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Review of UNCTAD efforts to strengthen commodity production in commodity-dependent developing countries and improve food security and export competitiveness in light of the post-2015 Sustainable Development Goals

Note by the UNCTAD secretariat

Executive summary

This note provides an overview of UNCTAD activities that are of benefit to commodity-dependent developing countries (CDDCs) in light of the post-2015 Sustainable Development Goals. The key message is that commodity-based development is at a crossroads. The current commodity bust offers an opportunity for CDDCs to move towards faster implementation of certain policy recommendations of UNCTAD, in particular the need for structural transformation. To take advantage of emerging opportunities in the global trading environment, UNCTAD reasserts the need for CDDCs to accelerate the process of moving up commodity value chains and maximizing the development linkages of the commodity sector. In doing so, CDDCs need to seize opportunities in the emerging global environment that includes World Trade Organization ministerial decisions on agricultural subsidies and cotton, adopt a climate-smart development agenda and embed science, technology and innovation in all areas.

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Introduction

1. Commodity dependence remains a central concern for most developing countries. UNCTAD classifies a developing country as a CDDC when its commodity export revenues contribute to more than 60 per cent of its total merchandise export earnings.[1] Based on this definition, there were 89 CDDCs in 2013-2014. This number has not changed drastically over the past years. Commodities accounted for more than 80 per cent of the export earnings of 62 of these economies, and they are thus considered extremely commodity dependent. Half of these latter economies are in Africa.

2. This note provides an overview of UNCTAD efforts in 2013–2015 to assist CDDCs, in accordance with the terms of reference of the Multi-year Expert Meeting on Commodities and Development. Chapter I highlights the core activities of the Special Unit on Commodities. Chapter II describes the effect of recent commodity market trends on key macroeconomic variables in CDDCs. Chapter III highlights enduring policy lessons for CDDCs. Chapter IV underlines selected issues of relevance to CDDCs.

I. Core support of UNCTAD to commodity-dependent developing countries in 2015

3. The Special Unit on Commodities was established in 2008 to continue the long-standing tradition of UNCTAD of supporting CDDCs along its three pillars of work, namely research and analysis, consensus-building and technical cooperation. This chapter describes some of the Unit's core activities in 2015 along these lines. More detailed information on the Unit's work and UNCTAD activities and products of relevance to CDDCs are provided throughout this note.

4. With regard to research, the Special Unit on Commodities produced the following two biennual reports: *Commodities and Development Report 2015: Smallholder Farmers and Sustainable Commodity Development* and *State of Commodity Dependence 2014*. Both reports proved to have a high level of political and wider relevance, particularly given the major international development-related events that took place in 2015.

5. Preliminary findings and key policy recommendations from *Commodities and Development Report 2015* were disseminated at key events and meetings throughout 2015 (see box 1). The report was launched as part of UNCTAD events organized on the margins of the Tenth Ministerial Conference of the World Trade Organization, held in Nairobi in December 2015. The Conference's decisions on agricultural products and market access for cotton confirmed political will regarding two of the report's key policy recommendations.[2] Similarly, one of the key messages of the report, regarding the central role smallholders may play in a more environmentally sustainable development agenda, found resonance in light of the historic agreement reached at the twenty-first Conference of the Parties of the United Nations Framework Convention on Climate Change in December 2015.

[1] For a full explication of the methodology, see UNCTAD, 2012, *The State of Commodity Dependence 2012* (New York and Geneva, United Nations publication).

[2] The relevance of these decisions for CDDCs is discussed in chapter IV.

Box 1. Dissemination of *Commodities and Development Report 2015*

The report was launched in December 2015. Selected findings from the report had been previously disseminated to policymakers, international development agencies, financing institutions, farmer organizations and civil society representatives, at a workshop organized by the Trade and Markets Division of the Food and Agriculture Organization of the United Nations, held in Rome in October 2014, and at the following events in 2015:

1. Tenth anniversary of European Union-Africa Cotton Partnership event, organized by European Commission and Government of Benin (Cotonou, Benin, March)
2. Senior Policy Seminar of African Economic Research Consortium (Maputo, March)
3. Inter-agency meeting of Zero Hunger Challenge (Milan, Italy, July)
4. High-level seminar on agribusiness investments in partnership with farmer organizations in African, Caribbean and Pacific countries, organized by European Commission (Milan, Italy, October)
5. Regional conference on promoting regional agricultural trade and value chains for 2025, organized by New Partnership for Africa’s Development and Economic Community of Central African States with support from Technical Centre for Agricultural and Rural Cooperation (Malabo, November)

Finally, the report was discussed and endorsed by a panel composed of five civil society and private sector representatives, held in Geneva, Switzerland in December 2015.

6. The wide variety of institutions and stakeholders in the commodity community who have been referring to *State of Commodity Dependence 2014* since its publication have confirmed its position as the reference publication offering a comprehensive update on commodity dependence.[3]

7. As in previous years, the Special Unit on Commodities contributed to the *World Economic Situation and Prospects* report of the United Nations and the report of the United Nations Secretary-General on world commodity trends and prospects. Both reports provide up-to-date information on the latest developments in commodity markets.

8. Throughout 2015, UNCTAD continued to provide substantive support to the United Nations High-Level Task Force on Global Food and Nutrition Security and the Zero Hunger Challenge initiative of the United Nations Secretary-General. Established in 2008, in the aftermath of the food crisis, the High-Level Task Force has developed a comprehensive framework for action, based on a twin-track approach, which seeks to generate concerted responses that address the immediate needs of vulnerable populations. In addition, it aims to build the long-term resilience of such vulnerable groups. With particular relevance to this latter objective, the Special Unit on Commodities co-chairs Zero Hunger Challenge Working Group 3: All Food Systems Are Sustainable, in close collaboration with the Division on International Trade and Commodities. The compendium of all working group contributions was finalized in 2015.

9. With regard to consensus-building, the Special Unit on Commodities organized two key meetings in Geneva, the seventh session of the Multi-year Expert Meeting on Commodities and Development and the sixth Global Commodities Forum. Synergies between the two meetings allowed experts and policymakers to discuss recent developments in commodity markets and share country experiences of policy options for

[3] For example, on 12 August, *The Economist* published a series of maps based on the report (see http://www.economist.com/blogs/graphicdetail/2015/08/commodity-dependency) and on 29 September, Reuters referred to it in an analysis of the commodity market (see http://www.reuters.com/article/commodities-prices-supercycle-kemp-idUSL5N11Z2RD20150929).

addressing commodity price volatility at national, regional and international levels. The major features of the Forum are highlighted in box 2.

Box 2. Global Commodities Forum: Policy options for commodity-based development

The annual Global Commodities Forum, organized by the Special Unit on Commodities, is a free public event that attracts participants from across the entire commodity value chain to debate critical development-oriented topics related to commodities. The Forum helps frame international policy discussions on commodities and development issues. One of its key achievements has been its attraction to private sector companies, who participate in discussions on how to address development challenges in commodity-based economies.

The theme of the sixth Forum was “Trade in commodities: Challenges and opportunities”. Topics discussed included the implications of the significant shifts in commodity markets in 2014 – especially the fall in oil prices – for resource-rich developing countries, as well as for other stakeholders in the commodity value chain.

Key achievements of the Forum over the years include promoting the need for a broad recommitment to agricultural and rural development, engaging with commodity-trading companies in rethinking their business practices in developing countries, from efficient transactions to equitable relationships, and establishing a Working Group on Commodities Governance, at the recommendation of the fourth Forum, which was tasked with elaborating recommendations for improving transparency and accountability in the commodity value chain.

10. In October 2015, UNCTAD hosted the United Nations Conference for the Negotiation of a Successor Agreement to the International Agreement on Olive Oil and Table Olives, 2005. The Conference led to the successful adoption of a new agreement, expected to come into effect in January 2017. UNCTAD also hosted the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development, an annual meeting that fosters dialogue between member State Governments, mining companies and industry associations and aims at coordinated action in strengthening good governance in the mineral resources sector.

11. The Special Unit on Commodities helped convene the Seventeenth Africa Oil, Gas and Mines Conference and Exhibition, held in Khartoum in November 2015. The theme of the Conference was sustainable job creation. As did previous events, the Conference included the participation of high-level policymakers, including ministers and senior representatives from the private sector, who discussed specific challenges related to extractive industries.

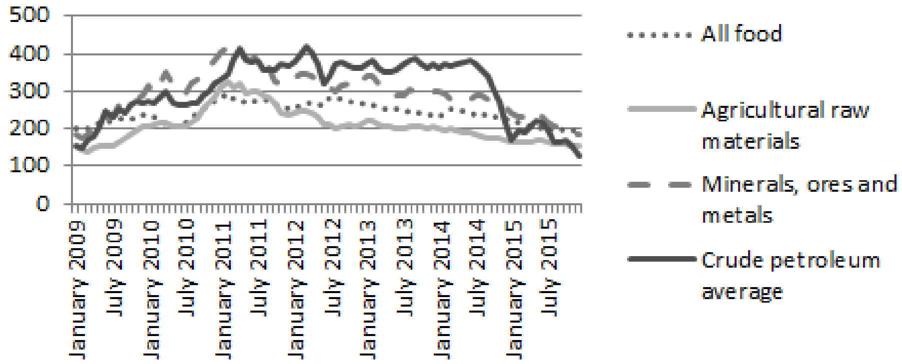
12. With regard to technical assistance, the Special Unit on Commodities conducts activities mostly aimed at strengthening policymaking capacity in CDDCs. A project is currently being implemented in minerals-producing countries in central Africa (see box 3). The implementation of another multi-State project, which aims at strengthening capacity in generating benefits from the use of cotton by-products in member States of the Common Market for Eastern and Southern Africa, is slated to begin in 2016.

II. Recent developments in commodity markets and macroeconomic consequences for commodity-dependent developing countries

1. Key market trends

13. There have been two major recent developments in commodity markets in recent years – a sharp drop in prices and a decline in price volatility – yet both remain at levels higher than before the commodity boom in 2004–2011. As shown in figure 1, commodity prices have experienced a significant drop since their 2011 peak with, as of mid-2014, a rapid decline in oil prices, which fell by 52 per cent between August 2014 and January 2015. In comparison, metals prices dropped by 12.8 per cent over the same period. Prices of food and raw agricultural products have proven more resilient, with price falls of -7.5 per cent and -8.3 per cent, respectively.[4]

Figure 1
Monthly commodity price indices, 2009–2015

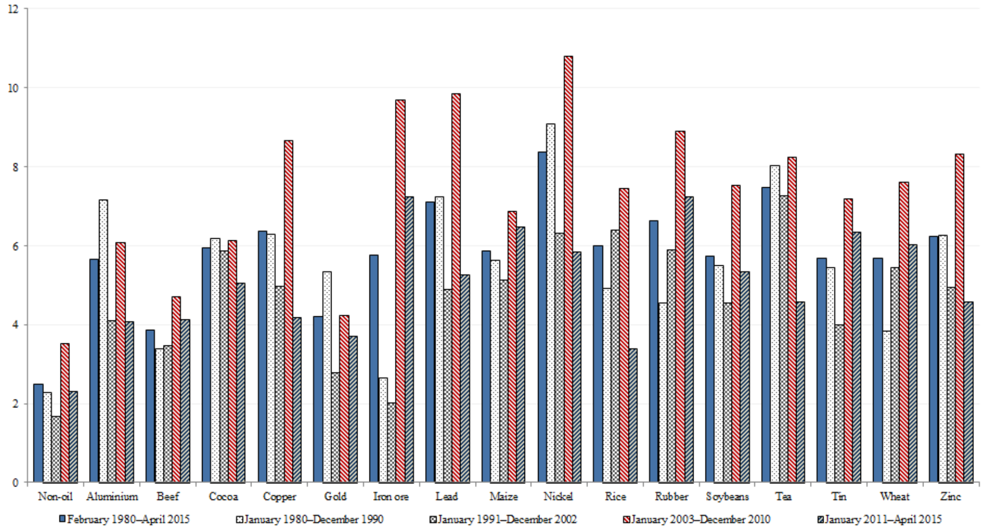


Source: UNCTAD secretariat calculations based on data from UNCTADStat, available at http://unctadstat/EN/Index.html.
Note: 100 = 2000.

14. The downturn in commodity prices was associated with a relative decline in price volatility, after a dramatic rise during the commodity boom. For example, the average volatility of the UNCTAD non-oil commodity price index soared to 3.6 per cent from July 2003 to March 2011, from below 2 per cent in 1991–2002, then decreased to roughly 2.3 per cent from January 2011 to April 2015. A similar pattern may be observed with regard to many specific commodities, as shown in figure 2.

[4] For further details on market trends, see TD/B/C.I/MEM.2/33.

Figure 2
Average volatility measured as standard deviation of changes in monthly prices, selected commodities
(Percentage)



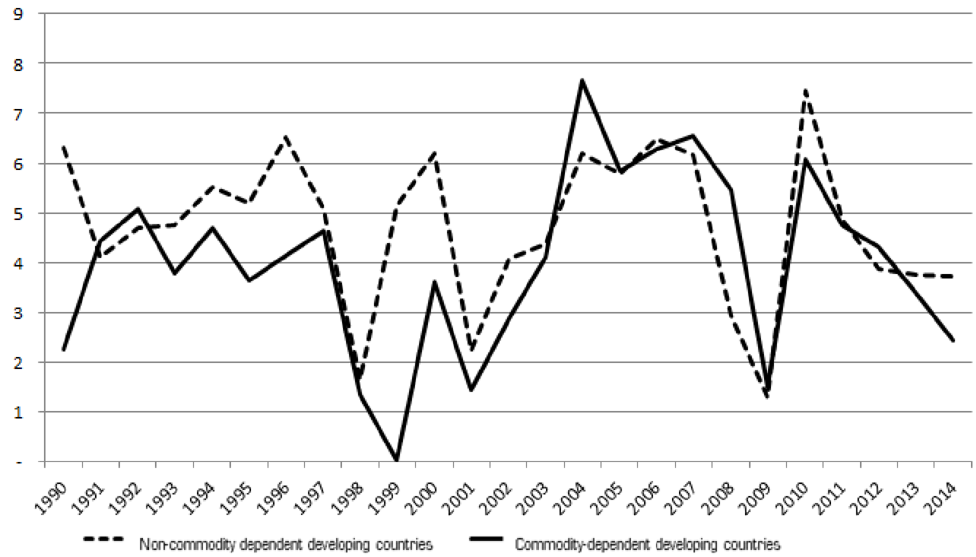
Source: JD Nkurunziza and K Tsowou, forthcoming, Volatility in global commodities markets and implications for diversification policies, *International Journal of Emerging Markets*.

15. It is difficult to predict whether this reversal in commodity prices represents the end of the commodity super cycle. A number of structural factors, including geopolitics, changes in the global macroeconomic environment, demographic pressure, resource scarcity and climate conditions, may reverse this trend. Similarly, price volatility may bounce back, in particular if prices rebound. The financialization of commodities and unpredictable supply shocks, notably due to erratic weather patterns, may translate to further financial speculation on commodity markets, with higher prices and volatility.

16. Current market trends have dramatically impacted the export revenues of major commodity exporters, with a direct effect on overall growth prospects. While CDDCs had overperformed compared with other developing countries in 2003–2009 in terms of economic growth, they are now underperforming compared with other developing countries, returning to their historical lower-level growth patterns, as shown in figure 3. Most CDDCs remain both exporters and importers of commodities, which implies that the terms of trade effect induced by the reversal of commodity prices may have partially offset the welfare loss due to the drop in their export revenues. For example, following the recent oil price shock, the International Monetary Fund significantly reduced its growth forecasts for most CDDCs. In January 2015, the Fund noted that the “impact of lower oil and other commodity prices on the terms of trade and real incomes is now projected to take a heavier toll on medium-term growth”. [5] In October 2015, the Fund noted that CDDCs had experienced a downgrade in their medium-term growth prospects of almost 1 percentage point of the average of their five-year-ahead growth forecasts since 2012. [6]

[5] International Monetary Fund, 2015, World economic outlook update, available at http://www.imf.org/external/pubs/ft/weo/2015/update/01/pdf/0115.pdf (accessed 20 January 2016).
[6] International Monetary Fund, 2015, *World Economic Outlook October 2015: Adjusting to Lower Commodity Prices* (Washington, D.C.).

Figure 3
Economic growth in commodity-dependent developing countries and non-commodity dependent developing countries in real terms, 1990–2014
(Percentage)



Source: UNCTAD secretariat calculations based on data from UNCTADStat.

17. As the Governments of most CDDCs rely on commodity revenues to balance their budgets, the reversal in commodity markets has had a dramatic impact on public finances. For example, in African CDDCs, public revenues dropped from an average of 26.1 per cent of gross domestic product (GDP) between 2004 and 2007, before the 2008 economic crisis, to 21.2 per cent of GDP between 2011 and 2014. As a result, these countries saw deteriorations in their average primary budget balances between the two periods, from a surplus of 3.6 per cent of GDP to a deficit of 1.8 per cent of GDP.

18. The downward trend of commodity prices has been particularly damaging in States in which Governments may not have anticipated the reversal of commodity price trends, for example by keeping their production costs competitive and managing additional flows of revenue through a stabilization fund. Countries such as Angola, Iraq, Nigeria and the Bolivarian Republic of Venezuela, whose budgets are heavily dependent on proceeds from oil exports, have had to adopt more restrictive budgets relative to previous years. Budget estimates were based on high breakeven oil prices, that is, levels required to balance past budgets. In the Islamic Republic of Iran and the Bolivarian Republic of Venezuela, for example, breakeven prices per barrel were about $130 and $160, respectively. This level was high even by 2014 standards, when the average price of oil hovered between $100 and $110 before starting a dramatic decline in June 2014, reaching an average of about $54 by June 2015. Countries that had built large foreign currency reserves during the commodity boom were also affected. Saudi Arabia, for example, drew on its large foreign currency reserves to cover a shortfall in resources in 2015, and cut some non-essential investments and spending.

19. Lower commodity prices may lead to a surge in public debts and financing costs, as Governments borrow to fill the gap from lost export income and public revenue.[7] In Nigeria, for example, the cost of servicing public debt has dramatically increased following the drop in oil prices, to the extent that debt service costs are expected to

[7] Such a scenario occurred after the commodity countershock in 1977–1979, fuelling the debt crisis in the 1980s.

represent 26 per cent of public spending in 2015.[8] Furthermore, difficulties faced by CDDCs in balancing public budgets have been amplified by weakening national currencies, which suffered from deteriorations of external accounts. In 2014–2015, currencies in many CDDCs, including the Zambian kwacha, Angolan kwanza and Brazilian real, recorded some of their strongest depreciations against the United States of America dollar in several years. Imports became more expensive at a time of reduced export revenue, deepening the trade and budget deficits of these countries. Some countries in which budget deficits are being financed through external borrowing amid an economic slowdown, such as Angola, Nigeria and Zambia, may become exposed to currency risks and debt unsustainability, and thus there is a risk of default in the medium to long term. In the short term, strong indebtedness is expected to lead to deterioration in the sovereign risk and creditworthiness of these countries.[9]

2. Recurring challenges of managing natural resources revenues

20. The management of natural resources revenues raises a number of challenges for CDDCs, related to the difficulty of collecting taxes on commodities and the efficient utilization of such revenues. Tax evasion, notably through transfer pricing mechanisms, results in difficulties in collecting such revenues. As a result of such fiscal arrangements, the tax administrations of CDDCs face important technical issues, such as the use of pricing date conventions that appear to enable the adoption by taxpayers of the most advantageous quoted price. Similarly, adjustments to quoted prices by charging artificial fees to taxpayers in commodity-producing countries through other entities of a group, and the involvement in the supply chain of entities located in no or low-tax jurisdictions, create issues that are difficult for the tax administrations of CDDCs to address.[10]

21. The optimal budget allocation of such revenues is also highly challenging and can lead to rent seeking, conflict and social tensions.[11] Commodity revenues have often been used during commodity booms to accumulate financial assets in the public and private sectors. This practice may be useful in hedging against price volatility and reducing the risks of Dutch disease[12] linked to a massive inflow of revenue, but implies foregone investment in fixed capital or on spending on health and education, which are essential for development.

22. The challenges of mobilizing domestic resources for medium to long-term development remain substantial in many CDDCs, which have generally not sufficiently increased their expenditures in social services. The World Bank, in its country policy and institutional assessment, highlights that the quality of social inclusion and equity policies is lower in resource-rich sub-Saharan African countries than in non-resource-rich sub-Saharan African countries. Rises in public health and education expenditures remain slow and uneven among CDDCs, with dramatic implications for poverty reduction. For example, in Angola, the proportion of public expenditures allocated to health and education rose from

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[8] PricewaterhouseCoopers, 2015, Nigeria's 2015 budget: Fiscal and macroeconomic analyses, available at http://www.pwc.com/ng/en/assets/pdf/nigerias-2015-budget.pdf (accessed 20 January 2016).

[9] United Nations, 2016, *World Economic Situation and Prospects 2016* (New York, Sales No. E.16.II.C.2).

[10] Organization for Economic Cooperation and Development (OECD), 2015, Action plan on base erosion and profit shifting action 10: Transfer pricing aspects of cross-border commodity transactions, available at http://www.oecd.org/ctp/transfer-pricing/discussion-draft-action-10-cross-border-commodity-transactions.htm (accessed 20 January 2016).

[11] P Collier and A Hoeffler, 2005, Resource rents, governance and conflict, *Journal of Conflict Resolution*, 49(4):625–633.

[12] This term denotes an eviction effect that may occur when there is a boom in export revenue, notably from natural resources, which may lead to the appreciation of exchange rates and a loss in the competitiveness of local industries that, in turn, hampers investment and job creation.

2.9 per cent and 5.3 per cent, respectively, in 2000, to 6.3 per cent and 8.7 per cent, respectively, in 2010. However, these levels remain low in comparison to those of most developing countries. For example, according to World Bank indicators, in 2010, the least developed countries as a group dedicated 9.7 per cent of total public expenditures to health.

23. In Africa, the strong growth that countries experienced over the past decade is estimated to have been driven mostly by the high prices of primary commodity exports. Due to this economic boom, the proportion of people living below the poverty line of $1.90 per day (2011 purchasing power parity) decreased in sub-Saharan Africa by 25.4 per cent in relative terms (from 57.1 to 42.7 per cent) between 2002 and 2012. Nevertheless, other regions performed better; this proportion decreased by 57.6 per cent and 54 per cent, respectively, in Latin America and South Asia.[13] *The Millennium Development Goals Report 2015* stated that the poverty situation had worsened in the following CDDCs: Central African Republic; Côte d'Ivoire; Guinea-Bissau; Kenya; Madagascar; Nigeria; and Zambia.[14] Similarly, with regard to the target to halve the proportion of people who suffer from hunger, Chad and Gabon were classified among those that had made marginal progress.

24. Results also vary for other Millennium Development Goal indicators. With regard to child mortality, for example, 18 of the 20 countries "estimated to have been responsible for more than 92 per cent of children under five [years of age] lives saved" by 2015 were African and most were CDDCs.[15] The highest level of progress was registered in Nigeria, although it fell short of achieving the target.

3. Smallholders, food security and export competitiveness

25. *Commodities and Development Report 2015* focuses on small-scale producers. Acknowledging that the size threshold for a small farm differs across countries, regions and socioeconomic contexts, the report focuses on those with 2 hectares or less of land. The report underscores the importance of smallholders for food security, as they control only 12 per cent of all agricultural land but produce more than 80 per cent of the world's food, in value terms. However, as detailed in the report, agriculture has suffered from policy neglect for many decades. As a result, in the poorest CDDCs, in particular in sub-Saharan Africa, agricultural productivity gains remain insufficient to allow for agricultural transformation. However, as noted in *The Least Developed Countries Report 2015: Transforming Rural Economies*, rural transformation "will be central to the quantum leap in the rate of progress required" for the least developed countries to accomplish the Sustainable Development Goals.

26. In addition, *Commodities and Development Report 2015* provides new evidence on the degree of integration of smallholders in the global economy, highlighting that although such integration remains limited, smallholders are vulnerable to negative shocks in international commodity markets. The report states that a better alignment of policies, pledges and actions at national, regional and international levels is needed in order that smallholders, from farmers to other actors along agricultural value chains, may become sustainable business entities. Considering their potential in contributing to the acceleration of poverty reduction, smallholders, including women and youth, must be fully recognized as key development agents, able to improve the export competitiveness of developing countries. In this regard, both *Commodities and Development Report 2015* and *The Least*

13 World Bank, 2015, PovcalNet, available at http://iresearch.worldbank.org/PovcalNet/.

14 United Nations, 2015, *The Millennium Development Goals Report 2015* (New York).

15 Brookings, 2015, 15 million success stories under the Millennium Development Goals, 24 September, available at http://www.brookings.edu/blogs/up-front/posts/2015/09/24-million-success-stories-millennium-development-goals-mcarthur (accessed 20 January 2016).

Developed Countries Report 2015 stipulate the need to mainstream gender considerations into the design of agricultural policies. Doing so will play a key role in achieving Sustainable Development Goal 1 (end poverty in all its forms everywhere) and Goal 2 (end hunger, achieve food security and improved nutrition and promote sustainable agriculture).

III. Enduring policy lessons for commodity-dependent developing countries

27. The challenges facing the Governments of CDDCs may seem daunting, yet progress in achieving development goals may be accelerated through a more systematic adoption of some policy recommendations that UNCTAD has made over the years, which are highlighted in this chapter, including references to recent UNCTAD research or activities of direct relevance to CDDCs.

1. Improve the management of natural resources

28. As emphasized by the multi-stakeholder Working Group on Commodities Governance established in 2014, improving transparency and accountability in the commodity value chain is key to the development of the commodity sector. The situation in Chile illustrates the benefits that may be derived from adopting such an approach. In the mid-1990s, Chile began a process of collective change based on a long-standing process of building a stable political environment, solid institutions and sound macroeconomic policies and a consistent legal framework, including on taxation and investment laws that allowed for substantive increases in the collection of resource revenues, as well as the establishment of three stabilization funds that helped manage commodity revenues during the boom. A pro-transparency agenda was adopted and became increasingly formalized after 2002–2003, with a law in 2008 increasing public access to information and the creation of an independent agency, the council for transparency, to monitor compliance with transparency and access to public data. This process was associated with sustained efforts to improve the management of copper revenues, leading to a structural economic transformation of the Chilean economy and the reduction by two thirds, to less than 1 per cent, of the share of its population living on less than $1.90 a day (2011 purchasing power parity).

2. Maximize the development linkages of the commodity sector

29. The development of the agricultural sector in agriculture-rich economies contributes to effective poverty reduction and inclusive growth. In such countries, agricultural growth leads to consumption and production linkages in the overall economy, contributing to poverty reduction. However, as demonstrated in *Commodities and Development Report 2015*, to be effective, agricultural development strategies must provide a central role to smallholder farming.

30. In minerals-rich countries, there have been efforts to design frameworks to optimize the use of resource rents to promote a diversified industrial base. The difficulties caused by falling oil prices in recent years have led many oil-rich countries to adopt policy measures that tend to maximize both fiscal and production linkages. For example, in Nigeria, until 2014, 70 per cent of public revenue was derived from oil. The shortfall in public resources generated by low oil prices led the Government to expand its fiscal base and improve its capacity for tax collection. In January 2011, the Government introduced a new national tax

policy with reforms that included improvements in the efficiency of tax collection.[16] This exercise was estimated to have led to the collection of $600 million worth of additional taxes by early 2015.[17]

31. With regard to production linkages, many countries have adopted legislation or policy measures geared towards maximizing forward linkages by adding value through processing and refining. Such initiatives are generally labelled local content policies. A country's ability to turn local content legislation into tangible outcomes for economic and social development depends on a number of factors. First, the country must have an appropriate human resources, legal, financial and technological environment. Second, maximizing the development linkages of the mineral resources sector partly depends on the capacity of a CDDC to maximize its interests in contract negotiations with potential investors, especially in the oil, gas and mining sectors. Third, local content legislation must be established in accordance with a country's commitment with regard to compliance with the Agreement on Trade-Related Investment Measures and General Agreement on Trade in Services of the World Trade Organization. Local content requirements contain specifications of obligations to contract local service providers or employ local staff in specific services sectors. As such, these requirements may challenge compliance with article XVI of the General Agreement on Trade in Services on provisions regarding market access and national treatment that may affect foreign suppliers. However, as the disciplines of the Agreement only apply to those services sectors that a member of the World Trade Organization has included in its schedule of commitments, most developing countries have more flexibility, due to the limited number of commitments that they have made.[18] Local content legislation must also be in line with specifications laid out in bilateral investment treaties that the country has signed, specifically the extent to which non-discrimination provisions such as national treatment and most-favoured nation obligations affect the proposed local content requirements.

32. Local content requirements are not a panacea, however, and are not effective if not supported by broader efforts designed to develop a country's productive capacities. In recognition of the need for a broader enabling environment and stronger productive capacities in beneficiary countries, UNCTAD and its Special Unit on Commodities is assisting three countries in central Africa in strengthening their capacity to design policies for maximizing the development linkages of their mineral resources sectors (see box 3).

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[16] African Development Bank, OECD, United Nations Development Programme, United Nations Economic Commission for Africa, 2012, *African Economic Outlook 2012* (Paris, OECD Publishing).

[17] N Okonjo-Iweala, 2014, Interview in *Jeune Afrique*, available at http://www.jeuneafrique.com/2714/economie/ngozi-okonjo-iweala-les-gens-ont-une-perception-tellement-injuste-du-nigeria/ (accessed 20 January 2016).

[18] I Ramdoo, 2015, Unpacking local content requirements in the extractive sector: What implications for the global trade and investment frameworks?, The E15 Initiative Expert Group on Trade and Investment in Extractive Industries Think Piece (International Centre for Trade and Sustainable Development and World Economic Forum).

Box 3. Maximizing the development linkages of the mineral resources sector in central Africa

From 2015 to 2017, the Special Unit on Commodities will implement a project financed by the ninth tranche of the United Nations Development Account. The project, undertaken in close collaboration with the African Minerals Development Centre at the United Nations Economic Commission for Africa, will initially be implemented in three countries, namely Chad, the Congo and Equatorial Guinea. The objective of the project is to strengthen the capacity of policymakers in the member countries of the Economic Community of Central African States to design policies for maximizing the development linkages of their mineral resources sectors. The project's approach is fully inclusive, and based on promoting dialogue among political leaders, local business organizations and professional associations and foreign investors on ways and means of ensuring that investments in minerals activities facilitate the creation of new economic activities, jobs and subcontracting opportunities, particularly between foreign companies and local enterprises. The project also aims to address shortcomings in legal and regulatory frameworks.

33. Part of the drive towards developing local content frameworks is due to the concern to maximize the impact of the commodity sector on job creation. Efforts to create strong linkages between the extractive sector and other sectors of the economy have been constrained by poor infrastructure and limited technology, skills and finance. As part of its investment policy advocacy work for two extremely CDDCs, Mongolia and Mozambique, UNCTAD has highlighted the limited impact of mining megaprojects on job creation and on generating linkages with the local economy.[19] Such messages and accompanying policy recommendations have been disseminated at various national multi-stakeholder policy forums in the respective countries. In recognition of the persistent challenges of sustainable job creation in extractive industries, the theme of the Seventeenth Africa Oil, Gas and Mines Conference and Exhibition was sustainable job creation. The Conference was an opportunity for participants to share experiences, including of successful integration along oil, gas and minerals value chains.

3. Recognize the perennial need for industrialization

34. CDDCs should carefully consider the specificities of their own contexts and the trade-offs between short-term gains and long-term costs in designing their industrial development strategies.

35. The ability to seize international market share varies across regions and countries, as shown by the variations in patterns of integration into the global economy across regions. *Economic Development in Africa Report 2011* showed that Africa is losing ground in labour-intensive manufacturing whereas other regions are proving more ready to seize new opportunities in the global economy. The report noted that the share of labour-intensive manufacturing activities in manufacturing value added fell from 23 per cent in 2000 to 20 per cent in 2008. It stressed the need to develop country-specific industrial development strategies while highlighting the following principles: supporting and challenging entrepreneurs; building effective State and business relations; focusing on lifting obstacles to industrial development; and putting in place a mechanism for monitoring, evaluation and accountability. The report stressed that industrialization should not be achieved at the expense of the agricultural sector. Rather, African countries should strengthen linkages

[19] UNCTAD, 2012, *Investment Policy Review: Mozambique* (New York and Geneva, Sales No. 12.II.D.11, United Nations publication); UNCTAD, 2013, *Investment Policy Review: Mongolia* (New York and Geneva, United Nations publication).

between their agricultural and non-agricultural sectors. This recommendation is of particular relevance in agriculture-based CDDCs.

4. Invest in infrastructure development

36. Infrastructure plays a crucial role in all areas of economic and social life and is critical to building a country's productive capacity. Investment in infrastructure should therefore be among the top priorities of CDDCs. UNCTAD estimates show that developing countries will need to invest $1.6 trillion to $2.5 trillion annually in power, transport, telecommunications, water and sanitation between 2015 and 2030 towards accomplishing the Sustainable Development Goals. However, developing countries may face an annual investment gap of $0.75 trillion to $1.6 trillion through to 2030. Public financing may not be enough and private investments should therefore play a key role in filling this large gap. Infrastructure is considered one of the sectors with a high level of potential for channelling private sector investment and also capable of generating large multipliers.[20] However, private investment tends to neglect pro-poor basic services in remote areas.

37. Infrastructure development in transport, connectivity, storage and logistics capacity is essential for economic activities, in particular for trading in CDDCs. The need for greater investment in transport infrastructure is of particular relevance to landlocked CDDCs due to their geographical constraints and remoteness from international markets. UNCTAD research on landlocked developing countries suggests that these countries as a group have become increasingly commodity dependent during the past decade. Measures of export concentration show for example a median level of Herfindahl-Hirschman indices of 0.40 in these countries in 2011–2013. Export diversification is thus a concern for these countries.[21]

38. During the commodity boom, while CDDC foreign currency reserves rose dramatically, leading to a surge in commodity-based sovereign wealth funds, there was little evidence that this rise had translated into similar increases in investments in infrastructure. For example, despite the considerable financial assets held by African commodity exporters during the commodity boom, the Programme for Infrastructure Development in Africa, responsible for promoting infrastructure development in the region, has not succeeded in collecting the $68 billion required for regional infrastructure investments between 2012 and 2020 (only $38 billion was funded up to 2015).

39. As advocated in *Commodities and Development Report 2015*, investments in infrastructure projects of low commercial value need to be supported by public sector finance through grants, concessional loans and guarantees. Where long-term financing by development banks has been insufficient, public–private partnerships have played a role in the launching of major infrastructure projects, such as the multidimensional, multi-donor Kalangala Integrated Infrastructure Programme in Uganda, which involves the development of roads, ferry operations and power and water supplies. However, a review of public–private partnerships in *Trade and Development Report, 2015: Making the International Financial Architecture Work for Development* shows that they have not delivered on their promises in the provision of pro-poor basic services, for example in water-related projects. The analysis of historical trends of public–private partnerships in the report shows that they do not succeed in creating additional finance in a real economic sense and have often led to

[20] UNCTAD, 2014, *World Investment Report 2014* (New York and Geneva, Sales No. E.14.II.D.1, United Nations publication).

[21] UNCTAD, 2015, *Facilitating the Participation of Landlocked Developing Countries in Commodity Value Chains* (New York and Geneva, United Nations publication).

greater obligations and liabilities than anticipated for Governments.[22] In most countries, the State remains the main provider of finance.[23]

5. Make investment and competition policies smallholder friendly

40. The development of the domestic private sector should be an important target of investment policy. In doing so, as emphasized in *Economic Development in Africa Report 2014*, specific efforts should be devoted to strengthening linkages between local and foreign enterprises and using aid to stimulate investment. UNCTAD estimates show that in 2004–2014, foreign direct investment stock tripled in the least developed countries and small island developing States, and quadrupled in the landlocked least developed countries.[24] With a concerted effort by the international community, it could quadruple by 2030. This trend may be beneficial to such vulnerable economies, but careful attention should be devoted to investigating the extent of concentration in international commodity production and trade in global value chains in a few transnational corporations. For example, four commodity multinationals control over 60 per cent of the global coffee market, while three control 85 per cent of the global tea market. Mergers and acquisitions have contributed to the emergence of large players who control significant market shares of commodities such as cocoa, vegetable oils, grains and bauxite.

41. Considering the central role of job creation in generating a more inclusive and poverty-reducing growth path, the trend towards concentration in the commodity sector should raise concerns in CDDCs, as the potential for job creation is considered highest among smaller businesses. As underlined in *Economic Development in Africa Report 2013*, stimulating domestic entrepreneurship may in turn lead to boosting intra-African trade and provide the basis for developmental regionalism. Anti-competitive practices not only harm smaller businesses but also the poor, who are disproportionately affected by, for example, malpractices in public procurement. However, a review by UNCTAD of current practices shows that very few competition agencies in developing countries have been able to successfully detect and prosecute cartels.[25]

42. With regard to the agricultural sector, *Commodities and Development Report 2015* acknowledges the potential benefits of foreign direct investment but also notes the lack of safeguards for smallholders in most investment policy frameworks in developing countries. The report states that there is little evidence that the specific needs of smallholders are reflected in investment policies, and advocates for the introduction of safeguards for smallholders in investment law and investment contracts. Specific legal and regulatory tools should be designed for the development of inclusive business models that address the particular needs of small actors in the agricultural value chain. The establishment of such an enabling environment is critical to the capacity of smallholders to establish viable business enterprises.

43. A recent review of cartels and other anti-competitive practices in minerals markets shows that at the international level, minerals markets are more sensitive to export restrictions unilaterally imposed by producer countries. Such restrictions are attributed to

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[22] UNCTAD, 2015, *Trade and Development Report, 2015: Making the International Financial Architecture Work for Development* (New York and Geneva, Sales No. E.15.II.D.4, United Nations publication).

[23] M Warner, D Kahan and S Lehel, 2008, Market-oriented agricultural infrastructure: Appraisal of public–private partnerships, Agricultural, Management, Marketing and Finance Occasional Paper No. 23 (Food and Agriculture Organization of the United Nations).

[24] UNCTAD, 2015, *World Investment Report 2015: Reforming International Investment Governance* (New York and Geneva, Sales No. E.15.II.D.5, United Nations publication).

[25] UNCTAD, 2014, *UNCTAD Perspective: Competition and Consumer Policy 2013* (New York and Geneva, United Nations publication).

the pressure of powerful lobbies for preferential access to domestic raw materials in some large developing countries.[26] Three quarters of global mine production is controlled by private companies, most of which are transnational companies. Barriers to entry in related sectors are due to the significant know-how and capital requirements and high levels of investment risks that characterize them, which make it difficult for smaller new entrants to penetrate the market.

44. Cartels no longer officially exist, yet companies may use subtler forms of market manipulation. Between 2000 and 2010, there were at least 15 cases where anti-trust authorities uncovered and punished attempts to form clandestine international private cartels in mining and primary metals.[27] Similarly, regulatory agencies of developed countries have identified manipulation in pricing mechanisms in gold and silver markets.[28] The increasing complexity of global and physical markets and the growth in the number of actors involved, including in banking and other financial institutions, underline the need to devote resources to regulatory agencies in order to help them perform their increasingly complex role. In addition to being essential for consumer protection, well-crafted and well-enforced competition law helps ensure that small and medium-sized enterprises are given opportunities to enter all sectors of the economy.

IV. Selected issues of relevance to commodity-dependent developing countries, and conclusion

45. Commodity-based development is at a crossroads. Commodity dependence amplifies the challenges faced by CDDCs on their path to sustainable development. Breaking the trap of commodity dependence is a necessary condition for achieving the post-2015 sustainable development agenda. Against the backdrop of falling commodity prices, UNCTAD re-emphasizes the need for CDDCs to accelerate the process of moving up commodity value chains, maximize the development linkages of the commodity sector and diversify their economies in their drive towards a sustainable development path. This will not be easy, but maintaining the status quo will not be politically and economically sustainable. This chapter highlights UNCTAD research and emerging issues in international agreements and in the literature of relevance to developing countries, including CDDCs.

1. Environmental issues

46. The increasing importance of environmental issues and the recently concluded agreement at the twenty-first Conference of the Parties of the United Nations Framework Convention on Climate Change are likely to lead to a more environmentally stringent era for fossil fuel-producing countries and for CDDCs dependent on intensive agriculture. Some countries have started seizing opportunities linked to climate-friendly development. One of the first countries to submit its intended nationally determined contributions prior to the twenty-first Conference of the Parties, Gabon – an oil-dependent economy – has outlined its ambition to reduce its cumulative emissions by 65 per cent by 2025; its approach emphasizes investments in technologies to reduce gas flares, the building of policies and tools for climate-friendly management of its forests and land and the development of renewable energies.

47. With regard to agriculture, *Commodities and Development Report 2015* notes that developing countries seeking to develop their agricultural sectors should not replicate the

[26] J Kooroshy, F Preston and S Bradley, 2014, Cartels and competition in minerals markets: Challenges for global governance, Chatham House, the Royal Institute of International Affairs.

[27] Ibid.

[28] Ibid.

experiences in some countries in Asia and Europe in which the overuse of fertilizers has resulted in pollution and the degradation of natural resources. In China, for example, according to some estimates, agriculture accounts for more than 15 per cent of its total greenhouse gas emissions and for nearly 90 per cent of its nitrous oxide emissions, largely due to excessive fertilizer use. The Chinese Government has been proactively promoting a green agricultural development model in recent years, yet reversing the damage caused by previous practices is challenging, thus demonstrating the limits of agricultural models that focus on short-term yield gains as opposed to long-term goals.

2. Science, technology, innovation, information and communications technology and services

48. The experience of successful development paths shows that science, technology and innovation are key drivers of economic and social development. Science, technology and innovation policies can help raise productivity, improve firm competitiveness and contribute to faster growth and job creation. With regard to CDDCs, such policies should adopt innovation that assists in diversifying away from primary commodities, fosters indigenous technologies and adopts and adapts foreign innovations, in the context of an adequate intellectual property rights regime.

49. *Technology and Innovation Report 2015: Fostering Innovation Policies for Industrial Development* includes case studies of two CDDCs, namely Nigeria and the United Republic of Tanzania. The report notes that both States experienced impressive growth rates over the past decade yet faced difficulties in channelling research and development expenditure towards technological learning. Higher levels of expenditure on research and development as a percentage of GDP in the 2000s did not result in greater technological learning, particularly at the firm level, as shown in the lack of higher levels of exports of medium and higher technology products. In many agricultural developing countries, technology policy implicitly or explicitly promotes a commercial process of technology adoption that is not adapted to the means and capacity of most smallholders. In addition, spending on research and development has been both low and highly volatile, particularly in low-income countries in which research and development is dependent on external funding, from both donors and development banks. UNCTAD advocates establishing a research and development agenda that fosters environmental sustainability and takes into account the traditional knowledge of smallholding farmers. Evidence shows that such an approach is a necessary condition for agricultural development, leading to tangible results.

50. UNCTAD also emphasizes the need for developing countries to make the most of the development of information and communications technology. The worldwide spread of mobile telephony and communications systems, growth of Internet networks and widespread use of broadband infrastructure have contributed to changing international production and trade patterns. To make the most of the growing opportunities in areas such as electronic commerce, as highlighted in *Information Economy Report 2015: Unlocking the Potential of E-commerce for Developing Countries*, Governments need to invest in infrastructure and create appropriate legal, institutional and policy frameworks.

51. A number of development experts have suggested that the advent of the Internet and information and communications technology and other emerging technologies may allow developing countries to leapfrog into the services economy and benefit from its

development opportunities, particularly in Africa.[29] In addition to the advantages offered in these sectors, CDDCs should continue to establish the basis for sustainable transformation.

52. Seizing such new opportunities requires financing. To this end, although improving access to traditional finance remains a critical issue, the current development of a new set of innovative financing mechanisms, notably in agricultural value chains, is a welcome trend.[30]

3. New developments in international trade agreements

53. The ministerial decisions on export competition and on cotton of the Tenth Ministerial Conference of the World Trade Organization reflect a move away from the status quo that has characterized negotiations on these issues over the past years.[31]

54. The ministerial decision on cotton calls for cotton from the least developed countries to be given duty-free and quota-free access to developed country markets as of 1 January 2016. The text does not, however, provide binding commitments but rather best endeavour outcomes, and does not address domestic support for cotton and global farm subsidies. Furthermore, as emphasized by UNCTAD, to make the most of this market access, the least developed countries need to devote more resources to building capacity in their cotton sectors at the production, transformation and marketing levels, as highlighted in the pan-African cotton road map.[32]

55. The ministerial decision on export competition includes a commitment to immediately eliminate subsidies for farm exports (article 4). The decision spells out specific conditions for processed products, dairy products and swine meat in a footnote.[33] In addition, the decision gives developing countries until 2023 to remove their subsidies and the least developed countries until 2030 to meet their commitments.

56. Beyond these issues of direct relevance to CDDCs, there are divergent points of view on the outcomes of the Tenth Ministerial Conference, including on the issue of reaffirmation of the Doha Development Agenda. The decision on public stockholding for food security purposes reaffirms the peace clause reached in Bali, Indonesia in December 2013 and commits the Agriculture Committee of the World Trade Organization to ensure that the issue is resolved at the next ministerial conference.[34] No decision was made on special safeguard mechanisms for developing countries. This demand had been

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[29] See for example UNCTAD, 2015, *Economic Development in Africa Report 2015: Unlocking the Potential of Africa’s Services Trade for Growth and Development* (New York and Geneva, Sales No. E.15.II.D.2, United Nations publication).

[30] See, for example, the developments reviewed in *Commodities and Development Report 2015*.

[31] World Trade Organization, documents WT/MIN(15)/45 and WT/MIN(15)/46, available at http://www.wto.org/english/news_e/news15_e/mc10_19dec15_e.htm (accessed 20 January 2016).

[32] UNCTAD, 2014, *Pan-African Cotton Road Map* (New York and Geneva, United Nations publication).

[33] “This paragraph shall not cover processed products, dairy products and swine meat of a developed member that agrees to eliminate as of 1 January 2016 all export subsidies on products destined for least developed countries, and that has notified export subsidies for such products or categories of products in one of its three latest export subsidy notifications examined by the Committee on Agriculture before the date of adoption of this decision. For these products, scheduled export subsidies shall be eliminated by the end of 2020, and quantity commitment levels shall be applied as a standstill until the end of 2020 at the actual average of quantity levels of the 2003–2005 base period. Furthermore, there shall be no export subsidies applied either to new markets or to new products” (World Trade Organization, document WT/MIN(15)/45).

[34] World Trade Organization, document WT/MIN(15)/44, available at http://www.wto.org/english/news_e/news15_e/mc10_19dec15_e.htm (accessed 20 January 2016).

made under the special and differential treatment clause in order to protect developing country food producers from import surges.

4. Conclusion

57. CDDCs, particularly the least developed countries with a strong agricultural potential, should invest more in their domestic agricultural sectors and make greater use of existing special and differential treatment clauses within current multilateral trade rules. In doing so, they should honour budgetary pledges made for the development of agricultural sectors. Similarly, the international community should strive to make existing aid pledges a reality. More resources need to be devoted to the agricultural sector. Estimates by the OECD Development Assistance Committee show that aid to agriculture and rural development fell continuously between the mid-1980s and 2004 and have shown an upward trend since then. According to the latest figures available, agriculture and food received 6 per cent of total official development assistance in 2012.[35] To increase the impact of aid on poverty, more attention should be devoted to allocating such resources to the needs of smallholders.

58. Among the set of policy messages, the urgency of achieving the Sustainable Development Goals in CDDCs calls for a development policy framework that makes the most of their commodities while at the same time being mindful of human rights, taking into account new environmental imperatives and adopting socially and politically sustainable approaches. Achieving such objectives may be made easier through a continuous process of levelling the playing field in the global regulatory systems for trade, investment and technology.

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[35] For further details, see OECD, 2010, Measuring aid to agriculture, available at http://www.oecd.org/dac/stats/44116307.pdf (accessed 20 January 2016); OECD, 2012, Trends in aid to agriculture and rural development, in: OECD, *Development Cooperation Report 2012: Lessons in Linking Sustainability and Development* (Paris, OECD Publishing), available at http://www.oecd-ilibrary.org/development/development-co-operation-report-2012/managing-watersheds-for-resilient-livelihoods-in-ethiopia_dcr-2012-15-en (accessed 20 January 2016); OECD, 2015, Creditor reporting system, available at http://stats.oecd.org/; and United Nations Department of Economic and Social Affairs, 2015, Improving official development assistance allocation for a post-2015 world, available at http://www.un.org/en/ecosoc/newfunct/pdf15/un_improving_oda_allocation_for_post-2015_world.pdf (accessed 20 January 2016).