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**Economic Crises and Commodity
Dependent LDCs: Mapping the exposure to
market volatility and building resilience to
future crises**

Background

This document, submitted by the United Nations Conference on Trade and Development (UNCTAD), contains the summary of a new project proposal designed to examine and analyse the impact of the economic crisis on least developed countries (LDCs) with a view to proposing policy responses for recovery and measures to insulate / reduce impact of such crisis on their economies in future.

Action

The Projects Committee is requested to note this document.

PROJECT SUMMARY

- 1. Project title:** Economic Crises and Commodity Dependent LDCs: Mapping the exposure to market volatility and building resilience to future crises
- 2. Duration:** 1 year
- 3. Location:** Benin and Burundi (Francophone), Nepal and Lao PDR (Asian Region), Tanzania and Zambia (Anglophone)
- 4. Nature of Project:**

The project will examine and analyse the impact of the economic crisis on LDCs with a view to proposing policy responses for recovery and measures to insulate / reduce impact of such crisis on their economies in future. In particular, it would look into the vulnerability of commodity dependent LDCs resulting from their large exposure to external markets, limited diversification, and poor capital base. This vulnerability is particularly important in the context of the volatility of the global markets, exemplified by the current economic and financial crisis.

Relationship between commodity dependence and global market volatility would be elaborated as the underlying cause of issues attracting world attention, e.g. poor economic growth, food insecurity, enhanced poverty, curtailment of expenditures on social sectors etc. Possible policy measures / interventions areas would be suggested.
- 5. Estimated total cost:** US\$532,250
- 6. Financing from the Fund:** US\$429,250
- 7. Counterpart contribution:** US\$103,000
US\$ 50,000 (UN LDC IV – UN ORHLLS)
US\$ 53,000 (UNCTAD trust fund TXB/2136/X77J/2111)
Parallel financing – ITC, UNIDO (amounts to be confirmed)

8. **Project Executing Agency (PEA):** UNCTAD Division on Africa, LDCs and Special Programmes.
9. **Supervisory body:** International Coffee Organization (ICO)
10. **Collaborating Institutions:** Governments, UN Agencies, multi-lateral financial institutions, and other bilateral and multi-lateral development agencies.
11. **Estimated starting date:** Pending

I. PROJECT BACKGROUND

1. The project responds to the demand by commodity dependent LDCs for developing better understanding and development of policy measures and interventions for management of the adverse effects of the global economic and financial crisis. As the crisis continues to unfold in the background of preparations for the UN LDC IV Conference, urgent need is felt to (1) evaluate the impact of the crisis on the ability of LDCs to achieve the Millennium Development Goals (MDGs), and (2) to put forward recommendations to the Conference taking full account of the lessons learnt and the emerging and proposed changes in the global economic structures, as global economy recovers.

2. For many commodity dependent LDCs, commodities remain the main economic link to the global economy. Commodities are a major source of foreign exchange earnings, government revenues and employment. During the period of global economic distress, commodities also become the main transmission mechanism of the exposure of economies of LDC to the global volatility. Due to the structural weakness of their economies, limited capital base, poor infrastructure and other factors, LDCs face considerable difficulties in coping with the effects of volatility, particularly in the face of the economic crisis.

3. The exposure of LDCs to the volatility of global markets, combined with their limited resilience creates an impediment to their efforts in achieving the MDGs. The economic costs of global crises transmitted to LDCs manifest themselves in reduced economic growth, erosion of the capital base, increasing poverty, food insecurity, increased unemployment, environmental degradation, and other 'headline' issues attracting world attention.

4. The vulnerability of LDCs to the global economic crisis, resulting from their commodity dependence, has drawn attention of the academicians, development practitioners, policy makers, national governments and international organizations to the

need to address its adverse effects on development. Alleviating the human and economic costs that the crisis is inflicting on LDCs is a matter of immediate significance in the face of unfolding crisis. At the same time, the lessons of the current crisis and its effect provide an opportunity to address the basic causes of vulnerability of commodity dependent LDCs by identifying long-term measures to (1) reduce their exposure; and (2) increase their capacity to cope with the effects of global economic volatility.

5. The next decennial UN Conference on LDCs (UNLDC IV) will be held in Istanbul, Turkey, in June 2011. The Conference is expected to adopt the next Action Plan for LDCs, as a successor to the Brussels Plan of Action, adopted at the UN LDC III in May 2001.

6. In the process of consultations among the international organizations preparing for the UNLDC IV Conference, it has been recognized that a strong case exists for taking steps for reduction of the vulnerability of commodity dependent LDCs in the face of global economic crisis. The current project has been developed by a group of international organizations, led by the CFC and UNCTAD to identify a suitable set of instruments to be placed for the consideration of the Conference to address commodity dependence as a primary source of vulnerability and one of the persistent root causes of economic difficulties of LDCs. On the basis of the findings and recommendations emerging from this project, the adoption of an Action Plan on Commodity Dependence of LDCs may be considered and adopted which will lay foundations for future international support.

II. PROJECT OBJECTIVE AND RATIONALE

Broad Objectives

7. The fallout from the financial crisis in the industrialized world has brought to the fore the issue of exposure of commodity dependent LDCs to the volatility of the global markets, quickness of transmission of effects and its long-term adverse consequences on development.

8. Before the global economic and financial crisis, the LDCs exhibited impressive economic performance with real GDP growth averaging 6% per annum for the last five consecutive years. The crisis has brought this impressive growth to a complete halt, with several countries recording negative per capita income growth for the first time in over a decade. The World Bank estimates that over the next decade Africa alone will need close to US\$100 billion annually to fund its infrastructure. Around 50% of this amount is needed to address the continent's current power supply crisis alone.

9. The sustainability of growth achieved so far remains uncertain as it's highly dependent on boom in commodity prices, increased external finance and continued expansion of demand for primary commodities. The central development challenge facing LDCs is to create additional jobs and livelihoods for a rapidly growing labour force. However, most LDCs are experiencing a 'blocked structural transition', i.e. most LDCs have not been able to generate sufficient productive off-farm jobs to absorb the growing labour force seeking work outside agriculture. At the same time, the agricultural sector is unable to absorb the additional work force.

Specific Objectives

10. The experience of the last decade and current global crisis points to the need for greater economic resilience among LDCs. National Governments and development partners need to agree on the workable approaches to building such resilience which include greater economic diversification and moving away from dependence on exports of narrow range of commodities, and dependency on food imports. Particularly, attention needs to be given to imported food and energy prices and the vulnerability of the general population to price induced food shortages.

11. This project is prepared in the context of the LDC IV Conference. In particular, on the two themes of the schedule that are particularly relevant for the commodity dependent LDCs. They are:

- Development of productive capacities of LDCs (Theme 3).
- Food security (Theme 7).

12. More information on the LDC IV Conference can be found at: <http://www.un.org/wcm/content/site/ldc/lang/en/Background>

III. PROJECT COMPONENTS

Component 1: Commodities, global economic crisis and development of productive capacities of LDCs (Theme 3 of the UNOHRLLS preparatory schedule)

Objectives:

13. The specific issues that would be enquired into under component 1 of the project are:

- The impact of the crisis productive capacities of commodity dependent LDCs, and their situation before, during and after the crisis.
- Export performance –commodity prices and export volumes before and following the crisis, in particular impact on export earnings.
- Employment and employment income changes (indicative).
- Impact on Government revenues from commodity exports.
- Investment expenditure in the public and private sectors highlighting capital expenditure on physical infrastructure and production volume funded from Government resources.

14. The immediate outcome of this component of the project would be policy analysis that will contribute to better understanding of the impact of the global financial and economic crisis on poverty in commodity dependent LDCs. The issues of focus in this area would be how to build productive capacities and diversify these economies to reduce dependence in order to mitigate vulnerability.

Outputs

15. Analytical report, containing: i) major findings and lessons from experience, ii) learning points and best practices for commodity dependent countries (e.g. practices which are effective in promoting resilience of productive capacities to external shocks, pass down of economic gains for poverty alleviation and successful competition in the global markets), and iii) proposed measures to assist commodity dependent LDCs to mitigate the impact of the crisis. These will be presented to the Fourth UN Conference on LDCs (UNLDC-IV). The report will be an important input to the Conference in articulating policies and strategies that these countries could adopt which could be further supported by international financial institutions and international donor community over the next 10 years to accelerate their economic growth, build capacities to withstand the impact of external shocks on their productive capacity, poverty alleviation and retain their share of earnings in the world markets.

Activity 1.1: Undertake case studies in selected LDCs and on commodities of strategic export interest to them.

Activity 1.2: Undertake one study on global policy issues of relevance to the commodity sector with special emphasis on volatility of prices of selected commodities.

Activity 1.3: Identify key sectors with resilience to external shocks and articulate key national, regional and global policies for action for strengthening the commodity sector.

Activity 1.4: Synthesize policy lessons building on the more successful experiences and best practices for dissemination during and beyond UNLDC-IV.

Resources required:

- Five national consultants for sectoral case studies, 3 months
- One international expert for a period of 4 months

Timing: 4 months

Component 2: Enhancing food security through agricultural development (Theme 7 of the UNOHRLLS preparatory schedule)

Objectives

16. There are a number of issues to focus on when analysing the impact of the crisis on food security of commodity dependent countries. The main issues are food production and exports, availability and affordability (prices and costs) of imports among others. Furthermore, the effects of policies and regulations of countries with global influence and their influence on individual LDCs would be covered. For this component the following issues will be analysed:

- Availability of food with a special focus on those people at the margin of both production before, during and after the crisis.
- Domestic markets – ability of domestic markets to move food from surplus areas to food deficit areas.
- Food imports as well as exports of food before, during and after the crisis.
- Food prices – cost and affordability of food to the poor and food insecure population in LDCs.
- Numbers of people receiving food aid and the sources, distribution and costs related to distribution mechanisms.
- Resources allocated to food imports and food distribution to the food insecure.
- Employment and incomes.
- Investment and land purchase agreements.
- Government revenues from trade.

17. The immediate outcome of this component of the project would be policy analysis that will be a basis for a clear understanding of the impact of the global financial and economic crisis on food security. The issues of focus in this area would be incomes, prices and availability and affordability of basic food requirements of the poor.

Outputs

18. Analytical report outlining findings and major lessons learnt for commodity dependent countries and how their population can remain food secure in the face of crisis. The report will provide recommendations on the policies that commodity dependent countries should adopt to reduce the impact of external shocks on the food security.

Activity 2.1: Undertake case studies on selected LDCs where food security was adversely affected by their commodity dependence.

Activity 2.2: Undertake further case studies on selected LDCs that were able to prevent food insecurity on account of the crisis with a view to identifying common experiences that can be shared and recommend for policy actions to mitigate the adverse impact of rise in food prices and commodity price volatility.

Activity 2.3: Study the experiences of countries that have succeeded to ensure food security through diversification away from dependence on commodities and draw lessons.

Activity 2.4: Synthesize policy lessons building on the more successful experiences and best practices.

Resources required:

- One international consultant for a period of 4months
- Six national consultants for a period of 3 months

Timing: 4 months

Component 3: Building towards an action plan to reduce vulnerability of commodity dependent LDCs

Objectives

19. Bilateral consultations between the CFC and individual Member Countries, as well as relevant international bodies, such as EU's PROBA i.e. Committee on commodities, All-ACP Agricultural Commodities Programme, G20, show that there's intense interest to formulate

a renewed internationally coordinated approach on commodities and address the negative effects of commodity dependence as fundamental development issue. This is of particular urgency in the case of LDCs, as commodity dependence severely impedes their efforts in achieving the MDGs.

20. Reflecting the advances in the understanding of integration of LDCs in the global economy through their commodity sector requires accurate information, thorough analysis and wide interaction of all players. Using the occasion of UNLDC IV where all countries would be represented and all development partners will be participating, a side event on commodities would facilitate such an interaction. This provide a forum to arrive at the shared understanding of common interest in developing and pursuing measures and actions for reducing commodity dependence as part of the LDC Action Plan.

21. The objective of Component 3 of the project would be to compile the outcomes of the studies in Components 1 and 2, as well as other intellectual inputs on the subject to make a case for addressing the vulnerability of commodity dependents LDCs. This would be concluded with a side event on commodity dependence at the UN LDC IV Conference. Furthermore, given the occasion, the Conference should receive sufficient inputs to recommend specific measures and actions to overcome the development challenges facing commodity dependent LDCs which can form part of the decennial Action Plan for LDC.

Outputs

22. The component would compile and publish the outputs of the project Components 1 and 2, disseminating it to make a coherent contribution to the preparatory process and to the Conference itself.

Activity 3.1: Compilation of the project outcomes, as well as other pertinent recent policy papers / research on problems of commodity dependent LDCs.

Activity 3.2: Publication and dissemination of the results.

Activity 3.3: Coordination of practical arrangement for the side event with the organizers of the meeting.

Activity 3.4: Development of agenda for the side event in consultation with UNLDC IV partners, ICBs, and other stakeholders.

Activity 3.5: Identification and commissioning of keynote speakers and panelists for the side event.

Activity 3.6: Feedback from the side event to the LDC Action plan, compilation and presentation of the outcomes.

IV. PROJECT COSTS AND FINANCING

Table 1 Costs and sources of financing (US\$)

Component	Total cost	CFC contribution	Counterpart/ cofinancing
Component 1	138,650	118,650	20,000
Component 2	158,600	135,600	23,000
Component 3	220,000	160,000	60,000
<i>Sub-total</i>	517,250	414,250	103,000
ICB Supervision	15,000	15,000	0
TOTAL	532,250	429,250	103,000
UNCTAD Programme Support Cost 13%	44,321	44,321	0

Table 2 Cost table by category of expenditure (in US\$)

	CFC Category of expenditure	Total	CFC	UNCTAD	C/part
III	Materials and Supplies	30,000	20,000	10,000	0
IV	Personnel	26,000	6,000	0	20,000
V	Technical Assistance and Consultancy	223,740	223,740	0	0
VI	Duty Travel	70,000	70,000	0	0
VII	Dissemination and Training	158,510	90,510	43,000	25,000
VIII	Operational Costs	5,000	0	0	5,000
IX	Supervision, Monitoring and Evaluation	15,000	15,000	0	0
X	Contingencies	4,000	4,000	0	0
	TOTAL	532,250	429,250	53,000	50,000
	<i>Of which UNCTAD Programme Support at 13%</i>	<i>44,321</i>	<i>44,321</i>		

V. PROJECT ORGANIZATION AND MANAGEMENT

Organization and Management

23. The UNCTAD would act as the Project Executing Agency and its Division on Africa, LDCs and Special Programmes will make all necessary administrative arrangements to implement the project activities in a timely and effective manner. In particular, UNCTAD would use its network of expert to identify suitable specialists at the national and international level to conduct the preparatory studies. The appointments will be made by UNCTAD, as the responsible Executing Agency, in accordance with UN rules. The CFC, as financier, will be consulted on the appointments, consultants will be appointed in concurrence with the CFC.

24. The preparatory studies would be discussed in UNCTAD forums with the LDC member countries and other development partners leading to the commodities side event at the Conference.

25. The side event would be organized in collaboration with the UN OHRLLS, which has been given the overall responsibility for the organization of the UN LDC IV Conference.

26. The International Coffee Organization (ICO) will participate in the project as supervisory body and the sponsoring ICB. While the issues raised in the LDC IV preparatory process are relevant to many coffee-producing LDCs, it is understood that the strategic significance of the outcomes of the LDC Conference goes beyond any individual commodity, and the ICO act as a lead ICB and obtain inputs from other ICBs to see that their views are duly reflected in the project.

VI. BENEFICIARIES AND BENEFITS

27. The proposed preparatory activities will be strategic in nature, and would produce impact by providing substantive inputs to the LDC IV Conference concerning the priority directions for future development interventions in niche commodity sectors of LDCs. The primary beneficiaries of the project would be the policy makers representing the LDC countries in the Conference. They would receive expert inputs and financial support to prepare substantive contributions to the UNLDC IV which would direct the future international community development actions. At the same time, the CFC and other international development organizations would have an opportunity to prepare an appropriate response and future actions to be pursued in preparation for, during and after the LDC Conference.

28. The core benefits of the project would accrue from combining the outcomes of the studies by UNCTAD and LDC experts and contributing it to the UNLDC IV Conference. The organization of substantive Conference side event on the problems of commodity dependent LDCs would facilitate interaction and advance the understanding of common interest between LDCs and potential partners interested in the future of the global commodity sector. In particular, the side event would be able to consider and elaborate proposals for a strategy of international development assistance and Government actions for the coming decade establishing targets for improvement in the living standards of commodity producers in LDCs.

LOGICAL FRAMEWORK

Project Title: Economic Crises and Commodity Dependent LDCs:
Mapping the exposure to market volatility and building resilience to future crises
(Inputs for UN LDC IV)

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>Project Goal To enhance the policy response of LDCs to the current and future global economic crises and market volatility to mitigate their vulnerability.</p>	<p>Development of policy response and strategic intervention addressing commodity related vulnerability in LDCs and identification of measures to address them by National Governments and the development community.</p>	<p>Actions to mitigate vulnerability of commodity dependent LDCs to economic shocks included in the decennial LDC Action Plan</p>	<p>UN LDC IV Conference successfully adopts a decennial Action Plan for LDCs</p>
<p>Project Objectives Mitigating the impact of crisis on productive capacities of LDCs (ii) food security of LDCs a. Integration of the lessons learnt from the current crisis in policy making and strategic planning to advance progress towards achievement of the MDGs</p>	<p>Recognition of commodity dependence and commodity related vulnerability with adverse impact in periods of economic crisis as important factors: – affecting productive capacities – compromising food security</p>	<p>Greater attention to commodity related vulnerability of LDCs incorporated in national development policies and international development assistance</p>	<p>The momentum is maintained to go beyond emergency relief measures and seek longer term solutions to fundamental structural issues related to LDC vulnerability</p>
<p>Outputs a1 Five case studies from five LDCs analysing the effects of the crisis on productive capacities of LDCs a2 Synthesis of the lessons learnt and determination of mitigation measures for building productive capacities of LDCs b1 Comparative case studies of six LDCs enumerating the positive and negative experience of the effects of crisis on food security b2 Synthesis of the lessons learnt and determination of mitigation measures for enhancing food security in LDCs c. Submission of recommendations to feed into the preparation of the next 10-year Action Plan for LDCs d. Organization of side event to present the analysis and recommendations to political leaders, policy makers, and development practitioners.</p>	<p>Magnitude of Outputs Necessary to Achieve Purpose Five case studies on productive capacities of commodity dependent LDCs Six case studies of positive and negative effects of commodity dependence on food security of LDCs Synthesis of lessons emerging from case studies and policy conclusions on mitigating commodity related vulnerability of LDCs Organization and holding of side event on commodities during LDC IV.</p>	<ul style="list-style-type: none"> • Timely availability of studies for the preparatory process for the LDC IV • The use of the study results in the draft documents being prepared for the Conference • Presentation of the synthesis and lessons from studies by experts at the LDC IV preparatory events 	<ul style="list-style-type: none"> • Preparatory process for UNLDC IV runs on schedule. • Countries hosting case studies support the work of experts • Arrangements for the side event are agreed with the organizers of LDC IV

Inputs Activities and Types of Resources	Level of Effort for Each Component		
<p>a. Five case studies and one comparative study on the vulnerability of productive capacities of commodity dependent LDCs</p> <p>b. Six case studies and comparative analysis of commodity dependences impact on factor of food security</p> <p>c. Feeding the study results into LDC IV preparatory process</p> <p>d. Organization of the side event</p>	<p>Comp 1 - USD 138,650</p> <p>Comp 2 - USD 158,600</p> <p>Comp 3 - USD 220,000</p>	<ul style="list-style-type: none"> • Reports by the PEA • Timely appointment of experts • Reporting by experts • Financial reports • Feedback from the Conference stakeholders and other international agencies 	<p>CFC and UNCTAD can identify experts of high calibre to make substantive contributions towards the preparation of the next LDC Action Plan, and other documents to be adopted at the Conference</p>