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Global Commodities Forum

7TH Global Commodities Forum

15-16 July 2016, Nairobi, Kenya

EXECUTIVE SUMMARY*

Breaking the Chains of Commodity Dependence

UNCTAD held the seventh Global Commodities Forum on 15-16 July, co-organized with the Commonwealth Secretariat and the Food and Agriculture Organization of the United Nations (FAO). The theme of the Forum was "Breaking the chains of commodity dependence" and the programme comprised: an opening ceremony, a keynote session, four expert panels and a ministerial round table.

In his opening statement, Secretary-General Mukhisa Kituyi underlined the need to make progress on the Forum's theme, as 67 per cent of developing countries remain dependent on one or two unprocessed commodities for the majority of their export earnings, complicating their macroeconomic management and limiting their capacity to transform their economies. Moreover, the number of commodity-dependent developing countries (CDDCs) has remained relatively unchanged for decades. SG Kituyi urged the governments of CDDCs and their partners to take decisive action to reduce their commodity dependence and diversify their economies to have the best chance of achieving their national development priorities and the Sustainable Development Goals (SDGs).

Renew commitment to smallholder-centred agriculture

Throughout the Forum, discussions revolved around the importance of agriculture in development strategies. Almost all advanced economies passed through a period of significant agricultural development early in their development trajectories. Today, approximately 70 per cent of the world's poor live in rural areas in developing countries and depend on subsistence agriculture. Individuals or families manage 90 per cent of farms worldwide, employing mainly family labour. These small family farms control only 12 per cent of the world's agricultural land. And in developing countries they produce a significant part of the food consumed. Crucially, research shows that growth in agriculture is twice as effective at reducing poverty as growth in any other sector. Participants at the Forum therefore encouraged governments and development partners to adopt policies that foster investments in smallholder agriculture.

Specifically, policies must address the many market failures that prevent smallholders from participating more fully in global value chains (GVCs). Market failures to redress include: a lack of access to markets, both local and international, due to poor transportation and communication infrastructure; a lack of access to credit and risk management services; and, smallholders' inability to supply their labour in more productive and remunerative sectors. As a result of market failures, many smallholders in developing countries sell only 10-25 per cent of their harvests, consuming the rest themselves. In the end, smallholders generally know what inputs, technologies and techniques exist to improve the yield, quality and uniformity of their harvests - they simply lack access to them.

* *The opinions expressed in this summary are the author's own and do not necessarily reflect the view of UNCTAD. This summary has not been formally edited.*

Discussions at the Forum also highlighted the importance of putting women at the centre of a renewed agricultural development agenda in Africa, recognizing that women provide the majority of agricultural labour on small farms in Africa, but have less access to inputs and earn less than men.

Strengthen regional value chains

For smallholder agriculture, as for other economic sectors, regional value chains as a key opportunity for CDDCs to expand their export markets and broaden the export baskets. Especially in Africa, high transportation costs - both domestically and to overseas markets - can render countries' exports uncompetitive. Regional value chains represent a feasible, competitive opportunities to generate export demand growth at competitive cost, particularly in the current context of slowing demand from advanced and emerging economies. There are successful examples to follow for integrating regional value chains in Africa. One speaker related the successful experience of the COMESA Leather and Leather Products Institute, which is helping build a regional value chain for leather shoes in East Africa. To accomplish this, the Institute is developing and coordinating the capabilities to provide the different activity steps within the region, targeting the ones that attract the greatest share of value added, such as design.

In the discussions about the oil and gas sector, participants stressed the need for governments to invest in regional energy markets, especially for transmission and distribution, two activities for which countries have had difficulty attracting foreign investment. They recommended that governments and development partners focus their investments on the so-called "first pipeline", to bring, for example, natural gas from an offshore field to an urban consumption market, where the private sector will see more profitable opportunities to invest in generation and distribution to end users.

Engage the private sector

Despite the heterogeneous structures of different commodity sectors - e.g. small farms, large mines or offshore oil and gas platforms - discussions during the Forum returned to the need for governments to engage more with the private sector when formulating long-term plans. This reflects not only that the private sector is the predominant investor, operator and market-maker in most commodity sectors in developing countries, but also that there are a growing number of foreign firms interested in a more collaborative relationship with host governments.

Frustrations persist in many developing countries at the conditions imposed by foreign investors, which can limit the government revenues and local content that developing countries receive from foreign investments in the extractive sector. Nonetheless, there are also a variety of examples of fruitful public-private partnerships to increase the long-term value that developing countries earn from their natural resources.

In agriculture, partnerships should involve: a) foreign firms improving smallholders' access to inputs, credit and export markets; and b) developing value addition capacities in host countries to produce high-quality, branded export products. In extractive sectors, partnerships should focus on: collaborative negotiations that look at the full 30 to 40-year life span of a project; shared responsibilities in building human capital and local participation over the course of the project; and investors' desire to have a stable licence to operate within local communities. In discussions about both agricultural and extractive sectors, participants repeated the term "shared value" to describe these collaborative partnerships, and to differentiate them from the narrower, typically rule-based concept of local content.

Confrontational investment and regulatory relationships will persist in some cases, but governments should engage with those foreign firms that have adopted "shared value" as part of their core business strategy.

Expand power generation in Africa with renewables and, where necessary, bridging technologies

Throughout Africa, energy poverty impedes economic activity. More than 70 per cent of African households lack access to energy and economic activity in all sectors is dampened by limited and unreliable electricity supply. To meet both the African Union's Agenda 2063, as well as SDG 7, both of which aim to ensure access to affordable, reliable energy for all, considerable investments are required in power generation across the continent.

Meanwhile, most African governments committed themselves to cut emissions from energy usage under the Paris Agreement of the United Nations Framework Convention on Climate Change, reached in Paris in December 2015.

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Several technologies exist for the new generation capacity to be built, each with its own cost-emissions profile: coal remains abundant and cheap but high in carbon emissions; diesel and fuel oil are more expensive than coal and still relatively polluting; natural gas is a cleaner fuel and allows for the construction of large-scale power plants; and renewable technologies have low carbon emissions but are not currently scalable enough, in most cases, to fully replace fossil fuel-based technologies.

Indeed, the Nigerian delegation at the Forum illustrated the tension between the objectives of "clean" and "affordable, universally available" energy, explaining that it was both low-carbon renewable projects as well as low-cost, coal-fired ones. By contrast, in his closing address, Deputy Secretary-General Joakim Reiter encouraged governments to avoid coal and, instead, base their energy plans on renewable technologies, supplementing with lower-carbon bridging technologies, such as natural gas, where necessary.

Tackle trade misinvoicing and capital flight

The Forum was also the stage for the release of a ground-breaking UNCTAD research paper on trade misinvoicing. Trade misinvoicing is the practice of misreporting the value of export or import transactions and it is one mechanism within the larger complex of illicit financial flows (IFFs) and capital flight from developing countries.

The paper estimates the incidence and value of trade misinvoicing on exports and imports of commodities in five developing countries, over the last two decades. For each developing country studied, the paper found that it lost tens of billions of dollars in export earnings over the study period.

These estimates, for just five countries, hint at the magnitude of the total export earnings and government revenues lost to IFFs by CDDCs on the African continent and globally, a drain on the resources they have available to invest in productive capacity and poverty reduction.

The paper also estimates the imbalances by trading partner, showing that misinvoiced flows are often concentrated towards one or a few importing countries. This underlines that both exporting and importing countries must engage with efforts to eradicate trade misinvoicing.

In his closing address, DSG Reiter said that more research and policy analysis is needed to: understand the modalities of trade misinvoicing; identify the capacity development needed at the national level to combat this practice; and strengthen international exchange of information for tax purposes.

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