Value Addition and Structural transformation in LLDCs: Addressing Commodity Dependence

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The Common Fund for Commodities
Outline

• Conceptual framework: how commodity dependence affects LLDCs
• Practical action: what international development finance can do
Is commodity dependence an issue?

- Historical: US, Nordic, Malaysia growth took off from natural endowments
- Current: Australia, Canada
- Commodity developers: Brazil, Argentina, Malaysia and Thailand
- LLDC success story: Botswana
Reliance on commodities and vulnerability

- It is rational that a country relies on commodities to participate in global trade

- Reliance on commodities brings a range of vulnerabilities:
  - Distorted investment
  - Macroeconomic instabilities
  - Governance difficulties
  - Institutional problems
  - Economic concentration, etc.

- Gains from commodity production and trade offset by costs due to vulnerabilities. Cannot build capital base, stuck with low productivity.

- Landlockedness amplifies the impact of some vulnerabilities

- Persistent high share of commodities: income from commodities does not work for development
Dynamics of commodity dependence

High Share of Commodity Exports in National Economy

- Reliance on Commodities for Trade
- Volatility
- Exchange Rate
- Government, etc...

Unable to expand capital base and diversify

Commodity Endowment
Low Capital Base
Commodity dependence

- Commodity dependence is a condition where a country is unable to convert its natural endowment into sustained economic development.
- Commodity dependence is the **outcome and symptom** of failures in addressing economic vulnerabilities associated with commodity production and trade.

Landlocked countries face greater commodity-related vulnerabilities – face commodity dependence more often.
## Commodity vulnerability and landlockedness

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Composite index of commodity dependence</th>
<th>Rank by commodity exports</th>
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<tbody>
<tr>
<td>1</td>
<td>Zimbabwe</td>
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<td>20</td>
<td>Guinea</td>
<td>0.0204</td>
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Practical action

What an international financier can do
• **Key Issue:** Smallholder maize farmers are excluded from quality rewarding and reliable markets due to low batch volumes – quantity and quality of their produce remains low.

• **Intervention:** Establish a highly localized and fully integrated collection system with immediate payment, incl. quality incentive and agri-service provision for farmers.

• **Result:** JI is able to meet high quality contracts with regional maize processors (e.g. WFP) and includes smallholder farmers in formal economic cycle.
Simple and effective

- Ugandan farmers deliver maize on cobs at the village based JI collection center. All processing done by JI to maintain and control quality.
Ample room for technical assistance
Trade facilitation: increasing value added

• Key Issue: Demand for potato in Africa is rapidly growing – high quality seed potatoes are key to high yields, but not available

• Intervention: Loan to allow expansion into a country wide network of nucleus farms for seed potato production in Ethiopia. Solagrow will engage an additional 2000 contract farmers and also bulk markets their ware potatoes and other crops

• Preliminary Result: Project is ongoing
Increase food production and induce economic activity in rural areas
Trade facilitation: Increasing added value

Zimbabwe, creating a brand name for the local chillies. Farmers enter a regional value chain with a high premium.
Information infrastructure: Warehouse receipts

Malawi: ACE issues and trades warehouse receipts in a Bid-Volume-Only (BVO) auctions since 2012.
What is involved: practical example

[Image of a document with signatures indicating receiving clerk, weighting and tally, and supervisor.]
Certifying a warehouse
Going public-private

- Lock the door
- Repair lighting
- Stop water leakage...

BRIEF OVERVIEW OF SME IMPACT FUND

1. Rationale

Agricultural value chains have a huge impact on economic development, contributing 26% to the Tanzanian economy. However, their development has been hindered by various challenges, including credit constraints for microfinance institutions (MFIs/SACCOs) and specialized agricultural traders (ICs). The SME Impact Fund aims to address these challenges by offering financial products to agricultural value chains.

2. Financial Products

The fund offers financial products to agricultural value chains, providing access to small- and medium-sized enterprises (SMEs) on one hand, and commercial banks on the other. The minimum and maximum investment size is EUR 50,000 and EUR 500,000. The maximum investment term/horizon is 5 years.

3. Match

The fund is matched by the Government of Japan, increasing the financial support to agricultural value chains.

4. Conclusion

The SME Impact Fund is a significant initiative in enhancing financial services to agricultural value chains, contributing to economic development and food security.
Thank you

www.common-fund.org