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Coping with changing commodity prices: Facilitation of efforts by developing countries to address challenges and take advantage of opportunities

Note by the UNCTAD secretariat

Executive summary

Large swings in commodity prices over the past few years have created both opportunities and challenges for commodity-dependent developing countries. The recent commodity boom has significantly improved both the external accounts and public finances of many developing countries dependent on primary commodities, reviving the prospects for commodity-led economic development. However, some of these commodity-dependent countries face major challenges in taking advantage of improved commodity export opportunities and higher prices. On the other hand, a large number of developing countries, especially the least developed among them, which are dependent on imported energy and food supplies, have been hard hit by the recent hikes in fuel and food prices. This paper identifies concrete measures needed to assist commodity-dependent exporting and importing developing countries.

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I. Introduction

1. This background note has been prepared by the secretariat to assist the Multi-year Expert Meeting on Commodities and Development in its deliberations under item 5 of the agenda for its first session relating to a review and identification of measures and support needed (i) by commodity-dependent developing countries to utilize effectively the opportunities offered by improved commodity market prospects, including higher commodity prices, in order to initiate a process of sustained economic growth; and (ii) by commodity-importing developing countries, particularly least developed countries (LDCs), to cope with the detrimental effects of wide swings in commodity prices, including the recent high prices. The note provides a review of measures and support needed by commodity-exporting developing countries to realize fully the growth and development potential of commodity trade, as well as an overview of measures that would assist commodity-importing developing countries in coping with the detrimental effects of high energy and food prices. The emphasis is on identifying existing initiatives as well as new ones that could assist both groups of countries.

II. Options for supporting commodity export-dependent developing countries

2. A large number of developing countries, especially the least developed ones, are highly dependent on commodity exports as the main engine for growth in their economies and resources for financing development. Some 92 developing countries derive at least 50 per cent of their export earnings from commodities, with reliance often on one or a few commodities. These countries face a number of challenges in taking advantage of opportunities and in coping with related difficulties on international commodity markets. To assist them in overcoming these challenges, there is a need to address systemic issues related to the workings of international commodity markets as well as issues concerning the mobilization of financial resources for the development of their commodity sectors and hence their economic development from a commodity base.

A. Opportunities and challenges facing commodity-dependent exporting countries

3. The recent surge in commodity prices has offered a significant opportunity for commodity-exporting developing countries to increase their export revenues and resources for financing development. However, to take advantage of this opportunity, many constraints and challenges need to be overcome. For example, in the agricultural sector, major obstacles include a lack of organized marketing, low yields in small-scale agriculture, a shortage of improved seed varieties, ineffective management of water resources, low soil fertility, inadequate pest control methods, the high cost of fertilizers, ineffective access to markets, lack of access to credit and input, the absence of irrigation needed to expand production, limited R&D capacities, outdated farming practices/equipment, inadequate packaging and grades/standards, limited land available for agriculture and land tenure insecurity, investments in increasing capacity and storage.[1] Other constraints include the lack of policy reforms aimed at facilitating entrepreneurship, a lack of appropriate investment strategies (e.g. in infrastructure, technology and human capital) aimed at helping small-scale farmers be better connected to markets and take advantage of trade opportunities, and the lack of regulation of anti-competitive practices in

[1] http://www.petersoninstitute.org/publications/chapters_preview/3926/04iie3926.pdf.

international value chains, which limits opportunities for commodity-based development. Finally, wide price swings on international markets and trade-distorting policies of governments create uncertainties and additional difficulties.

4. Similarly, in non-agricultural commodity sectors (e.g. energy and metals), there are a great many challenges, including the high cost and risks associated with investing in exploration, the high initial costs of developing and exploiting new deposits, the negotiation of contracts that ensure a fair distribution of the profits between the host country and mining companies, and maximization of the linkages between the mining sector and the rest of the economy, including through local content. Furthermore, the large amount of foreign currency injected into the economy as a result of high prices may cause exchange rate appreciation and rising inflation, thus weakening the competitiveness of other exports. The biggest challenge is to establish and build good governance with well-functioning institutions that can monitor and manage the revenue inflows for ensuring the transformation of resource rents into sustainable development.

B. Systemic support

5. There are various types of national, regional and international measures that can be used to address the challenges facing commodity-dependent countries. At the international level, concerted action is needed to address trade-distorting domestic support, tariff and non-tariff market access barriers including tariff escalation, cross-border anti-competitive behaviour and the escalation of standards outside of WTO agreements on sanitary and phytosanitary measures and technical barriers to trade. In addition, cooperation between producing and consuming countries can lead to policies conducive to market stabilization, including through various international arrangements involving commodity bodies that can provide useful information-sharing platforms between consumer and producer countries with a view to fostering the orderly functioning of markets, i.e., reducing market failure and distortions.

1. Overcoming market distortions

6. Whether commodity-dependent developing countries can harness the development gains arising from the recent higher prices will depend largely on their abilities to respond to new opportunities existing in foreign markets. However, this ability is restricted by a host of trade-distorting policies. Under the current multilateral trade rules, various constraints thwart the efforts of several developing countries to harness the full potential of an export-led development strategy. Such constraints include subsidies on products of export interest to developing countries (e.g. cotton); tariff escalation, which discourages processing before export in primary commodity-producing countries; overly stringent application of the rules on standards and the proliferation of such standards in the private sector (e.g. by supermarkets); complex rules of origin; and non-tariff barriers and measures.

7. Average annual aggregate support to agriculture in OECD countries amounted to US$ 367.7 billion or 0.97 per cent of OECD GDP in 2005–2007. Although there has been a decline in the share of support directly linked to commodity output, during 2005–2007, this share still represented as much as 55 per cent of the total support to producers. Also, the share of transfers directed to single commodities in total producer support amounted to 59 per cent.[2] One of the key objectives of WTO negotiations on agriculture is to phase out trade-distorting domestic support and export subsidies provided by the developed countries.

[2] Agricultural Policies in OECD Countries: At a Glance 2008, OECD.

2. Compliance with standards

8. Market entry conditions imposed by large distribution networks are becoming increasingly demanding for agro-food products exported from developing countries. Such requirements have become serious constraints for commodity-dependent developing countries, which lack the requisite finance, technologies and human capacity to ensure compliance.

9. Market entry barriers are becoming more frequent, stringent and complex. Only a small share of market entry conditions are regulated under multilateral frameworks, such as sanitary and phytosanitary measures, rules of origin and intellectual property. The lion's share of barriers such as product quality standards, health and safety requirements, social and eco-labelling are set unilaterally by Government and/or industry, and tend to be discretionary and unpredictable. While some products from commodity-dependent developing countries may gain access to niche markets because they satisfy specific entry conditions, many producers find it costly and difficult to meet such strict and non-transparent conditions. Furthermore, there are concerns about the scope for the discriminatory use of such measures.

10. Very often, standards are formulated by Government and/or the private sector in the importing countries without the necessary consultation with commodity-exporting countries. Developing countries need to be well informed of the development of different initiatives and participate actively in the standard-setting process. Moreover, there is a need to enhance the ability of firms and industries from developing countries to respond to changing market entry conditions.

3. Competition policy

11. Competition policy can play an important role in combating anti-competitive practices such as abuse of market power arising from increased market concentration/power due to mergers and acquisitions. Buyer-dominated supply chains are one reason for the low and declining share of producers in the prices paid by consumers for many agricultural commodities.

12. Since the early 1990s, a growing number of developing countries have adopted a competition law and policy in order to combat possible anti-competitive business practices. To date, 66 developing countries have done so and 27 are in the process of doing so.[3] Competition policy can play an important role in combating anti-competitive practices. However, developing countries often have to deal with multinational companies that fall outside their national jurisdiction. When these companies exercise their buyer's power, the supplier's country usually lacks the experience and capacity to enforce its own competition law. In addition, concerns over driving away actual and potential buyers and investors make enforcement even more difficult. The creation of a regional competition regime would strengthen the sharing of information and experience at the regional level, increasing the leverage of commodity-producing countries in cooperating with buyers' home countries. Enhancing the role of producers' associations and improving market information can also help increase the bargaining power of small producers when negotiating the price, standards and payment conditions with powerful buyers.

[3] *Source:* Rebalancing the Supply Chain: Buyer power, commodities and competition policy, a joint South Centre–Traidcraft report, 2008.

C. Technical cooperation

1. Extractive industries

13. There are now a number of international initiatives that aim to help resource-rich countries improve governance and revenue management in the extractive industries. The list includes the Global Dialogue of Governments on Mining/Metals and Sustainable Development initiated in 2003 by the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development; the Extractive Industries Transparency Initiative (EITI), also established in 2003; and the International Council on Mining and Metals (ICMM), a CEO-led organization launched in 2004 and representing many of the world's leading mining and metals companies which is committed to the responsible production of the minerals and metals to meet society's needs.

14. The EITI is of particular interest given its focus and constituents. It is a multi-stakeholder initiative of governments, companies, civil society groups, investors and international organizations with the aim of supporting improved fiscal transparency, good governance, accountability and reporting on extractive industry revenues as well as the fight against corruption in resource-rich countries. It was set up as a coalition of governments, companies, civil society groups, investors and international organizations, and promotes the full publication and verification of company payments and government revenues from oil, gas and mining.[4]

15. Assistance to developing countries on managing and transforming their wealth is also supported by the World Bank's EITI++ programme, which complements EITI's focus on transparency in reporting revenues. The Bank provides governments with technical assistance and capacity-building to improve management of resource-related wealth for the benefit of the poor. The Bank's technical assistance programme on EITI ++ aims to improve the quality of contracts for countries, the monitoring of operations and the collection of taxes and royalties. It also seeks to improve economic decisions on resource extraction, management of price volatility, and effective revenue investment for national development.[5]

16. As mandated in the Accra Accord, UNCTAD is also developing an assistance programme to support developing countries upon request in devising national mechanisms for ensuring transparency and accountability in the management of public revenues from natural resource exploitation.

2. Agricultural sector

17. A number of multilateral and bilateral technical assistance projects attempt to address some of the challenges of developing countries noted above in the agricultural sector. For example, UNCTAD is a partner, along with the Common Fund for Commodities, the Food and Agriculture Organization of the United Nations (FAO), the International Trade Centre UNCTAD/WTO (ITC) and the World Bank, in the European Union's All ACP Agricultural Commodities Programme. The programme seeks to strengthen the capacities of the targeted countries to develop and implement sustainable commodity strategies that improve commodity stakeholders' productivity and livelihoods and reduce income vulnerability through better access to and use of markets, production factors and services, and enhanced access to market-based instruments to reduce producers' income vulnerability.[6] UNCTAD has also implemented a broad range of capacity-building and technical cooperation activities on commodities, including projects to help developing

[4] http://eitransparency.org/files/document/EITI Secretariat Workplan 2008.pdf .
[5] World Bank Group, Press Release No: 2008/269/AFR.
[6] See: http://www.euacpcommodities.eu/en/node/4.

country exporters comply with sanitary and phytosanitary requirements and private sector standards (for example, in Guinea, Mozambique, the United Republic of Tanzania and Pacific islands), and to assist small producers in developing countries in achieving market acceptance by supermarkets (e.g. in cooperation with the Swiss supermarket chain Migros).

D. Financial cooperation

18. There is considerable scope for commodity development in most developing countries but a lack of finance makes it difficult to tap this potential. Finance is needed to improve weak infrastructure and strengthen competitiveness, increase productivity, improve quality and compliance with standards, exploit new demand opportunities in developing dynamic markets, support greater participation in international supply/value chains and allow for vertical diversification so that more income is retained in the local economy, as well as diversify into non-traditional commodities to help reduce these countries' vulnerability to the few primary commodities on which they depend. A variety of finance sources can be tapped to support the development of the sector, which includes official development assistance, mainly for infrastructure development, and private sector financing, both of which have been declining until recently. New sources have, however, emerged, such as sovereign wealth funds. Equally important for developing countries is the need for technical assistance to develop capacity in taking advantage of dynamic markets of developing countries and within regions.

1. Official development assistance (ODA)

19. Since 2000, the total ODA provided by the world's major donors has recovered from its downward trend between 1993 and 1999.[7] Aggregate ODA net disbursements increased considerably after 2002 until peaking at US$ 107.1 billion in 2005. However, despite the encouraging momentum and substantial rise of aid flows in recent years, most donors are not on track to meet their stated commitments to scale up aid (OECD, 2008). Donors need to considerably step up their aid budgets to reach their ambitious targets set at the Gleneagles G8 and United Nations Millennium +5 summits in 2005, to increase ODA from US $80 billion in 2004 to US$ 130 billion in 2010 (at 2004 prices and exchange rates). The United Nations goal of 0.7 per cent of GDP has long been on the international development agenda. However, total ODA only represented 0.28 per cent of the aggregate GDP of 22 DAC member countries in 2007. Even with the highest ODA disbursements in 2005, the total ODA/GDP ratio only reached 0.33 per cent, close to the level of the 1980s and early 1990s.

20. An important feature in the sectoral distribution of ODA over the past 20 years has been the dramatic decline in aid to production sectors, in particular agriculture. According to OECD, aid to production sectors declined from 19 per cent in 1990 to 7 per cent in 2004, mainly due to the collapse of aid to agriculture from 13 per cent to 4 per cent of total ODA. In 2005, agriculture (including forestry and fishing) only accounted for 3.3 per cent of total bilateral commitments of DAC countries and 5.7 per cent of total multilateral finance.[8] In addition to production sectors, the share of ODA allocated to the economic infrastructure and services also decreased significantly from 26 per cent in 1990 to 12 per cent in 2005. In Africa and Latin America, the share was even lower than the average level.

[7] The world's major donors refer to 22 member countries of the OECD Development Assistance Committee (DAC). Unless otherwise indicated, the statistics in this part come from OECD sources, in particular the DAC online database, November 2008.

[8] *Source:* Development Aid at a Glance 2007, OECD.

21. Least developed countries (LDCs) are marginalized in the international capital market and depend heavily on ODA for external financial resources. Aid to LDCs has picked up since reaching a record level of net disbursements of US$ 32.5 billion in 2007, 75 per cent higher than aid in 2000 in constant 2006 prices. Despite this encouraging phenomenon, in 2006, only eight DAC member countries met the Brussels Programme of Action target of making net ODA disbursement to LDCs equal to or higher than 0.15 per cent of their gross national income.[9]

22. The higher agricultural commodity prices in recent years have led governments of developing countries as well as donors to rethink the role of agriculture in economic growth and poverty reduction. More funds need to be allocated to address supply-side constraints in the production and trade of agricultural commodities and support agricultural R&D by building the capacity of local agricultural research institutions and enhancing international cooperation.

2. Aid for trade

23. To realize potential trade opportunities, commodity-dependent developing countries need not only a more level playing field in international trading system but also support to build their supply capacity, improve physical infrastructure and create an enabling trade environment for local producers and exporters. Earmarking aid for trade will help ensure that more development funds are earmarked for productive capacity-building and economic infrastructure areas. This type of aid needs to be scaled up. The 2005 Hong Kong Ministerial Declaration created a work programme on Aid for Trade (AFT) in WTO. The objective of AFT is to assist developing countries in creating an enabling trade environment through support in five main areas: trade policy and regulations, trade development, trade-related infrastructure, productive capacity building and trade-related adjustment. Although aid for trade was not an independent category with specific evaluation, between 2002 and 2005, donors committed on average US$ 21 billion per year on the aid categories more closely associated with trade. This included US$ 11.2 billion to build economic infrastructure and US$ 8.9 billion to promote productive capacities.[10] With the new system in place, to better meet AFT demand from developing countries, appropriate mechanisms need to be established to ensure the availability of additional financial resources for AFT. Furthermore, donors that have already pledged to contribute more aid funds for AFT should honor their commitments.

24. With regards to LDCs, a specific aid programme, the Enhanced Integrated Framework,[11] exists to assist their integration into the multilateral trading system. This programme combines the effort of six agencies, IMF, ITC, UNCTAD, UNDP, the World Bank and WTO, to respond to the trade and trade-related infrastructural needs of LDCs. The programme has been enhanced through increased financial resources committed through the Hong Kong Ministerial Declaration. To date, 36 LDCs have benefitted from the EIF trust fund, which finances diagnostic studies with a small contribution to the implementation of priority action plans.[12] This trend needs to be pursued.

3. Sovereign wealth funds

25. Sovereign wealth funds (SWFs), which are government-owned special purpose investment funds, are increasingly perceived as a new and alternative potential

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[9] *Source:* The Least Developed Countries Report 2008, UNCTAD 2008.
[10] OECD and WTO, 2007. Aid for Trade at a Glance 2007: 1st Global Review.
[11] World Trade Organization, Integrated Framework fact sheet.
[12] Ibid.

source of investment finance in the commodity sectors of commodity-dependent developing countries. A recent study suggests that the asset under management of SWFs totaled some $3.0–3.7 billion in 2007.[13] SWFs invest in a wide range of financial instruments for long-term wealth preservation purposes (except for stabilization funds, which aim to stabilize economies against volatile commodity prices and thus have shorter-term horizons).

26. The past few years, several SWFs have sought to invest in the commodity sectors, mainly agriculture, of developing countries. For example, several countries from the Gulf Cooperation Council (GCC) are considering investing in the agriculture sector in Asia and Africa through their SWFs to counter soaring food prices and guarantee long-term food security.[14] Moreover, the surge in commodity prices in recent years, together with the improved political stability and macroeconomic stability in many commodity-dependent developing countries, has prompted the renewed interest of investors.

27. SWF investments in commodity-dependent developing countries are beneficial for both parties for two reasons. First, except for stabilization funds, most SWFs have long-term investment horizons and higher risk tolerance, as a result of which their investment strategy matches the long-term capital needs of commodity-dependent developing countries. Second, investing in commodity-dependent developing countries would boost the efforts of SWFs to diversify their asset base, currently characterized by a high proportion of fixed income (mainly bonds) and public equity. Investing in developing countries, especially commodity-dependent developing ones, may entail a higher risk than in developed economies but the return may also be significantly higher. Such investments can be facilitated through cooperation with international development institutions. The World Bank, for example, recently outlined a plan to create the equity investment platforms and benchmarks to earmark part of SWF assets – even one per cent – for equity investment in Africa. Such initiatives should be developed further.

III. Options for supporting commodity import-dependent developing countries

28. This section aims to identify some of the principal measures and policies implemented by commodity-importing developing countries with a view to coping with the negative impact of recent soaring energy and food prices, as well as to review initiatives at international and regional levels and put forward proposals for actions that have yet to be pursued.

A. National-level policies

1. Subsidies and safety nets

29. The World Bank estimates that, at the global level, the cost of higher energy and food prices to developing countries during 2008 amounted to some US$ 680 billion. Moreover, the rise in food prices between 2005 and the beginning of 2008 has caused an estimated 130 million additional individuals to fall below the poverty line.[15] Governments have been under pressure to take action to mitigate the immediate impact of rising prices on consumers, and most have reacted by increasing spending on safety net programmes and subsidies or by seeking to hold

[13] See: *Sovereign Wealth Funds: A Bottom-up Primer*, JPMorgan Research, 22 May 2008.
[14] For example, Qatar's sovereign wealth fund – the Qatar Investment Authority (QIA) – has recently been very active in investing in commodity sectors and infrastructure of developing countries such as Indonesia and Vietnam. See: http://www.scic.vn/; http://uk.reuters.com/article/fundsNews; http://www.euromoney.com.
[15] See: World Bank, Global Economic Prospects, Commodities at the Crossroads, 2009.

down domestic prices through tax cuts or export restrictions. Almost three-quarters of the 80 developing countries surveyed by the World Bank in March 2008 had increased resources devoted to existing domestic safety net, anti-poverty programmes. With regard to rising energy prices, 36 countries reacted to increasing oil prices by raising subsidies while 43 countries cut fuel taxes.[16] However, the weak fiscal position of governments in many poor countries has limited their scope for action.

30. Measures to counter rising food prices have featured a combination of market subsidies to establish price ceilings and safety net programmes to protect the poor. More specifically, they have included reduced tariffs on imports, establishment of price controls or consumer subsidies, a ban or restriction on exports, steps to boost official grain stocks, and increased cash transfers and school feeding programmes.

31. High prices for crude oil and petroleum products have prompted the use of subsidies to reduce the burden on consumers and hold down inflation, or reductions in subsidies. The difficulty in keeping up with unexpected expenditure on petroleum products and maintaining subsidies has led to new debt in some countries, resulting in staggering levels of debt repayment, huge budget deficits and the depletion of foreign currency reserves.

32. In the medium term, commodity-importing developing countries will face the challenge of maintaining fiscal balance while trying to cope with the impact of higher food and fuel prices. They could be greatly assisted by budgetary support.

2. Stabilization funds

33. Some importing countries have used the underlying principle of stabilization funds used by exporting countries to stabilize imports of crude oil for refineries or domestic retail prices of petroleum products so as to minimize the economic impact on consumers. The revenue accruable to the fund is from tax levies at the pump, which are used to subsidize the expenditure of refineries/suppliers/traders (in a deregulated market) during periods of high prices.

34. For example, Namibia has a special account called a Slate Account, managed by the National Energy Fund (NEF) that is used for equalizing the price of fuel and fuel subsidies throughout the country. It is operated in accordance with an agreement between the Government of Namibia and the suppliers of the refined petroleum products that determines, on the basis of an agreed formula, the amount of compensation payable from time to time by the State to the suppliers of the refined petroleum products or by such suppliers to the State, as the case may be, in respect of losses suffered or profits reaped by such suppliers as a result of fluctuations in the purchase price of petroleum products. The Slate Account can experience an under-recovery and an over-recovery situation. In the case of an under-recovery, the State has to pay the suppliers of petroleum products, while in the case of an over-recovery, the supplier pays the State. The State's equalizing of the fuel price is taken care of by a levy, called the Equalization Levy, imposed on consumers for every litre of the controlled petroleum products (diesel and petrol). This money is collected every month and kept in the NEF.[17]

35. The drawback with such stabilization funds mainly arises from the fact that adverse shocks can take the form of prolonged periods of high and rising prices that quickly exhaust allocated funds. Also, accumulated funds are an easy target for

[16] International Monetary Fund (IMF) 2008. “Food and Fuel Prices – Recent Developments, Macroeconomic Impact, and Policy Responses.” IMF, Washington, DC (June).
[17] Ministry of Mines and Energy, Namibia, response to UNCTAD survey of oil price volatility management in Africa, February 2005.

policymakers seeking resources for more urgent programmes. Finally, price fluctuations are so great that it is difficult to build up a fund large enough to stabilize prices even within a relatively short period (for example one year).

B. International initiatives

36. Since the beginning of 2008, the international community has responded to the price crisis through concerted efforts as well as specific donor programmes. More than US$ 18 billion in cash and commodities has been pledged by donors, including US$ 500 million from Saudi Arabia, US$ 5 billion over two years from the United States and US$ 1.2 billion in low-interest loans and grants from the World Bank. Most of this support is now being coordinated by the United Nations High Level Task Force on the Global Food Crisis.

1. The United Nations High Level Task Force on the Global Food Crisis

37. To urgently respond to the global food crisis in a comprehensive, coherent and coordinated way, a High Level Task Force (HLTF) on the Global Food Crisis was established in April 2008 under the leadership of the Secretary-General of the United Nations.[18] In July 2008, this body submitted its report, entitled a "Comprehensive Framework for Action", which presents two sets of actions to promote a comprehensive response to the global food crisis. The first set focuses on meeting the immediate needs of vulnerable populations through the enhanced and more accessible emergency food assistance, nutrition interventions and safety nets; support for boosting smallholder farmer food production; appropriate adjustments in trade and tax policies; and management of macroeconomic implications. The second set aims at building resilience and contributing to global food and nutrition security in the longer term through expanded social protection systems; sustained growth in smallholder farmer-led food availability; improved international food markets; and the development of an international biofuel consensus.[19]

38. The international community, including the Bretton Woods institutions and United Nations specialized agencies, is directly involved in supporting developing countries' efforts to cope with the increased costs of food as well as energy. Addressing the issues of food and energy security is also on the agenda of many non-governmental organizations, complementing the efforts of intergovernmental bodies.

2. Major ongoing response programmes

FAO Initiative on Soaring Food Prices

39. The Initiative on Soaring Food Prices of the Food and Agriculture Organization of the United Nations (FAO) was launched in December 2007 to respond to the price crisis. It provides start-up funds to small farmers in some of the poorest countries to cover the costs of seeds, fertilizers and other tools needed to boost agricultural production for the upcoming planting seasons through 2009. The pilot project, initially funded with US$ 17 million, originally targeted farmers in Burkina Faso, Mauritania, Mozambique and Senegal but has now been expanded to a total of 54 countries.

[18] The High Level Task Force on the Global Food Crisis brought together the heads of the United Nations specialized agencies, funds and programmes, Bretton Woods institutions and relevant components of the United Nations secretariat.
[19] Source: Comprehensive Framework for Action, by the High Level Task Force on the Global Food Crisis, July 2008.

The World Bank’s Global Food Response Programme

40. To combat the global food crisis, the World Bank has taken several measures, including boosting its overall support for global agriculture and food to US$ 6 billion in 2009 up from US$ 4 billion and launching risk management tools to protect poor countries and smallholders. To meet immediate needs, the World Bank created in May 2008 a new US $1.2 billion rapid financing facility – the Global Food Response Programme (GFRP), including US $200 million in grants targeted at the vulnerable in the world's poorest countries. This facility is designed to expand safety net programmes; supply seeds and fertilizer; improve irrigation for small-scale farmers; and provide budget support to offset tariff reductions for food and other unexpected costs. As of 13 November 2008, the GFRP had approved and begun disbursing US $364 million in 25 countries. An additional US$ 541 million is being earmarked for programmes in 10 countries.[20]

41. In addition, the World Bank has established a multi-donor trust fund, initially financed by Saudi Arabia. The trust fund specifically targets countries that fulfil three conditions: first, countries must be among those whose economies have been the most severely hit by the rise in oil prices; second, they must be pursuing fiscally sustainable energy policies; and third, they must have cost-effective social safety net programmes.

The IMF Exogenous Shocks Facility

42. The International Monetary Fund (IMF) provides policy advice and financial support to assist low-income countries with serious balance of payment gaps due to the high food and oil prices. As of 7 July 2008, additional balance-of-payment support under existing IMF Poverty Reduction and Growth Facilities (PRGF) in ten countries amounted to US$ 180 million. In addition, the IMF is reviewing the modalities of its Exogenous Shocks Facility (ESF) to enhance its accessibility to low-income countries facing additional balance-of-payment financing problems.[21] As part of this facility, the IMF provides concessionary loans to help low-income countries bridge the financing gap and sustain their macroeconomic policies when faced with exogenous shocks. Such shocks include exposure to commodity price changes in energy and food. The countries that fall into this category are usually hard hit when shocks occur, have limited ability to build up foreign currency reserves to offer protection and are unable to generate enough revenues to protect against shocks. The financing terms of these loans carry an annual interest rate of 0.5 per cent and are repayable over 10 years with a 5½-year grace period on principal payments, similar to PRGF loans.[22] ESF loans have been criticized for increasing the debt burden of beneficiary countries and for being slow to access because of technical requirements and lack of flexibility. Modifications approved in September 2008 should remedy the latter problem.[23]

43. There have also been calls for a loan-based international food import-financing facility (FIFF). This proposal has been made by FAO, UNCTAD, WFP and food-deficit developing countries in the context of WTO negotiations over the Doha Round, and is aimed at middle-income food-importing countries such as Egypt, Jordan, Morocco, Pakistan and Venezuela, the idea being that pure grants would be available for low-income food-importing countries.

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[20] World Bank website: http://www.worldbank.org/.
[21] Comprehensive Framework for Action, by the High Level Task Force on the Global Food Crisis, July 2008.
[22] http://www.imf.org/external/np/exr/facts/prgf.htm.
[23] See the IMF website for more details: http://www.imf.org/external/np/exr/facts/esf.htm.

The EU Food Facility

44. As a response to the food crisis, the European Union (EU) proposed a €1 billion Food Facility in July 2008. This instrument will aim to provide a rapid response which could already give the first results in the next planting seasons. Its success, however, relies on coordinated action at the global, regional and local levels. The EU is also holding discussions with other international organizations with a view to earmarking these funds for the most vulnerable countries affected by high food prices.

3. Food aid

45. Food aid plays an important role in combating hunger and improving food security in low-income food-importing developing countries. Narrowly defined, food aid can be divided into three categories: emergency food aid, project food aid and programme food aid. Compared with emergency food aid, which is distributed to targeted beneficiary groups in case of natural or man-made disasters, programme food aid is not targeted at specific beneficiary groups and sold on the open market. Project food aid may be either distributed or monetized. Programme aid has long been criticized, as it disrupts the normal food markets of recipient countries and raises the concern that the food under the programme aid is provided more for trade and commercial purposes than aid and development objectives. Monetization and tied aid, as two important features of programme food aid, are usually considered to be ineffective. An OECD study has showed that in most circumstances, financial aid is the preferable option as either a crisis response or as support for longer-term development. Moreover, direct food aid was almost invariably more costly than alternative commercial imports or actual local purchases or triangular transactions.[24] The past two decades have seen encouraging trends in these two areas. Compared with 1990, when most food aid was sold on the market and food aid commodities largely originated in donor countries, in 2007 the bulk of food aid (77 per cent) was targeted and provided directly to beneficiaries and a significant share (39 per cent) came from developing countries. In 2007, emergency food aid accounted for 62 per cent of total aid, while programme food aid represented 14 per cent.[25]

46. Experience over the years seems to prove that food aid is supply-driven rather than demand-driven. Food aid is of high availability in times of good harvests and low prices, while it is less available when food prices are high and low-income food-importing developing countries are most in need of assistance. This paradox seriously compromises the role of food aid in overcoming the food shortage/crisis. For example, when the prices of wheat, maize and rice rose respectively by 122 per cent, 86 per cent and 62 per cent in 2007 compared with their 2000 price levels, these major cereal commodities as food aid only amounted to 3.4 million tons in 2007, less than half the level in 2000. The higher cereal prices and rising food aid delivery costs caused by higher energy prices largely contributed to the decline of food aid in 2007. With 5.9 million tons, food aid deliveries in 2007 were at the lowest level since 1961.[26] To ensure that food aid is positively correlated with commodity prices and effectively responds to the needs of recipient countries, dialogues between donors and low-income food-importing countries should be enhanced and reforms in the international food aid system pursued.

[24] *Source:* The Development Effectiveness of Food Aid: Does Tying Matter? OECD, 2005.
[25] *Source:* 2007 Food Aid Flows, World Food Programme.
[26] Ibid.

C. Regional initiatives

1. Food security initiatives at the regional level – regional food reserves

47. The recent food crisis has given a fresh impetus to the development of regional food reserves. There are some successful examples from Asia. In 1979, the Association of Southeast Asian Nations (ASEAN) set up an Emergency Rice Reserve (AERR). However, due to the insignificant volume of its rice reserve and time-consuming procedures, AERR did not work effectively to address emergencies, such as a serious rice shortage in Indonesia in 1997.[27] To improve and reinforce AERR, more recently ASEAN and Japan, China and Republic of Korea (ASEAN+3) established the East Asia Emergency Rice Reserve (EAERR) scheme. As the first step, a pilot project is being implemented to clarify the mechanisms and verify various assumptions. EAERR has a broad strategy aimed at not only ensuring food security but also smoothing out erratic rice price fluctuations and increasing rice trade in the ASEAN+3 region.

48. The South Asian Association for Regional Cooperation (SAARC) is preparing to open a regional food bank. According to the Agreement on Establishing the SAARC Food Bank signed by member countries in 2007, the Food Bank is to act as a regional food security reserve for SAARC member countries during food shortages and emergencies; provide regional support to national food security efforts; foster inter-country partnerships and regional integration, and solve regional food shortages through collective action. The Bank would hold 241,580 metric tons in rice and wheat reserves, contributed by member countries.[28]

49. The Asian experience may inspire other regions to establish their own regional food reserves, especially in the context of higher food prices. However, the success of such schemes depends on a host of factors, such as the strong willingness and political support of countries in the region, the degree of agricultural trade integration in the region and the existence of appropriate regional infrastructure such as storage and transportation.

2. Regional initiatives for energy security

Petrocaribe in Central America and the Caribbean

50. Rising energy prices have also spurred a range of regional initiatives in the oil sector. For example, 18 Caribbean and Central American nations that are PetroCaribe members are benefiting from cooperation with Venezuela to purchase oil at concessionary rates from the oil exporter. The scheme, which was launched in 2005, was recently renewed in 2008. Under the arrangement, State-controlled entities from participating countries were offered up to 90 days to pay 40 per cent of the cost of crude oil imports from Venezuela, with loans being extended to cover the rest of the bill over a period of 25 years, at a low interest rate of 1 per cent and a 2-year grace period for repayment. Under the agreement, Venezuela will cover shipping costs, assist with the development of distribution infrastructure and storage sites, contribute to the formation of State-controlled facilities, and provide fuel-efficient systems in member countries.[29] From June 2005 to December 2007, the credits received from Petrocaribe to importing countries amounted to US$ 1.17 billion, making it the largest single source of concessionary finance to the

[27] *Source:* Toward a World Free of Starvation and Poverty "Introductory Information on the International Food Stock-holding Scheme and East Asia Emergency Rice Reserve (EAERR)", by the Ministry of Agriculture, Forestry and Fisheries of Japan.
[28] The share of Afghanistan will be decided by the First Meeting of the SAARC Food Bank Board and is thus not included here. *Source:* http://www.saarc-sec.org/data/agenda/.
[29] http://www.venezuelanalysis.com/analysis/1592.

Caribbean region.[30] The debt incurred can be partially amortized by means of paying in goods and services that are needed in Venezuela.

51. A downside to this scheme is that the member countries will be raising their long-term debt under the agreement.

Gas pipeline in West Africa

52. The gas pipeline was conceived in the 1980s by the Economic Community of West African States (ECOWAS) as a key regional economic policy to transport otherwise flared gas from Nigeria to Benin, Togo and Ghana. In 2004, a consortium consisting of the public and private sector made its final investment decision and the first gas was expected to be pumped through in 2008.

53. The potential benefits to Benin, Togo and Ghana are in energy cost savings, reduction in greenhouse gases as well as fiscal revenues for the countries, access to cleaner and cheaper fuel, increased energy security and the promotion of economic development. According to expert estimates, these countries could save between US$ 700 million to US$ 2.5 billion in energy costs over a 20-year period, as pipeline-supplied gas is substituted for more expensive fuels in power generation.[31] Ghana estimates that it will save between 15,000–20,000 barrels per day of crude oil by taking gas from the pipeline to run its power plants.[32]

The African Biofuel & Renewable Energy Fund (ABREF)

54. An alternative strategy for low-income developing countries to cope with the high and volatile price of petroleum is to reduce dependence on oil, in favour of biofuels and renewable sources of energy such as wind, solar and hydroelectric power. In addition to being environmentally friendly in terms of carbon emissions, the production of biofuels may be economically beneficial to developing countries, as it may help reduce their oil import bills, offer increased energy security through diversification of energy sources and provide opportunities to diversify agricultural output. However, there are food security issues with the competing uses of land for the production of food and biofuels as well as concerns that the effects on deforestation, water scarcity and biodiversity as a result of bringing increased land under cultivation may offset the environmental benefits of biofuel production. One possible solution may come from obtaining biofuels from tropical plants, such as the jatropha tree, which can grow on degraded land and would therefore not compete with other uses yet have a positive environmental impact, or from using improved technology.

55. Various initiatives are under way to finance agricultural and industrial production for biofuels in low-income developing countries. For example, the Bank for Investment and Development (EBID) of the Economic Community of West African States has established a fund – the African Biofuel & Renewable Energy Fund (ABREF)[33] – to boost biofuel production in 15 West African countries. Biofuel is seen as an attractive source of energy for West African States because it can protect their economies against rising crude oil prices on the world market, in addition to constituting a viable source of climate-friendly energy. In theory, the Clean Development Mechanism under the Kyoto Protocol could be used to fund biodiesel production, but West African countries lack the requisite expertise to apply for the scheme. Technical as well as financing assistance is therefore needed.

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30 http://www.stabroeknews.com/editorial/petrocaribe-rising/.
31 D. A. Barandao, Presentation at the 11th African Oil and Gas, Trade and Finance Conference and Exhibition, May 2007, Kenya.
32 http://www.eia.doe.gov/emeu/cabs/wagp.html.
33 For example, see: http://www.africacncl.org/Events/downloads/ECOWAS_TALL_ABREF_Washington.pdf.

D. Diversification of energy sources and energy conservation

56. Global efforts to reduce dependence on crude oil and fossil fuels in general also imply support measures such as helping developing countries move towards alternative energy sources, including such renewables as hydro-energy or solar and wind energy. Regional cooperation ensuring better usage of gas in such regions as Africa could help both oil-exporting and oil-importing African countries develop a gas production, transportation and usage infrastructure, thus diminishing dependence on crude oil and promoting more sustainable forms of energy use. Investments and technical assistance in these areas are of critical importance.

57. The increasing share of developing countries and especially emerging economies in world energy consumption and the relatively high level of energy use in relation to per capita income make the issue of more efficient use of energy a policy priority for those countries. Many of these countries, while encouraging energy conservation measures, are drawing on the OECD countries' experience in reducing the energy intensity of GNP. Technical assistance by bilateral donors and international organizations in the energy sector should include a strong component for efficient energy production and usage methods. Energy conservation also goes hand in hand with the use of new technologies permitting enhanced carbon capture and sequestration.

IV. Conclusions

58. Commodity markets are inherently volatile, as the recent cycle of boom and bust shows. To cope with such volatility, various international, regional and national support measures have been designed and implemented. Some of them have been described in this note. In accordance with paragraph 208 of the Accra Accord, the expert meeting may wish to consider the measures of support to commodity-exporting and commodity-importing developing countries and to make recommendations on actionable ways of assisting developing countries, especially the least developed among them, in taking advantage of opportunities and coping with the challenges of developments on international commodity markets.

59. Accordingly, the expert meeting may wish to take up the following main and related sub-questions.

1. What types of measures and support have been successful in helping commodity-exporting developing countries take advantage of improved commodity export opportunities, and in this respect:

   - What measures are needed on the national, regional and international levels to help these countries enhance their participation in the commodity supply chain and value addition?
   - What is the impact of trade barriers, lack of competition and other market distortions on their participation in international trade in commodities?
   - How might financial and technical cooperation be instrumental in integrating commodity producers into global commodity supply chains?

2. What types of measures and support would assist commodity-importing developing countries in dealing with wide swings and, in particular, increases in commodity prices, and in this respect:

   - How can the problems of food security be addressed at the national regional and international levels, including the levels of aid required from international community and regional initiatives such as regional food reserves and national safety nets?

- How can the issues of energy security and measures to cushion energy price shocks be addressed through international financial support, regional and national transfers and funding methods?
- How can dependence on fossil fuels be reduced though diversification of energy sources and energy conservation measures?

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Note by the UNCTAD secretariat

Corrigendum

The date of the meeting has been changed to 6–7 April 2009.