruments in the ESA region has been hampered by institutional weaknesses, capacity constraints, infrastructure deficits, and uncertainty in the legal and regulatory frameworks. These constraints can be overcome through well-thought out and executed multi-stakeholder partnerships (PPPs).

3. Risk management

52. Risk sharing is a crucial factor for local banks and MFIs in agricultural commodity finance settings. Given the persistent problems associated with agrifoods and commodity production and trade (discussed in box 1), risk premiums are high. Therefore, risk-sharing between the financier and borrower(s) becomes an important consideration.

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[26] For a comprehensive review on the development and operation of new financing instruments and mechanisms such as structured commodity finance, supply chain finance and inventory finance see UNCTAD (2010). Access to commodity finance by commodity-dependent countries. TD/B/C.I/MEM.2/10. Available online at www.unctad.org/en/docs/cimem2d10_en.pdf.

[27] Under the EU-funded All ACP Agricultural Commodities Programme (AAACP), UNCTAD, in partnership with the Caribbean Development Bank, supports the development of factoring and invoice discounting as a financing technique to improve farmers' access to finance. This trade finance instrument will reduce farmers' cash-flow problems especially in the light of delayed payments from buyers.

53. PPPs would help reduce risk exposure, better utilize the comparative advantages, and expand the portfolio of agricultural commodity finance. There are several ongoing risk-sharing arrangements.

54. The Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development (OFID) and the International Finance Corporation (IFC) provided US$120 million to Export Trading Group (ETG), one of Africa's largest integrated agricultural supply chain operators. ETG has been able to use the funds to expand finance agricultural commodities trade in India, Kenya, Malawi, the United Republic of Tanzania, Uganda and Zambia. OFID also signed a smallholder risk-sharing agreement with Standard Bank. About 75,000 smallholder farmers and SMEs in Ghana, Mozambique, the United Republic of Tanzania and Uganda are now able to access credit.[28]

55. The Alliance for a Green Revolution in Africa (AGRA) collaborates with commercial banks in Kenya, Uganda, the United Republic of Tanzania, Ghana and Mozambique, lending credit to small-scale farmers and agribusinesses. Using $17 million in loan guarantee funds, it leveraged $160 million in affordable loans to agriculture.[29]

56. In August 2010, Nigeria's Central Bank (CBN) and AGRA unveiled the Risk-sharing System for Agricultural Lending (NIRSAL), to help capitalize smallholder farmers, agro-processors, agribusinesses and input suppliers. Working with commercial banks, AGRA and CBN will develop innovative financing mechanisms, while NIRSAL focuses on capacity-building and deployment of risk-sharing instruments.[30]

57. The development of MFIs over the past 30 years has opened new opportunities for expanding credit to farmers in collaboration with banks and MFIs. In Niger and the United Republic of Tanzania, commercial banks provide lines of credit or refinancing to MFIs, who in turn lend to farmers or producer groups against stocks. Under this arrangement, commercial banks are willing to work with MFIs that have clear strategies, extensive rural networks, strong credit recovery rates and secure financing instruments.

58. Financial institutions play a pivotal role toward resolving problems associated with access to commodity financing services and affordable agricultural credit. However, these institutions acting alone cannot accomplish the tasks; nor can governments, businesses, corporations or donor agencies. It requires collaborative partnerships, leveraging on the core competencies of key partners – governments, regulators, banks, MFIs, donor agencies, and not-for-profit organizations – to develop and implement collective solutions.

E. Information technologies and commodities nexus

59. Harnessing the power of information technologies can help resolve persistent problems in commodity production and trade. Provision of market information and services and harnessing the power of the Internet are two such areas.

1. Market information and services

60. Accurate, up-to-date and timely delivery of vital commodity market information and intelligence is crucial for improving value-chain efficiencies for stakeholders engaged in global commodity value chains.

[28] For a detailed description of funds raising capital for agriculture development in Africa see http://blogs.reuters.com/africanews/2010/08/24/african-agricultural-finance-under-the-spotlight/.

[29] Anan K (2010). "Africa's Green Revolution Forum: Initiating a Quantum Leap Forward". African Green Revolution Forum, 2-4 September 2010.

[30] Op. cit.

61. Market information includes, *inter alia*, agricultural credit and financial services, commodity prices, exchanges and warehouse facilities, government policies, futures markets, profiles of exporters and importers, and R&D innovations. It also covers safety and quality standards, supply and demand situation, transport services and charges, storage and packaging, and weather reports.

62. In some instances, vast amounts of information are available. However, the information is either restricted by business confidentially or not systematically collected, organized and disseminated free of charge, or at an affordable cost to stakeholders, which should be the target of PPPs.

63. However, even when information is available in the public domain, the asymmetry in access to commodity market information is highly problematic. Often, access to strategic data is made difficult because the technologies (e.g. computers) are too complicated and not user-friendly. This makes it difficult for smallholder farmers, SMEs and traders to access the information and make informed decisions, for example, when to plant or harvest, when to sell or hedge, or negotiate prices.

64. UNCTAD has developed two information tools – InfoShare and InfoComm – which provide information on commodity prices throughout the market chain, and analyses on international commodities markets, respectively.[31] Through the EU-funded AAACP, UNCTAD is working, together with the Caribbean Community (CARICOM) and key regional and national partners to develop a “Regional agricultural marketing information system” for the Caribbean region.

2. Commodity exchanges

65. In the current context, commodity exchanges can play a useful role in delivering services that governments no longer perform. These include, for example, price risk management through market-based instruments for coping with the price volatility that is endemic to commodity markets. Also, access to exchange-generated market information, for example on prices, can be a useful signalling guide for small producers, which helps to improve their cropping and selling decisions, and thus their income, as well as to reduce information asymmetries that often put such producers at a disadvantage in negotiations with better-informed intermediaries. In some developing countries, exchanges have generated significant upgrading of marketing infrastructure through the establishment and guarantee of a reliable delivery system for the physical commodity, including logistics, storage and quality assurance. In others, exchanges have improved access to cheaper sources of finance by reducing risk for both producers and banks.

66. These benefits do not automatically flow from the establishment of a commodity exchange. At the same time, a commodity exchange is not a panacea for dealing with all the challenges, both national and international, faced by low-income commodity-dependent developing countries. Instead, an exchange may be considered as one potential element – albeit an important and dynamic element – within a market-oriented policy strategy for commodity sector development.

67. Multi-stakeholder partnerships could be used to set up exchanges. In the first place, a strong partnership should be established between the exchange and the Government. It plays an oversight role, disciplining those who try to manipulate markets and ensuring the sanctity of contracts. It plays as well an enabling role applying an appropriate legal and regulatory framework, providing “missing” elements of the physical infrastructure and signalling support for fair and transparent market operations.

[31] For details see www.unctad.org/infocomm/.

68. Technology-enabled distribution partnerships could be enhanced to deliver exchange services to hard-to-reach commodity producers. Exchanges should be able to get integrated collateral management – including electronic warehouse receipt systems – to improve logistics efficiency and reduce handling costs; partnerships between exchanges and other agencies can drive the provision of integrated solutions that incorporate input supply as well as advisory and support services on a broad range of issues facing commodity sector participants. These might include insurance provision, climate and soils analysis, crop management, irrigation advice and fundamentals forecasting. An exchange, particularly one whose services are delivered via the Internet, can provide the platform for "one-stop shop" access to these valuable services.

69. Multi-stakeholder partnerships among international institutions, particularly donor agencies and CSOs, are vital to enhance the role of exchanges as a means of addressing the commodity problem in CDDCs. Most of the exchanges in CDDCs, especially in Africa, have been set up by governments in cooperation with donor agencies, and continue to be donor-driven. With the support given by the "All EU AAACP", UNCTAD has been able to cooperate with other agencies and strengthen its role in advocacy, sharing experiences and coordinating resources and expertise in improving the functioning of these exchanges.

3. Harnessing the power of Internet

70. In an era of "knowledge-based economy", the Internet empowers all actors in global commodity value chains to access vital information online, and in real time. Time and distance therefore become irrelevant.

71. Business-to-consumer marketing is another growth industry that offers solutions to long-standing commodity problems. Café Britt sells gourmet coffee direct from countries of origin – Costa Rica, Peru and Mexico – to consumers worldwide using its 1-800-Go-Britt telephone number. Café Britt completes the entire cycle of growing, processing, exporting, importing and selling directly from the farm to the door via its website.[32] By the click of mouse, consumers are able to access gourmet coffee beans direct from Costa Rica and have it delivered to them by express cargo (e.g. DHL) within a week. [33]

72. Also, using the Internet, producers or traders are able to take their consumers (and buyers) on a virtual tour of their farms, showing, for example, their harvesting and processing methods. This leaves the consumer with the perception of buying products that are fresh, of high quality, and most importantly, can be trusted.

73. The opportunities are limitless and remain untapped. What is required is PPPs that develop synergies and explore cost-effective ways to benefit from this growth industry.

F. Productivity growth and food security: agriculture R&D

74. Global food security and commodity production and trade are inextricably linked. Rising food and energy prices invariably raise food security concerns. Low production, tight reserves and high demand for maize during the 2007–08 food and energy crisis, for example, had a knock-on effect through the food industry. Prices for maize, stock feed for livestock (e.g. cows), soybean and wheat soared to 30-year highs. This led to riots across three dozen countries, political fallouts, and export bans and restrictions as countries' governments sought to prioritize the food security needs of their own populations.

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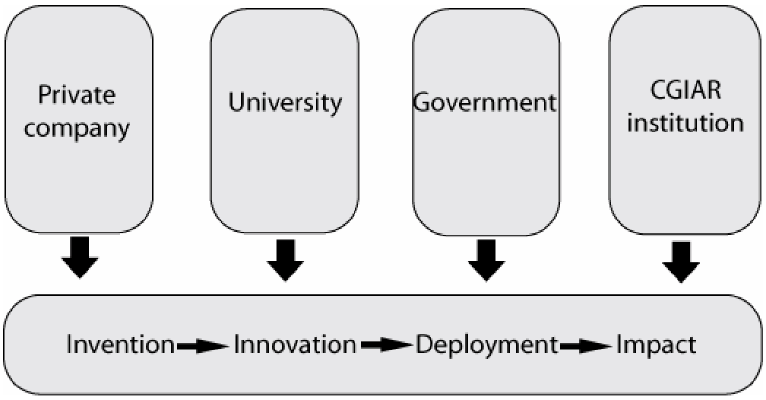
32 For details see www.cafebritt.com.

33 Brown S (2000). e-Commerce: marketing tool or revenue producer. Coffee & Tea Trade Journal, Vol.172, No.6., June/July 2000. Available online at: www.teaandcoffee.net/0600/special.htm.

75. Reduced investment in agriculture and in R&D has been identified as one of the structural causes of the recent food crisis and the subsequent food insecurity which afflicted several net food-importing countries. High productivity growth in food supplies is attainable through R&D and innovation (e.g. high-yielding varieties (HYVs)). Agricultural R&D is normally undertaken separately by public sector-funded institutions (e.g. universities), private sector (e.g. Syngenta) or international agencies (Consultative Group on International Agricultural Research – CGIAR). It has, however, emerged in recent years that working in isolation with limited budgets and cylindrical objectives has not only frustrated progress in R&D in these institutions but they have also reduced the potential benefits of complementarity.

76. In response to this, there has been a steady surge in PPPs in the past decade or so (figure 2). These PPPs work closely with credible CSOs to deliver on agricultural R&D. The main reasons for this shift are to share the prohibitive costs of R&D, add value through innovation (e.g. biotechnology), capitalize on core competencies and maximize progress.[34]

Figure 2
Multi-stakeholder partnerships



Source: Brown, S. (2000). e-Commerce: marketing tool or revenue producer. *Coffee & Tea Trade Journal.* Vol.172, No.6., June/July 2000. Available online at: www.teaandcoffee.net/0600/special.htm.

77. Multi-stakeholder partnerships, when well designed and executed, do increase productivity growth, deliver new technologies (e.g. HYVs) and swiftly disseminate research results to those with the means and resources to use them. There are many examples of partnerships engaged in agricultural food and commodities R&D, including the following.

78. The CGIAR group is the world's foremost institution that conducts R&D in key areas, from agriculture to biodiversity to water. It has 15 centres (e.g. International Rice Research Institute (IRRI), Los Baños, Philippines) spread across the globe, and collaborates with governments, private sector, multinationals, and not-for-profit organizations. Over 25 per cent of its partnerships are with multinational firms. Interestingly, CGRIA has 45 exclusive collaborations with the private sector, excluding the public sector and not-for-

[34] Niebur B (2009). The Power of Partnerships: A Private-sector Perspective. In World Food Security – Can Private Sector R&D Feed the Poor? A.G. Brown (ed.), The Crawford Fund, Canberra: 46.

profit organizations.[35] CGIAR R&D costs about $428 million, of which 60 per cent ($257 million) is invested in research.[36]

79. In Africa, partnerships and efforts are underway in the agricultural sector to drive seed policy reform, link the public and private sectors in plant breeding, and create enabling environments for investments in R&D. Establishment of a seed consortium to promote production, marketing and the use of improved seed is work in progress, and will include Alliance for a Green Revolution for Africa (AGRA), CGIAR and local firms.[37]

80. The Crop Intensification Program, a public–private partnership of the Government of Rwanda, has effectively distributed fertilizer to small farmers since 2007. The Government imports the fertilizer and auctions it off to private distributors, who then transport and sell it to communities and farmers. This has increased maize yields significantly.

G. Governance, accountability and sustainability in extractive industries

81. Abundance of natural resources can either be a “blessing” or a “curse” for a country's on economic growth prospects. While there are examples of natural resource-rich (NRR) countries that have achieved sustained economic growth from extractive resources – particularly oil and gas, minerals and metals – several other such countries have been afflicted by conflicts, political instability and rent-seeking behaviour.

82. Botswana’s diamond windfalls transformed a poor country – with per capita GDP below $80 (1970s) – into an economic miracle of the 1990s. Prudent management, political stability and wise investments in physical capital and social infrastructure had enabled Botswana to enjoy 35 years of impressive economic growth, averaging 10 per cent per year.

83. Mineral wealth in Chile financed railways development, modernized agriculture and improved wine-making. Peru’s copper boom led to townships, banking and financial services in the 1860s. The phosphate-rich, tiny Pacific island nation of Nauru enjoyed extremely high per capita income (p.c.i.) of $15,000 in the 1960s and 1970s. Zambia, a poor country in 1920s, achieved the highest p.c.i. in sub-Saharan Africa by 1964, thanks to copper exports.

84. However, natural resource abundance is not a panacea for economic growth. NRR countries such as Angola, Congo, Ecuador, Nigeria, Sierra Leone and Yemen exhibit very poor social indicators. Similarly, Central African Republic, Chad, Guinea-Bissau, Madagascar, Mali and Niger – all NRR countries – have experienced low or negative p.c.i. in the last four decades or so.

85. The experiences of the latter group of countries suggest that high economic growth rate is inversely related to abundance in natural resources. Similarly, extensive dependence on extractive resources for GDP is strongly correlated with lower social indicators, slow growth, income inequality and abject poverty.

[35] Spielman DJ, Hartwick F and von Grebmer K (2007). Public-private sector partnerships and developing-country agriculture: Evidence from the International Agricultural Research System. IFPRI, Washington, D.C: 5.

[36] von Braun BJ and Ferroni M (2008). Public-private partnerships in agricultural research: Towards best practice and replicable models. The World Bank, Washington D.C.

[37] Ferronia M (2010). Can private-sector R&D reach small farms? In World Food Security – Can Private Sector R&D Feed the Poor, A.G. Brown (ed.), The Crawford Fund, Canberra: 11–12.

86. Also, some resource-rich countries are hotbeds for wars and civil unrest.[38] Examples include Angola, Papua New Guinea (Bougainville), Indonesia (Irian Jaya), Niger and Sierra Leone. While the "Dutch disease" crowds out investment in tradable sectors, poor governance, lack of transparency and accountability mechanisms, and weak institutions have led to rent-seeking behaviors and/or capital flight.

87. In response to this, multi-stakeholder partnerships have emerged in the extractive industries dealing with key issues such as transparency and accountability, governance, revenue sharing, corporate social responsibility and environmental concerns.

88. The Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development collaborates with the United Nations Commission on Sustainable Development to produce the influential "Forum Policy Framework". The Framework covers many of the issues including challenges and opportunities in the mining sector.[39]

89. The Extractive Industries Transparency Initiative (EITI)**,** a global coalition, emphasizes governance, transparency and accountability, and information disclosure of windfall revenues and costs in extractives industries. EITI has cross-sectoral support embracing 24 countries, international organizations, oil and mining companies, and not-for-profit groups.[40]

90. NRR developing countries that encounter problems of governance, transparency and accountability in extractive industries have been encouraged to adopt the anti-corruption regime of the EITI. Also, NRR developing countries may consider South–South cooperation to share and learn development experiences.

IV. Concluding remarks

91. Commodities issues are once again back on the international development agenda because of recent developments in global commodity markets, but problems associated with commodity production and trade persist. The sheer complexity and multiplicity of the commodity problématique – export subsidies and domestic support; price volatility; high costs of compliance agrifood safety and quality standards; lack of and/or access to affordable credit and financial services, market information, and R&D technologies; decline real investment in agriculture; weak to "missing" institutional capacity and human resources; poor transparency, accountability and governance, etc. – are such that no one institution, organization or country would be able to resolve them by acting alone.

92. Multi-stakeholder partnerships among key stakeholders – public and private sector and CSOs – are a key mechanism toward resolving these problems. This is particularly so as they bring some innovative approaches addressing these perennial commodity problems. These partnerships already operating in the commodities sectors around the world need to be scaled up, including being recapitalized. The Doha Development Round of trade negotiations will benefit CDDCs if it is speedily and successfully concluded in a manner that addresses the development concerns of this group of countries. These notwithstanding, sharing and learning of development experiences among CDDCs through a South–South cooperation framework is worth further research and analysis.

[38] Bannon I and Collier P (2003). Natural resources and violent conflict: Options and Actions, World Bank, Washington D.C.: ix–4.
[39] For more details on IGF see http://www.icmm.com/page/6133/intergovernmental-forum.
[40] For more details on EITI see http://eitransparency.org/.