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Outcomes of the Special Event on Commodity Dependence and the Impact of the Multiple Global Economic Crises on LDCs: Mapping the Exposure to Market Volatility and Building Resilience to Future Crises

Chairperson's summary

1. Despite the crucial role of commodities in LDC economies and some efforts to mainstream commodity issues into development strategies, there is a lack of clearly articulated commodity policies at the country level. A more holistic approach that incorporates a development perspective and that takes into account the function of commodities in economic growth and poverty reduction is required.
2. Governments in commodity dependent LDCs should define a long-term vision for their respective countries that clearly lays out, inter alia, how to link the commodity sector to the national development strategies. They should take steps to ensure that the potential of commodities to spur economic growth and reduce poverty is harnessed to the fullest. To do so, policies on how to maximize the benefits of the commodity sector should be a key component of countries' long-term development policies.
3. In LDCs that are dependent on exports of mineral resources, it is essential to institute and implement strategies, which improve the management of extractive industries. Any such strategy must provide for the effective use of revenue from commodities for national development, including measures to enhance fiscal transparency and accountability, for example, by adopting the Extractive Industries Transparency Initiative. National level efforts in commodity sector should also include better management of key natural resources, particularly land and water, in ways that can be supportive of national development efforts addressing headline issues such as gender equality, promoting a more rapid, balanced and manageable demographic transition in LDCs.
4. The key trade policy effort in commodity-dependent LDCs should be to upgrade their primary commodity sector coupled with a vigorous export promotion strategy to exploit dynamically changing comparative advantages, which can be part of a strategy of diversification into exports of labour-intensive manufactures. Diversification not only broadens the scope for employment creation and poverty reduction, but it also increases a country's economic resilience to external shocks, thereby making income more stable and predictable. It can also promote technological advancement and efficiency and boost labour productivity and incomes.
5. For LDCs, dynamic gains and poverty reduction can also accrue from other non-traditional exports such as horticulture and fishing, in particular. There is also considerable scope for many LDCs to join the group of successful agricultural commodity exporters in speciality and niche markets. However, most LDC exports face intense competition and must

satisfy the demanding quality and delivery schedules of developed country markets. It is of paramount importance that development and trading partners of LDCs recognize the costs to the LDCs of compliance with standards, and provide them technical and financial assistance to meet the safety requirements of consumers and industries. Developed countries are encouraged to make efforts to harmonize their national standards with those agreed at the international level. Other necessary facilities such as quality assurance schemes and conformity with international standards are important to become competitive in world markets.

6. South - South cooperation and regional integration can provide further opportunities for LDCs to address their weaknesses and vulnerabilities in international markets. Such measures can include balancing the dependence of export commodity producers on imported inputs against their capacity to export; greater emphasis on “tropicalization of tropical agriculture”, i.e. improvement of productivity of robust tropical production systems, instead of importation of finely tuned productive systems from temperate climates; and, strengthening the reliance on domestic and regional markets for “non-traded commodities” to reduce exposure to international market pressures and to benefit from similarities of national and regional quality and safety standards.

7. Establishing or institutionalizing farmers’ associations and organizations is a very effective way of improving access to finance. Such associations can also contribute to improving production and marketing systems, diffusing technology and disseminating information as well as assisting in establishing acceptable practices in agriculture. Business and other social linkages (i.e. linking farmers with established companies, hotel chains and other catering service providers such as buyers and the diaspora) are also effective ways of increasing both farm production and productivity. The availability of reliable weather data and forecasts are also important for farmers in planning and protecting their crops.

8. Fostering the role of the private-sector in development though capacity building, and by improving governance and business regulations is of paramount importance in accelerating economic growth and development. Such efforts can be complemented by the support of international community in facilitating the operations of commodity based private companies in LDCs to take advantage of income generation and employment opportunities that emerge daily in the international markets. In addition to tackling corruption and facilitating the conduct of business, it is paramount that LDC governments support the development of entrepreneurial capabilities.

9. In view of the negative effects of LDCs’ increasing exposure to volatile commodity markets, attention needs to be given to the continued support of commodity sectors of LDCs, including enabling their greater participation in global value chains on an equitable basis. Increased participation in global value chains is expected to promote sustainable market-driven growth by strengthening the efforts of LDCs and their commodity producers to adopt effective strategies. Concerted efforts need to be exerted to reduce LDCs’ exposure to volatility in the global commodity markets and to increase their capacity to cope with the resulting shocks and vulnerability.

10. LDCs and their development partners should make further efforts to invest in agricultural research, innovation and technological upgrading as well as in the development, multiplication and dissemination of high yield variety seeds. Cost of research and technology adoption is high and often smallholder farmers are unable to adopt these, and yet they are key to improving production, ensuring food security and to improving the quality of export products. It is also recognized that innovation should include search for new models of cooperation and project design and implementation, to respond to the constantly changing commodity markets.

11. LDCs need to increase their support to the agricultural sector in order to improve agricultural productivity and enhance food security. African LDCs aim to reach, at a minimum, the target of 10 per cent of their budgets for agriculture, as per the Maputo Declaration. Equally important, LDCs should take steps to better target investment, for example, by boosting research and development on indigenous crops and applying a gender perspective.

12. In order to strengthen the role of the commodity sector in LDCs as an engine of economic growth and development, development partners need to consider making a sustained effort to meet the agreed target and improve the quality and effectiveness of official development assistance to LDCs. Such assistance needs also to be efficiently targeted. This includes a stronger focus on agriculture, whose share in total flows of official development assistance slumped from 14.8 per cent in 1987–89 to 5.5 per cent in 2007–09. To this end, a stronger implementation of the \$20 billion pledge made by governments, which launched the Agriculture and Food Security Initiative in L'Aquila (Italy) in 2009, is also necessary.

13. With a view to mitigating the impact of volatile commodity prices on food items, the international community needs to consider how to reduce the amount of financial speculation within international commodity markets. In particular, appropriate and effective regulation should be developed and applied to purchase of food commodities, or futures contracts in them, with the primary purpose of medium- or long-term financial investment which is a modern form of hoarding. Such regulations could further limit the contagion between financial and commodities markets and prevent disruptive deviations of prices from their fundamental levels.

14. The international community is invited to consider establishing large, regionally or nationally controlled food reserves. These should be used actively to stabilize the most important markets as well as to provide food relief to citizens deprived of food security in natural disasters and other emergencies. There is a direct link between food price rises, levels of stocks and volatility in agricultural commodity prices. They should also agree that all food aid is provided in monetary form, not in-kind. Furthermore, the international community is encouraged to consider creating an international financial reserve to address the volatility of commodity markets and its consequences for food insecurity.

15. Development partners of LDCs are encouraged to pursue trade policies that are conducive to the development of LDCs. Notwithstanding preference schemes that benefit LDCs, development partners should take further steps to promote a more favourable international trading system. This includes concluding the Doha Development Round in a way that takes into account the concerns of LDCs, reducing agricultural subsidies, supporting LDCs in meeting sanitary and phytosanitary measures and technical barriers to trade, and scaling up Aid for Trade.

16. To make informed policy decisions on commodities LDC policy makers must possess relevant and timely information reflecting the state of the art in the understanding of commodity markets. In this regard, efforts should be made to strengthen data collection, interpretation and analysis, as well as improve the capacity of policy makers to locate, access and make use of such information. Thus, information gathering and data availability and analysis should be enhanced through the collaboration of a range of stakeholders, including governments, academic and research institutions, international organizations, trade associations, international commodity bodies as well as other stakeholders at the national, regional and international levels.

17. It is recognized that the availability of up-to-date market information is constrained by proprietary interests and the structure of financial markets. In the interest of coherent and

sustainable development, the international community should make efforts to achieve greater transparency in financial markets particularly as they concern commodities.