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IN THE 1990s

Need for and feasibility of the establishment of a diversification fund for Africa's commodities

Note by the Secretary-General

The report annexed to the present document has been prepared by the Food and Agriculture Organization of the United Nations (FAO) upon the request of the Secretary-General of the United Nations. In the course of preparation of the report, FAO consulted with the African Development Bank, the African Project Development Facility, the United Nations Conference on Trade and Development, the United Nations Development Programme, the Economic Commission for Africa, the World Bank, the International Fund for Agricultural Development and the United Nations Industrial Development Organization.

Annex

NEED FOR AND FEASIBILITY OF THE ESTABLISHMENT OF A DIVERSIFICATION FUND FOR AFRICA'S COMMODITIES

SUMMARY

(i) This document has been prepared in response to the request made to the Secretary-General in the United Nations New Agenda for the Development of Africa for a "study on the need for and the feasibility of the establishment of a diversification fund for Africa's commodities" for presentation to the General Assembly in 1993.

(ii) The need for commodity diversification in Africa has been assessed in the light of the parlous economic situation of the region. A combination of rising indebtedness, rapid population growth, environmental degradation, political instability and civil strife, over-dependence on a few primary commodities for export earnings and a steep decline in their prices has led to a long-run fall in per capita incomes and a sharp deterioration in the nutritional situation in the region.

(iii) Unfortunately, the outlook is also not promising. During the 1990s, the growth in world agricultural trade is likely to decrease with little prospect of increase in the traditional agricultural commodities exported by the region. On the other hand, net food imports by Africa are projected to rise.

(iv) Not everything is negative. Reforms are under way in over half the African countries which have transformed the overall economic policy environment and incentive structure. Moreover, there is an increased awareness among African policy makers of the need for regional cooperation and for a greater involvement of the people and the private sector in the development process.

(v) The need for diversification in Africa is compelling. The region relies on too few commodities for its export earnings; exports of these commodities have been stagnant and offer little prospect for growth. In this context, diversification is a logical step to promote development. It would strengthen the commodity sector and foster economic links between various sectors. Diversification can also make a positive contribution to reducing environmental stress and improving the sustainability of production. Finally, by boosting employment and incomes, it can improve the access to food - the most important way of improving food security.

(vi) Diversification can involve horizontal diversification into new commodities, vertical diversification whereby value is added to existing commodities, and the development of new end-uses. Diversification can be for increased exports, including to regional markets as well as for meeting domestic requirements. Export diversification usually involves production diversification, for which there is considerable potential in Africa.

(vii) In order for African countries to diversify, a number of steps will have to be taken. These would include action on the part of African countries themselves, as well as support from the international community. In seizing the

opportunities for diversification, the private sector has a pivotal role to play, but Governments will have to create the right enabling environment, including favourable legal and tax systems, adequate infrastructure, well-functioning capital markets, and publicly funded research. A judicious combination of private sector entrepreneurship and appropriate government policies and programmes is necessary for the success of diversification efforts.

(viii) Diversification will continue to require considerable resources. Although domestic resources will be of key importance, the need to mobilize adequate external resources for diversification must be recognized. At present the flows of external resources to diversification projects in Africa are limited. The international community has recognized that the present level of financing for diversification projects and programmes in Africa needs to be augmented.

(ix) In order to attract additional resources, it is necessary to develop technically and economically viable diversification programmes and projects. When such projects exist, the financial resources needed would generally be available and the technical services of the specialized agencies can be drawn upon readily. At present, however, there is a gap in development assistance for preparing diversification projects which are attractive to investors. In order to fill this gap, it is suggested that a special facility for financing the pre-investment phase of commodity diversification projects be established. This does not call for the establishment of a new organization, which would take years to negotiate and involve the setting up of a costly new bureaucracy. Africa’s diversification needs would be best served if such a facility were established in an existing financing institution, such as the African Development Bank.

(x) Taking these considerations into account, the following two-part approach is suggested for consideration.

- First, that a diversification facility for African commodities (DFAC) be set up in the African Development Bank for an initial period of three to four years with resources of US$ 50-75 million.

- Secondly, that national diversification councils (NDCs) be established at the national level, comprising representatives of government, the private sector (including non-governmental organizations), the scientific community and multilateral organizations, to generate a stream of project proposals that fit into national diversification programmes and priorities.

(xi) The proposed objectives, functions, modalities, criteria and use of resources of the DFAC and the <u>modus operandi</u> of the NDCs are set out in section VIII of the present document.

(xii) The proposed facility, though modest in size, could make a significant contribution to transforming the African commodity sector and to stimulating economic growth. Its effectiveness would, however, depend on a number of parallel actions being taken. African Governments would need to create the right enabling environment in which economic growth can take place. Infrastructural improvements and human capital development will be vital. The international community would need to provide resources for diversification projects and programmes, expand market access opportunities and restrain or eliminate the practice of subsidized exports. The key to eventual success, however, lies in the African Governments giving much greater priority to diversification in their development policies and in investment programmes, whether financed by their own resources or from external sources. In the final analysis, it is the African people themselves who, through their own initiatives, creativity, enterprise and hard work, would determine the success of the diversification programmes and projects.

CONTENTS

I. BACKGROUND

1. The New Agenda for the Development of Africa in the 1990s focuses, among a number of elements needed for sustainable development in Africa, on the issue of diversification of African economies. The focus on diversification in the New Agenda reflects the growing concern over the serious problems faced by the commodities produced and exported by Africa. It also underlines the recognition that diversification can provide a viable solution to commodity export problems and thereby contribute to the transformation and development of African economies.

2. It may be recalled that the General Assembly, in its resolution 45/178 B of 19 December 1990 entitled "Report on Africa's commodity problems: towards a solution", requested the Secretary-General to include in his report on the final review and appraisal of the implementation of the United Nations Programme of Action for African Economic Recovery and Development, 1986-1990 "a study on how diversification in Africa can be implemented at national, subregional and regional levels with the support of the international community", taking into account the report of the Secretary-General's Expert Group on African Commodity Problems (A/45/581, annex) and of Africa's common position on that report (A/45/591, annex). The General Assembly also requested the Secretary-General to make "proposals on how to support Africa's efforts at diversification, including the means of mobilizing sufficient resources on favourable terms from the international community and measures to enhance domestic and foreign investment and enterprise". Accordingly, a study entitled "Implementation of diversification in the commodity sector in Africa at the national, subregional and regional levels with the support of the international community" (A/46/324/Add.1) was submitted to the General Assembly as an addendum to the Secretary-General's report.

3. After considering the above as well as Africa's submission on the final review and appraisal of the implementation of the United Nations Programme of Action, the General Assembly, in adopting the New Agenda, recognized that while diversification was primarily the responsibility of the African countries, additional resources would be required to support Africa's diversification programmes. It noted the proposal that an African diversification fund should be established to provide an essential focal point to galvanize the technical assistance that was required and to provide additional finance for the development and implementation of diversification programmes and projects. It further requested the Secretary-General to undertake "a study on the need for and the feasibility of the establishment of a diversification fund for Africa's commodities" for presentation to the General Assembly in 1993. The present report has been prepared in response to that request.

4. Section II of the report provides a brief synopsis of the main features of the economic situation in Africa, including a discussion of the main factors responsible for the dismal economic performance. Section III examines the outlook based on FAO projections of agricultural commodities, and points to some successful attempts to diversify. Section IV presents the case for diversification, and section V considers the potential for diversification. Section VI discusses how to accelerate the process of diversification, including the role of the private sector. Section VII describes the situation regarding

the resources currently devoted to diversification, particularly the external resources. Section VIII sets out the proposed approach involving a diversification facility for African commodities, as well as national diversification councils. Finally, in section IX, a number of supporting actions are discussed.

II. THE ECONOMIC SITUATION

5. The economic and social conditions in most countries in Africa have worsened compared to a quarter of a century ago. During the 1980s, Africa underwent a continuous decline in economic growth. Rising indebtedness, rapid population growth, recurring droughts, together with creeping desertification, environmental degradation, political instability coupled with ruinous internal conflicts and, last but not least, overdependence on a few commodities for export earnings and the steep decline in their prices - all contributed to economic stagnation and regression. During the 1980s, the region's aggregate gross domestic product (GDP) grew by 1.8 per cent a year and, on a per capita basis, fell by 1.2 per cent a year. The 1990s have started off in the same vein, with a growth of GDP of 2.3 per cent in 1990-1992 and a decline of 0.8 per cent a year per capita. Agriculture, the backbone of African economies, has grown by only 2.3 per cent a year on average in the last three decades, a rate that is below the population growth. The nutrition situation in Africa has deteriorated dramatically, increasing the vulnerability of much of the African population.

6. Africa's share in the world markets has declined steadily and now accounts for less than 2 per cent of world merchandise trade. The region has become marginalized in the global economy. With the highest per capita debt in the world, about one third of its export earnings are used up for debt servicing, thus crippling the ability of African countries to finance the imports of much-needed food for achieving food security and machinery and other goods for attaining sustained growth. In particular, the situation in sub-Saharan Africa is most disquieting: poverty and human suffering are more acute in that region than in any other part of the world. Not only does it have the world's lowest standard of living, but it is the only region where absolute poverty is likely to increase over the next decade.

7. A number of factors, both internal and external, have contributed to the decline. Some of them are discussed briefly below.

8. A major factor is the external debt situation. Despite various relief measures, the external debt situation deteriorated sharply during the 1980s. Africa's total external debt is estimated by the African Development Bank at about US$ 255 billion in 1992 as compared with US$ 140 billion in 1983. The ratio of debt service to export earnings also increased to 32.4 per cent in 1992 from 24.1 per cent in 1983. Although official development assistance (ODA) to Africa rose from US$ 13.6 billion in 1981-1983 to US$ 28 billion in 1990, private financial flows (bank loans, export credits and foreign direct investment) declined substantially. Foreign direct investment, which brings with it access to technological know-how, is still very low, with the bulk of it going to oil- and mineral-exporting countries. 1/

9. A majority of the African countries are engaged in carrying out policy reforms, mostly in the context of structural adjustment programmes, with a view to improving the overall economic policy environment. However, these programmes have faced particular difficulties and have often involved high social and economic costs, at least in the short run. Government deficits, often due to large subsidies and payments to parastatal bodies, overvalued exchange rates and other distortions, contributed to the macroeconomic imbalances and the build-up of external debt. Cuts in budget deficits were therefore one of the necessary macroeconomic adjustment measures for solving the debt problem. Since, however, export taxation on agricultural products was often a major cause of the depressed state of agriculture, the decrease in agricultural taxation was also an important element in solving the agricultural problem. The particular difficulty faced by African countries was therefore that the required structural adjustment measures for agriculture set a limit to the needed budget cuts. At the same time, attempts to reduce budget deficits by cutting subsidies on food and agricultural inputs have also been problematic because of the low nutritional levels and the need to increase input use to boost production. However, the basic choice for most countries is not whether to adjust, but rather the pace and sequencing of adjustment.

10. In addition to periodic droughts, widespread land degradation, protracted conflicts have played a major role in the relatively poor performance of the region. Promoting democracy, including respect for human rights, and fostering private enterprise and initiative, especially in the economic and social sectors, are now generally recognized as key ingredients in the development process.

11. Moreover, there is need to make progress in the sphere of human resources development and institutional capacity. In many countries of the region, shortages of skilled labour in the areas of production, processing and marketing constitute a serious constraint. It is necessary to strengthen research and development institutions in order to adapt and develop new technologies and to create new productive activities. Furthermore, weaknesses in administrative capacity often hinder the implementation of even well-designed policies, programmes and projects. There is also need to develop well-functioning credit systems and capital markets in order to encourage the level of savings and investments.

12. The inadequacy of the national and regional transport, communication and energy infrastructure has also been a major impediment to economic development. Because of the high domestic marketing costs, domestically produced food cannot compete with imported food in the main towns, which are often situated near the coasts. It can cost more to bring agricultural produce 200 kilometres in Africa than 10 or 20 times further afield from North America or Europe. Domestic marketing weaknesses are often accentuated by the use of export subsidies by several industrialized countries. As a result, the growing urban markets have failed to provide the stimulus for development in the rural areas.

13. The pressure of population has added to the difficulties in a number of countries - on average the population has grown by 3.0 per cent a year since 1980, the highest regional rate in the world. However, at 20 inhabitants per square kilometre the population density in Africa is far lower than that in Asia and Europe, and similar to that in Latin America. Because of the distribution

of land and wealth in Africa, the population pressure has been acute in certain areas where it has led to environmental stress as fallows are reduced and the "mining" of the fragile soil in Africa has spread. The importance of the population issue has been recognized; so far, 90 per cent of African countries have adopted population policies.

14. Another major factor contributing to the economic decline in Africa is the deterioration in the terms of trade of Africa's agricultural exports. Overall, Africa's agricultural terms of trade fell from 100 in 1980 to 64 in 1991, indicating a severe reduction in the purchasing power of its agricultural exports. These sharp declines reflected the fall in the prices of the key agricultural commodity exports, as the prices of some of the minerals and forestry products held up better. By 1992, the real export prices of coffee and cocoa had fallen 69 per cent from the beginning of the 1980s, palm oil by 49 per cent, and sisal and cotton by 47 per cent. The fall in real prices partly reflected cost-reducing technological change (mainly taking place in other regions), tariff and non-tariff barriers in some of the main import markets, the low-income elasticity of demand for commodities exported by Africa in most of the major import markets, and the widespread adoption of policies by countries in the region to reduce the direct and indirect taxation of export crops. Devaluation and lower commodity taxation have meant that farmers have often found it more profitable to grow traditional crops, even though world prices for these commodities were falling. Moreover, as many developing countries in Africa have been undertaking the same structural adjustment reforms, this has acted to increase supplies in aggregate and depress prices. The irony is that while Africa's exports have increased in volume, export earnings in real terms have declined.

15. One of the key factors in the weakness of commodity export earnings is the lack of international market opportunities. For countries in Africa, the main market outlets are the developed countries, where a combination of sluggish demand for some tropical commodities (e.g. coffee, cocoa and tea) and protectionism in a number of others (e.g. sugar, temperate zone fruit and vegetables and oilseeds) limits overall market possibilities. Without significant progress on trade liberalization, many of these markets will remain depressed and it will be difficult for export diversification to take off. Particularly insidious is the case of tariff escalation that effectively blocks "vertical" diversification into processed products. Non-tariff barriers (e.g. quotas, sanitary and phytosanitary barriers) also make it hard to plan ahead. With respect to certain non-tariff barriers (e.g. quotas), the proposal for tariffication in the agricultural sector in the Draft Final Act of the Uruguay Round would presumably help countries, but a reduction in tariff escalation would require considerable negotiation. In order to help Africa, the international community needs to improve the conditions governing market access. In this connection, an early, balanced, comprehensive and successful outcome of the Uruguay Round of multilateral trade negotiations is necessary.

16. Lack of progress in regional and subregional integration has also hindered development. Tariff and non-tariff barriers on trade among African countries often remain a major obstacle to increased intraregional or subregional trade. The progress in Africa in sharing out projects which require multi-country cooperation has not been rapid. Often this reflects the difficulty of ensuring that the gains are shared equitably by all participating countries. Probably

what may be easier is to form customs unions and to allow the market to determine where production takes place. Customs unions, however, also usually entail harmonization of policies eventually. The problem in much of Africa, however, is the question of exchange rates. Where one country has an overvalued currency, a customs union with a neighbour leads to a flood of imports and it is impossible to develop viable industries in these circumstances.

17. The virtual stagnation in commodity export earnings has been an important factor in the poor economic growth in the region. The region's exports of commodities (agricultural and mineral, but excluding fuels) were essentially the same in current dollar terms in 1990 as at the beginning of the 1980s. During the same period, population rose by one third. As a result, in real terms per capita export earnings from commodities declined by 4.7 per cent per year. Development cannot be based on this performance.

III. THE OUTLOOK

18. The outlook is also unfortunately not promising. According to FAO projections, 2/ there will be a significant slow-down in the growth of world agricultural trade in the principal agricultural commodities: from 2.9 per cent annually in the 1980s to 1.4 per cent per year in the 1990s. In the case of Africa, the growth in the volume of exports of the main agricultural commodities is projected to be only 1.3 per cent a year in the period to the year 2000, slower than even the depressed growth rate during the 1980s (1.5 per cent a year). At the same time, Africa's imports of the main agricultural commodities are expected to continue to expand, with the result that the net trade balance of the main agricultural commodities is expected to deteriorate by about US$ 3 billion by the year 2000. The need to diversify export earnings is therefore even more pressing.

19. The situation, however, varies quite widely among commodities (see table 1). Thus, Africa's production growth is forecast to be quite high for cereals and meat, while it is lower for the traditional export crops. As Africa is generally not greatly constrained by land shortages, the area under crops is projected to grow by 15 per cent over the period from 1988-1990 to 2000. At the same time, propelled by a population that is growing at the rate of 3.1 per cent a year, demand is expected to rise at the same rate, slightly higher for food and slightly lower for other crops. As little change is currently projected in the balance of production and demand, imports too are expected to continue to grow at a fairly steady rate - the imports of cereals rising from 28 million tons in 1988-1990 to 39 million tons by the year 2000. Unfortunately, in the light of the rather sluggish growth of the main import markets, the volume of agricultural exports from Africa is expected to be depressed in the 1990s. Export sales are forecast actually to decline for vegetable oils and oilmeals, while slower growth is envisaged for cereals, sugar, cocoa, tea and cotton. By contrast, faster growth is projected for fruit, coffee, pulses and sweet potatoes.

Table 1. Africa: agricultural commodity projections to 2000

	Volume		Growth rates	
	1987-1989	2000	1978*-1988	1988*-2000
	(Thousands of metric tons)		(Percentage per year)	
Production				
Cereals	72 709	107 942	3.2	3.3
Rice	6 940	10 543	2.8	3.5
Wheat	9 854	15 053	4.2	3.6
Coarse grains	55 915	82 346	3.1	3.3
Pulses	6 296	8 599	2.3	2.6
Roots and tubers	110 747	149 882	3.1	2.6
Sugar	5 816	7 400	3.3	2.0
Oils and oilmeals	4 045	5 549	1.4	2.7
Meat	5 849	8 594	2.7	3.3
Milk	17 582	21 043	3.0	1.5
Tropical beverages			2.1	1.2
Coffee	1 233	1 393	0.9	1.0
Cocoa	1 268	1 371	3.6	0.7
Tea	272	429	3.2	3.9
Bananas	na	na	-	-
Cotton	1 172	1 396	2.3	1.5
Sisal and henequen	91	90	-6.4	-0.1
All above			2.8	2.6
Gross exports				
Cereals	1 436	2 094	4.4	3.2
Rice	89	200	-6.3	7.0
Wheat	114	156	10.5	2.6
Coarse grains	1 233	1 738	5.4	2.9
Pulses	150	210	-2.2	2.8
Roots and tubers	122	642	-11.5	14.8
Sugar	1 783	1 900	1.6	0.5
Oils and oilmeals	593	583	-2.8	-0.1
Meat	181	321	-3.9	4.9
Milk	53	79	3.4	3.4

	Volume		Growth rates	
	1987-1989	2000	1978*-1988	1988*-2000
	(Thousands of metric tons)		(Percentage per year)	
Tropical beverages			2.2	1.0
Coffee	980	1 101	0.3	1.0
Cocoa	1 243	1 306	4.1	0.4
Tea	215	334	4.4	3.7
Bananas	205	309	-4.4	3.5
Cotton	844	905	4.3	0.6
All above			1.5	1.3
Net imports a/				
Cereals	26 792	35 686	4.7	2.4
Rice	2 667	4 016	4.3	3.5
Wheat	18 757	24 334	4.1	2.2
Coarse grains	5 368	7 336	7.8	2.6
Pulses	152	581	21.9	11.8
Roots and tubers	185	98	-	-5.2
Sugar	1 610	2 900	3.7	5.0
Oils and oilmeals	1 982	3 830	9.1	5.6
Meat	404	717	11.9	4.9
Milk	4 710	7 289	2.8	3.7
Tropical beverages			2.1	1.0
Coffee	-861	-963	-0.0	0.9
Cocoa	-1 239	-1 302	4.1	0.4
Tea	-194	-307	4.9	3.9
Bananas	-191	-291	-2.9	3.6
Cotton	-680	-741	7.9	0.7
All above			10.8	6.9

Source: FAO.

1978* signifies 1977-1979 average; 1988* signifies 1987-1989 average.

a/ Imports less exports; a negative sign indicates net exports, its absence indicates net imports.

20. As regards other commodities, the World Bank 3/ has forecast a rise in the medium term in the real prices of tropical logs and sawnwood, and in nickel. By contrast, the real prices of lead and zinc are expected to remain close to recent levels, while that of iron ore should decrease. Copper and aluminium prices are expected to show cyclical variations.

21. Not all is negative. Although many factors continue to affect Africa adversely, it is misleading to conclude that the economic performance has been uniformly poor in all countries of the region or to ignore future possibilities. Even during the 1980s, the decade which has been often portrayed as a lost decade for development, some 20 African countries, big and small, in all subregions, had registered positive increases in per capita income. Moreover, since 1985, the number of countries showing positive GDP growth rates has been rising, giving hopeful indications of future growth possibilities. The process of policy reforms continues to gather momentum. By now a total of 28 countries have adjustment policies in place. Reforms have concentrated on promoting sound macroeconomic policies, price liberalization, an increased role for the private sector coupled with a more focused role for the public sector, as well as measures to increase agricultural production. By and large, they are changing the macroeconomic policy environment, transforming the regulatory regime and the incentive structure, as well as creating conditions for promoting private entrepreneurship and new initiatives. Although these reforms have often involved a heavy social and economic burden, especially on the poor, they are beginning to revitalize economic activity in several countries as domestic actors respond to new market opportunities.

22. There is also an increased awareness among African policy makers of the need for greater involvement of the people in the development process at both the decision-making and implementation stages. Moreover, African countries are giving greater emphasis to the importance of regional cooperation and integration. The rise of powerful regional groupings in other regions of the world has been a spur and the signing of the Treaty Establishing the African Economic Community, for the progressive creation of the Community at the latest by the year 2025, testifies to that development. Finally, Africa and the international community have entered into a global coalition with the adoption of the United Nations New Agenda for the Development of Africa in the 1990s, which should lead to a more productive and sustainable partnership between Africa and the rest of the world, particularly the industrialized countries.

23. Thus the conditions for economic growth appear to be more propitious now than before. However, an essential requirement for achieving sustained growth is a more dynamic export sector. But in view of the unfavourable prospects for most of the traditional commodities exported by Africa, it is essential that a more diversified structure is developed to facilitate the tapping of new, more rapidly growing product markets and to increase exports of higher value-added products.

IV. THE CASE FOR DIVERSIFICATION

24. The case for diversification of Africa's production structure and exports rests essentially upon three elements. First, the region relies on too few commodities for a large share of its export earnings (table 2). This exposes the countries to increased risks of fluctuation in export earnings. Secondly, the exports of these commodities have been stagnant and in general are likely to face poor prospects in the future. The natural response in the face of this situation is to seek alternative export products for which the market prospects are better. Thirdly, diversification is an appropriate strategy for transforming the economy by promoting agro-industries and processing raw materials. Many other countries and regions have initiated economic growth by building on what was already achieved, harnessing the local knowledge of the commodity, exploiting possibilities for its further development and utilizing fully the informational feedback from the market in terms of quality standards and preferred varieties in order to reorient commodity production and processing. Diversification can also strengthen linkages among various sectors of the economy, and lead to the development of the tertiary sectors needed for expanded trade (transport, communications, finance and banking).

25. To these reasons it must be added that import substitution, where economic, can be a valid way of boosting net export earnings in some situations. It may be more cost-efficient than the development of new export industries, especially if prospects for exports are not favourable for either technical or economic reasons, or protectionist barriers in the main import markets. In some cases, export diversification need not necessarily be for the world market but could be for a regional or subregional African market.

26. A further important aspect of production diversification in agriculture is the contribution that this may make to improving the sustainability of production, the reduction of soil degradation and reducing environmental stress. It can promote diversified farming systems (multiple cropping, agroforestry, combining crop and animal production) which are, in most of the conditions of Africa, the only viable forms of sustainable agriculture, as stressed in Agenda 21 of the United Nations Conference on Environment and Development. Horizontal diversification can also assist by improving the range of commodities grown, which can increase the stability in the value of overall output, and in some cases may reduce the on-farm use of agro-chemicals through more integrated production systems. Vertical diversification can create off-farm job opportunities which, by raising incomes, can lead to improved environmental conditions if part of the extra income is used for this purpose.

27. The increased incomes resulting from diversification should also improve the access of the poor to food - a basic condition for improved food security. In fact, the key to improved food security often does not lie in simply raising food production, but rather in raising the incomes of the people either via increased food production or increased output of other products, or indeed by vertical diversification into income-enhancing processing activities. It is self-reliance rather than self-sufficiency in food that is the appropriate food security strategy, and diversification is an important way of boosting self-reliance.

Table 2. Commodity export concentration ratios for Africa, 1989

	Number of commodities	Concentration ratio
Algeria	105	0.55
Angola	28	0.89
Botswana	-	-
Burundi	18	0.60
Cameroon	103	0.28
Cape Verde	26	0.26
Central African Republic	17	0.49
Chad	17	0.52
Comoros	12	0.49
Congo	34	0.72
Benin	19	0.43
Egypt	147	0.28
Equatorial Guinea	10	0.56
Ethiopia	16	0.58
Djibouti	-	-
Gabon	45	0.63
Gambia	22	0.35
Ghana	54	0.47
Côte d'Ivoire	115	0.38
Kenya	122	0.34
Lesotho	-	-
Liberia	28	0.58
Libya	56	0.81
Madagascar	51	0.39
Malawi	28	0.65
Mali	49	0.52
Mauritania	22	0.56
Mauritius	94	0.38
Morocco	147	0.17
Mozambique	-	-
Namibia	-	-
Niger	28	0.76
Nigeria	102	0.92
Guinea-Bissau	16	0.61
Zimbabwe	97	0.28
Reunion	69	0.74
Rwanda	9	0.75
St. Helena	-	-
Sao Tome and Principe	25	0.61

	Number of commodities	Concentration ratio
Senegal	116	0.23
Seychelles	6	0.70
Sierra Leone	16	0.52
Somalia	27	0.47
Sudan	50	0.48
Swaziland	-	-
Tanzania	55	0.37
Togo	44	0.54
Tunisia	163	0.22
Uganda	13	0.93
Burkina Faso	29	0.49
Zaire	43	0.42
Zambia	55	0.81

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1991; see table 4.5 (pp. 241-244) of the Handbook for definitions and explanations.

28. Other developing regions have managed to raise the value of their commodity exports - Asia by 59 per cent, Latin America by 25 per cent and the others by one third since the beginning of the 1980s. In Asia particularly, there are fewer countries so dependent on primary commodity exports and the region's extent of diversification is far higher (only 11 per cent of export earnings derived from primary commodities at the end of the 1980s). The situation in Latin America is more similar to that in Africa in that its dependency on primary commodity exports has remained even higher than that of Africa, but its rate of growth has been better. The dependency of African developing countries on primary commodities 4/ in the 1980s rose from 20.9 per cent of the value of their total merchandise exports in 1980 to 24.5 per cent in 1990. The number of countries that relied on these commodities (excluding fuels) for more than half their export earnings was virtually unchanged during this period - 32 out of 51 countries. A total of 22 countries relied on primary commodities for three quarters of their export earnings in 1990, again virtually the same as a decade earlier.

V. POTENTIAL FOR DIVERSIFICATION

29. As regards the approach to diversification, this study takes a pragmatic view. What is required in Africa is to promote diversification that would lead to increased output and value of products with more dynamic prospects in the market - local, regional or global.

30. Diversification has three dimensions. First, it implies the promotion of vertical diversification (e.g. processing of commodities with a view to adding value). Secondly, it involves horizontal diversification of production

(e.g. introducing new crops or new varieties/qualities of traditional crops). Thirdly, diversification could include the development of new end-uses of traditional commodities. There are links between production and export diversification, but the relationship is not one for one. Production can be diversified with a view to meeting the needs in the domestic market or for substituting imports. In countries with large domestic markets, diversification of production structure is likely to be more closely linked to the domestic market needs. Most African countries, however, have relatively small domestic markets and so it is likely that they may need to look more to the external markets, both within the region and outside, for possibilities to diversify.

31. Export diversification will usually involve a change in production patterns, although in some cases it could rely more on changes in marketing arrangements (e.g. the export of tropical fruit which is already produced) or exploit other non-commodity-related advantages (e.g. proximity to import markets, with developed infrastructure and institutions and highly skilled human resources). However, in general, the scope for the diversification of exports will depend to a large extent on the possibilities of diversifying production. This is particularly true for agricultural and mineral commodities. For agricultural commodities, production is heavily constrained by soil, water and climate, while for minerals it is constrained by the existence of minable deposits.

32. The agricultural potential of Africa is considerable but because of the great differences in conditions in different agro-ecological areas, the identification of production potential is best done on a less aggregated basis. For this purpose, FAO has developed an agro-ecological zones (AEZs) approach to estimate land stocks of varying quality with potential for growing different crops. 5/ The results of this analysis are given in summary form in table 3 for Africa with South Asia and tropical South America shown for comparison purposes. In Africa, a considerable potential still exists for bringing more land under cultivation, and for raising yields, although a considerable amount of land has some particular constraints that limit the type of crop that can be grown. Africa has 800 million hectares of land with terrain/soil characteristics suitable for agriculture which receive rainfall and have water-holding characteristics sufficient for a growing period of 180-270 days. FAO's work on crop potential also identifies those crops that could be produced differentially well in each agro-ecological zone. The concept used is the ratio of potential yield in each climatic/soil zone to the potential yield in the most favoured zone. Thus, the differentially best crops to grow in different ecological zones are millet in low-rainfall areas, groundnut in good-rainfall areas, and rice in naturally flooded areas.

33. The fishery sector is vital to Africa as a source of protein supply and foreign exchange as well as the employment opportunities and investment potential it offers. However, foreign fleets still take about half of the marine catches and the fishery resources are under pressure everywhere. While some countries, for example Namibia, have the potential to increase production, a number of West African States would need to replace distant-water fishing fleets with domestically owned and controlled fleets. In particular, species with high unit values caught by industrial fisheries, such as tuna, shrimp and cephalopods, would offer great potential if the manufacturing of value-added

Table 3. Land with crop production potential: Africa, South Asia and tropical South America, 1988-1990

<table>
<tr><th rowspan="2">Land characteristics</th><th colspan="3">Africa</th><th colspan="3">South Asia</th><th colspan="3">Tropical South America</th></tr>
<tr><th>Total</th><th>In crop production use</th><th>Reserve</th><th>Total</th><th>In crop production use</th><th>Reserve</th><th>Total</th><th>In crop production use</th><th>Reserve</th></tr>
<tr><td>Class</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>1. Arid/semi arid</td><td>93.0</td><td>46.8</td><td>46.2</td><td>29.1</td><td>21.5</td><td>7.6</td><td>9.7</td><td>3.5</td><td>6.2</td></tr>
<tr><td>2. Dry sub-humid</td><td>185.9</td><td>49.5</td><td>136.4</td><td>81.1</td><td>61.0</td><td>20.1</td><td>30.9</td><td>10.8</td><td>20.1</td></tr>
<tr><td>3. Moist sub-humid</td><td>303.7</td><td>67.2</td><td>236.5</td><td>49.6</td><td>37.5</td><td>12.1</td><td>106.9</td><td>47.4</td><td>59.5</td></tr>
<tr><td>4. Humid</td><td rowspan="2">329.0</td><td rowspan="2">60.0</td><td rowspan="2">269.0</td><td>10.4</td><td rowspan="2">33.1</td><td rowspan="2">1.9</td><td>420.2</td><td rowspan="2">44.0</td><td rowspan="2">626.0</td></tr>
<tr><td>5. Problem areas</td><td>24.6</td><td>249.8</td></tr>
<tr><td>6. Naturally flooded</td><td>124.0</td><td>10.5</td><td>113.5</td><td>22.3</td><td>21.6</td><td>0.7</td><td>107.8</td><td>8.1</td><td>99.7</td></tr>
<tr><td>Additional irrigation from hyperarid land</td><td>4.2</td><td>4.2</td><td></td><td>15</td><td>15</td><td></td><td>1.0</td><td>1.0</td><td></td></tr>
<tr><td>Total land with crop production potential</td><td>1 040</td><td>238</td><td>802</td><td>232</td><td>190</td><td>42</td><td>926</td><td>115</td><td>811</td></tr>
<tr><td>Total forest area</td><td>511</td><td></td><td></td><td>61</td><td></td><td></td><td>803</td><td></td><td></td></tr>
<tr><td>Population, total (millions)</td><td>585</td><td></td><td></td><td>1 103</td><td></td><td></td><td>242</td><td></td><td></td></tr>
<tr><td>Land with crop potential/person ratio (hectares per person in total population)</td><td>1.78</td><td>0.41</td><td>1.37</td><td>0.21</td><td>0.17</td><td>0.04</td><td>3.83</td><td>0.48</td><td>3.35</td></tr>
</table>

Source: FAO: based on studies prepared for "Agriculture Towards 2010" (forthcoming).

/...

products were expanded. This would require the use of suitable processing technology, including product quality assurance. Infrastructural constraints, such as inadequate communication and transport systems, are being overcome and, together with other improvements in the investment climate, are helping to link the small-scale fisheries sector to expanding markets for high-value species such as large pelagics, demersals, lobsters, crabs, etc. FAO is assisting these efforts through the Fish Marketing Information and Technical Advisory Service for Africa (INFOPECHE), by the identification, formulation and execution of pertinent projects as well as technical training and staff development at all required levels. The Regional Aquaculture Centre in Port Harcourt, Nigeria, established by FAO with UNDP funding some years ago, is providing the institutional capacity for aquaculture research and development as well as training. FAO’s activities in regional aquaculture programmes, such as ALCOM based in Harare, Zimbabwe, and in the geographic information system, have generated substantive information with regard to the potential of aquaculture.

34. Although the forestry sector and its products differ from agriculture in a number of important ways, many of the problems, and the opportunities, are similar to those highlighted above. The potential for further development of trade in forest products is high in countries such as Cameroon, Congo, Gabon and Zaire, which still have large areas of natural forests. Achieving this potential is more difficult, particularly because forestry faces the difficult task of striking an optimum balance between the short-term performance and the critical need to improve the management of the forests to ensure long-term sustainability of both the timber resource and the non-timber benefits that forests can provide.

35. In order to ensure that forests are sustainable and to improve their contribution to the economy, attention needs to be given to diversifying their products, materials and markets. This could be done in a number of ways, including extending the number of species that can be marketed effectively, especially on international markets (i.e. greater market acceptance of lesser-used species), and diversifying into higher-value products such as wood-panels and secondary processed products. This diversification implies improved efficiency in wood processing and the production of products based on a careful analysis of the market potential.

36. Forest plantations are also important in both development and diversification. In some African countries (e.g. Kenya, Malawi, Swaziland and Tanzania), trade in products from existing plantations is hampered by the poor location of the forests relative to markets, and the fact that a number of African countries have similar plantation resources.

37. With regard to minerals, the potential is thought to be great but mining companies have held back since there have been infrastructural and regulatory disadvantages compared with other areas. There is significant potential for the exploitation of high-value minerals such as gold, uranium and gemstones. For the lower-value minerals, iron, copper and tin, the scale of production is usually much larger and will probably have to be developed in cooperation with foreign firms. Similarly, it is most likely that export-oriented processing of minerals, which is usually a capital-intensive enterprise, would require joint ventures with foreign firms that have access to capital and market channels.

There is also potential for processing for some minerals, e.g. building materials and some fertilizers, for local or regional markets.

38. Diversification into labour-intensive industry would seem to be an important option at least for the local or regional markets. Beyond these markets a great deal would depend upon improving the access to world markets. None the less, other regions are also poised to take advantage of the change in trading opportunities, so that the scope for African countries would depend on their competitive strength, in terms of price and quality. However, the relative scarcity of different factors of production changes over time from one region to another and shifts in technology also affect the situation. The sharp rise in incomes in some other developing regions relative to Africa points to the possibility of Africa being able to move into certain labour-intensive industries if other conditions are favourable (capital availability, training facilities, infrastructure, market access, appropriate policies, peace and political stability). In this connection, the follow-up to the Industrialization Development Decade for Africa should be helpful.

39. Successful diversification has occurred in a number of developing countries. 6/ In Africa there are examples of pineapples in Côte d'Ivoire, shrimp in Senegal and horticulture in Kenya. Kenya provides some telling examples of the factors involved: its pineapple-canning and cut-flower industries have expanded enormously, together with export trade in these products. Significant expansion has also occurred in the production and trade of off-season temperate commodities (e.g. french beans and strawberries) as well as more tropical products (e.g. chilies, okra and karela). In some other horticultural products, however, the gains have been moderate despite the rapid growth in import demand from Western Europe and the Near East. Altogether, Kenya's exports of horticultural products (including flowers) have grown since the early 1970s by 2.8 per cent a year, to reach around US$ 100 million in 1988. The production and trade are largely in private hands, both domestic and foreign. Export growth was associated with the expansion of demand in Western Europe and the Near East, improved technologies and institutional arrangements for the distribution of the fresh produce in Western Europe and the growth of immigrant communities in Western Europe and the Near East. Given the importance of the marketing arrangements in the successful expansion of horticultural exports, it is interesting to note the diversity of such arrangements. Cut flowers tend to be vertically integrated; mangoes are produced by smallholders and commission agents purchase the crop for exporters; strawberries were once vertically integrated but now sales are made through specialized exporters because of difficulties over arranging air-freight; and for dehydrated carrots contract farming is practised, with smallholders producing a special type of carrot being provided by the exporter with seeds and technical assistance. Grades, quality control, storage, handling, transport, and distribution networks have all played a crucial role in one commodity or another. Developing a new market requires giving attention to all these details so that well-designed projects must inevitably be locally generated to be viable. Successful diversification is possible by taking advantage of many different market opportunities, there being no one single approach that always leads to success.

40. Success in diversification efforts also depends to a large extent on creating the right conditions in which local initiative and enterprise can flourish. Diversification involves responding to new market opportunities and

new technical possibilities where information is short and initiative at a premium. Naturally, to be effective, good ideas must be separated from impractical ones and the selection process needs to be done carefully and skilfully before bankable projects can emerge. Experience shows that when the general political, legal and economic situation is favourable, entrepreneurs will identify possible diversification projects, often in abundance, but that these ideas will need careful screening and only a few will be bankable. To undertake this screening requires technical and commercial knowledge as well as resources, which are not easily found at present. In order to stimulate the process of diversification, it is necessary to fill this gap.

VI. ACCELERATING THE PROCESS OF DIVERSIFICATION

41. The need for the diversification of African commodity exports is great and there is also scope for diversification if certain conditions are met. It is of the foremost importance for the countries themselves to give high priority to diversification programmes and to provide the right enabling environment so that new ideas can flourish and opportunities involving normal commercial risks can be seized. In the final analysis, it is the African people themselves who, through their own initiatives, creativity, enterprise and hard work would determine the success of the diversification programmes and projects.

42. A number of other conditions also need to be met. These include: infrastructure development (only one fifth of the irrigable land is currently irrigated in Africa, and many countries are land-locked); human resources development (particularly management and skilled manpower); strengthening the service sector, including banking, insurance and marketing; reforming national policies, including the tariff structure for primary commodities and processed products, so as to provide adequate incentives to diversification; controlling health risks; 7/ achieving peace and stability (e.g. parts of southern Africa have a great agricultural potential but have been racked by civil wars for some time) and accelerating progress in gaining the potential benefits from regional integration; the expansion of national and regional markets (e.g. for millet); reduction of support and protectionism in the main import markets (e.g. sugar and oilseeds); and curtailment of export subsidization by industrialized countries (e.g. beef and processed products). In some cases, regional groupings could provide a good intermediate stage in market development before full exposure to world markets.

43. In seizing the opportunities for diversification, the private sector can play a pivotal role. Changes in market demands and in technologies of production, processing and marketing are continuously causing new market opportunities to arise. While many of the opportunities may prove to be non-viable for technical or economic reasons, some would have real potential. However, as noted above, sifting through the ideas and picking the right ones is an expensive task, requiring both entrepreneurs willing to take risks and the availability of the necessary venture capital. The private sector is adept at identifying and seizing emerging market opportunities and hence its role is crucial in any diversification effort. The introduction of new crops and the development of new products and activities also require an enabling environment, including favourable commercial law, tax and incentive systems, adequate infrastructure facilities, well-functioning capital markets and enough publicly

funded research. Hence, the Government also needs to be closely involved in creating the appropriate conditions for promoting diversification programmes and projects. A judicious combination of private sector initiatives and government policies and programmes to create the necessary enabling environment is necessary for success in diversification programmes and projects.

44. Recognizing the important role of the private sector, and often as a part of their macro-policy reforms to promote economic development, many African countries have in recent years instituted new incentives to foster private entrepreneurship as well as initiatives to attract foreign investment. They have liberalized markets and price systems, adjusted exchange rates, privatized industries and activities previously under government or parastatal control, as well as liberalized investment laws, including those affecting foreign ownership and repatriation of profits.

VII. RESOURCES FOR DIVERSIFICATION, INCLUDING EXTERNAL SUPPORT

45. There is no doubt that diversification will continue to require considerable resources. Increased domestic resources are of key importance in this process. External finance is needed, but often its potential can be fully realized only when it complements rather than replaces domestic resources. None the less, the importance of attracting external resources for diversification must be fully recognized. But in view of the existing constraints on private and non-concessional flows of resources, the only realistic chance for many low-income African countries to obtain non-debt-creating investments is through increased net ODA flows, and more effective and selective use of borrowed resources.

46. The flows of external resources to diversification projects in Africa are limited. 8/ The World Bank’s lending to the commodity sector has largely been towards markets for food commodities and traditional export crops; there has been almost no lending for minerals in recent years. The International Finance Corporation (IFC) of the World Bank has contributed to private sector development in Africa. In recent years the African Development Bank (AfDB) has been involved in diversification-related projects covering a relatively wide range of commodities and countries. The Common Fund for Commodities has started to finance commodity development projects but these should be of interest to a group of countries, and must be sponsored by an international commodity body in which both producers and consumers are represented. Although bilateral donors contribute the major component of official financial flows to African countries, they do not usually specifically orient their assistance to diversification or commodity-related purposes. Some commodity-related diversification activities in Africa have benefited from bilateral programmes of the Lomé Conventions (e.g. the system of stabilization of export earnings (STABEX)). The European Development Fund and the European Investment Bank have also provided assistance in this area. The Swiss Compensatory Financing Programme, which is similar to STABEX, is also providing assistance to least developed countries, mainly in Africa, in respect to shortfalls in commodity export earnings.

47. As regards technical assistance, FAO offers assistance in agriculture, including fisheries and forestry. FAO undertakes sector and subsector policy and performance reviews for the purpose of identifying technical and financial

assistance gaps. It also identifies and prepares projects and provides technical services in their implementation. FAO has agreements with the World Bank, AfDB, IFAD and UNCDF. Of particular importance in the identification of forestry projects that assist both development and protection has been the work of the Tropical Forests Action Programme. UNIDO provides assistance on feasibility studies, technologies and promotion of projects with foreign investors relevant to processing activities. The International Trade Centre UNCTAD/GATT offers help on marketing surveys and marketing information networks on demand from existing or new producers alike. Other programmes, such as the African, Caribbean and Pacific (ACP) countries/EEC Centre for the Development of Industry and the Commonwealth Fund for Technical Cooperation, help with project identification and presentation and contacts with overseas investors. Most bilateral programmes also assist on request.

48. Although the bulk of external flows is from government to government, with only a smaller part represented by private capital flows, there is a potentially important area which is of special interest to diversification efforts: the assistance provided by public agencies to the private sector. IFC of the World Bank is perhaps the leading example, providing the largest source of financing for private enterprise in developing countries. It provides project financing through loans, equity investments and other financial instruments. In addition, IFC lends to the small- and medium-sized businesses using banks and similar institutions as intermediaries. Other approaches to supporting this sector are represented by the project development facilities created by IFC and the Africa Enterprise Fund. The African Development Bank has also developed a number of ways of assisting the private sector through, for instance, the Private Sector Development Unit, which provides financing to African private enterprise in the form of equity participation and term loans. AfDB also extends lines of credit to financial institutions for loans to small and medium enterprises. Particularly in the project design area, the African Project Development Facility (APDF), which is jointly sponsored by the UNDP, AfDB and IFC, advises private entrepreneurs in sub-Saharan Africa on the preparation of viable projects. APDF helps entrepreneurs prepare market, technical, feasibility and other studies needed for project preparation. It also identifies promising African entrepreneurs and helps them with their businesses. APDF supports projects with investment costs in the range of US$ 0.5 million to US$ 5.0 million. While the assistance provided by these bodies to the private sector plays a very useful role, their operations do not focus particularly on the diversification of the African commodity sector.

49. Assistance to diversification projects per se is not fully quantified, although data put together by UNCTAD 9/ indicate that the total is relatively small. Moreover, the information on resources available for different phases of the project cycle (identification, preparation, appraisal, implementation, supervision and evaluation) is not available. In aggregate, the amount provided to commodity export-oriented diversification projects to Africa during the 1980s averaged about US$ 370 million a year, with each project averaging just under US$ 7 million, with a little more in recent years. The projects were distributed fairly evenly over the African countries, with 43 countries having projects in the past decade.

50. The amount spent on external assistance to commodity diversification projects in Africa is less than $1 a head, or 2 per cent of their earnings from

the exports of primary products and a tiny fraction of the total external assistance requirements. 10/ The present level of financing for diversification projects and programmes in Africa is not high enough, as has been recognized by the international community, which has called for an expansion of resources to finance diversification projects and programmes (see paragraph 81 of the Final Act adopted by the United Nations Conference on Trade and Development at its seventh session 11/ and paragraph 7 of General Assembly resolution 45/200 of 21 December 1990), a call reiterated in Africa's common position concerning the report of the Expert Group on African Commodity Problems. 12/

VIII. PROPOSED APPROACH TOWARDS A FUND FOR DIVERSIFICATION OF AFRICA'S COMMODITY SECTOR

51. While the need for increased external assistance for diversification is recognized, it does not necessarily call for the establishment of a new organization for a fund for diversification. In fact, there are several considerations weighing against the establishment of a new fund as a separate organization, in particular:

- It would probably take several years to negotiate the establishment of a new organization and to make it operational, as has been the case with other similar bodies.

- It would involve establishing a costly new bureaucracy, using resources which can better be devoted for direct assistance to diversification.

Instead, the objective of promoting diversification can be best served by establishing a facility or window in an existing financing institution. The advantages of utilizing an existing regional fund or bank (e.g. the African Development Bank) which has an administrative capacity to reach all the African countries, which enjoys close links to the World Bank, UNDP, the specialized agencies of the United Nations system, and bilateral donors, and which works with both the public and the private sectors, are cogent.

52. A major constraint to promoting diversification is a lack of technically and economically viable diversification projects. Where such projects exist and their feasibility has been appraised, the financial resources needed for their implementation should generally be available. At present, however, there is a gap in the available development assistance for preparing viable diversification projects attractive to investors. The African Project Development Facility (discussed in para. 48 above) provides some assistance in this direction. However, it does not focus on commodity diversification per se and generally deals with rather small projects of individual private entrepreneurs, in sub-Saharan Africa only.

53. The diversification needs of African countries would therefore be best met if a special facility were available for financing the pre-investment phase of commodity diversification projects. The creation of such a facility could provide a necessary focal point for channelling and augmenting assistance in this priority area. Such a facility could also utilize more extensively and

cost-effectively the technical services and expertise of the specialized agencies, such as FAO and UNIDO.

54. Taking these considerations into account, the following approach to promoting diversification programmes and projects in Africa is proposed for consideration:

- First, that a diversification facility for African commodities (DFAC) be established in the African Development Bank for an initial period of three to four years with resources of about US$ 50-75 million to provide assistance for the preparation of commodity diversification programmes and projects. This level of resources would provide the necessary stimulus to diversification that would be within the regional absorptive capacity and yet be large enough to augment considerably the flow of resources for the implementation of diversification programmes and projects. Moreover, it should be feasible to raise this modest amount of resources, especially as the need for increased assistance for diversification has been recognized by the international community. 13/

- Secondly, that diversification councils be established at the national level, comprising representatives of government, the private sector, the scientific community and multilateral organizations in order to generate a stream of project proposals that fit into national diversification programmes and priorities. Such national diversification councils (NDCs) would be supported by DFAC and would work in close collaboration with it. In addition, a series of parallel actions would be required to enhance the effectiveness of the proposed DFAC and NDCs. These are discussed in section IX below.

55. Possible objectives, functions, modalities, criteria for selection of projects, and use of resources of DFAC and the NDCs are discussed below for consideration.

Diversification facility for the African commodity sector

56. The basic objective of the proposed facility in the African Development Bank would be to help facilitate the diversification of the African commodity sector by preparing technically and economically viable diversification projects. All countries that are regional members of the African Development Bank would have access to the facility. The resources (US$ 50-75 million) of the facility could be raised from bilateral donors on a voluntary basis; multilateral financing institutions could also contribute to its resources. The facility could be established initially for a period of three to four years, with a full review of its working taking place in the third or fourth year of its operations so as to decide on its extension and the replenishment of its resources for a further period.

Objectives

57. The broad objectives of the facility could be as follows:

(a) The development of the African commodity sector through diversification programmes and projects utilizing local skills, initiatives and enterprise to the maximum extent;

(b) Strengthening the partnership between the public and private sectors for the development and diversification of the commodity sector;

(c) Contributing to poverty alleviation by concentrating efforts on commodity diversification by smaller producers;

(d) Helping develop Africa’s human and institutional capacities in the commodity sector.

Functions

58. The functions of the Facility could be as follows:

(a) To finance, in close collaboration with the national diversification councils, the pre-investment phase (i.e. identification, preparation and appraisal) of projects with a view to developing full project documents eligible for financing by AfDB and other multilateral financing agencies, as well as by bilateral sources;

(b) To finance the setting up of pilot phase activities, where needed, by the national diversification councils to test new products, technologies and end-uses;

(c) To commission the preparation of feasibility studies for large multi-country projects, either on its own initiative or at the request of two or more regional member countries;

(d) To undertake market studies or surveys, particularly on regional and international markets, in order to assess the potential and options for diversification;

(e) To assess the possibility for the adoption of new technologies (including biotechnologies) as well as examine their impact on the competitive position of existing commodity sectors in Africa;

(f) To finance training activities, workshops and other ways of exchanging information and experiences in commodity diversification, with particular reference to successful cases.

Modalities

59. The facility could be administered by the African Development Bank. The projects would be prepared by the facility itself or in collaboration with the NDCs. In both cases, the modalities of AfDB would be followed so as to ensure that the projects would be suitable for financing by multilateral financing

institutions such as AfDB and the World Bank as well as by other entities, including the private commercial banks and bilateral donors.

60. Close collaboration in the operations of the facility among the African Development Bank, the World Bank and other concerned multilateral organizations would be highly desirable. For this purpose, an inter-agency committee could be established (including AfDB, the World Bank, UNDP, United Nations, FAO, UNIDO) so that the experience and expertise of the United Nations system could be made available to the facility.

61. A small secretariat for the facility would be needed, which could be provided by AfDB. The secretariat would prepare, inter alia, a model set of project development procedures and pro-forma to be followed by the NDCs. It would maintain close contacts with the NDCs, and arrange for technical backstopping for project preparation as required. The secretariat would prepare annual reports on the working of the facility to be sent to member Governments and donors. The secretariat would be responsible for identifying possible donors to finance the projects developed by NDCs and by the facility itself.

Criteria

62. In selecting the diversification project proposals for financing their pre-investment phase, the following criteria could be used:

(a) Projects should involve the sustainable diversification of the commodity sector including agriculture, fisheries, forestry and minerals (excluding fuels);

(b) Projects should promote horizontal diversification (into other commodities); vertical diversification (into the processing of commodities); or new end-uses;

(c) Projects should involve the private sector to the maximum extent possible, particularly smaller producers;

(d) Projects should take into account environmental considerations and should contribute to developing human capacities and alleviating poverty by increasing incomes and employment opportunities.

Use of resources

63. As an indication, it is suggested that the proposed (US$ 50-75 million) resources of the facility, spread over three to four years, could be allocated broadly in the following way:

(a) About one half of the funds could be made available in suitable tranches as grants to support project preparation by the NDCs as envisaged in function (a) in paragraph 58 above;

(b) Around US$ 15-20 million could be utilized by DFAC in undertaking feasibility studies for large multi-country projects as well as for backstopping the activities of the NDCs, including the establishment of pilot phase activities - see functions (b) and (c) in paragraph 58 above;

(c) The balance could be devoted to the other functions (d)-(f) of paragraph 58 above of the facility.

National diversification councils

64. In order to be sustainable, diversification should be based on national-level initiatives, backed up by government commitment and supported by external assistance. The work of the proposed diversification facility for African commodities in the African Development Bank would benefit considerably if it was accompanied by a strong network of national-level bodies (a) to generate the flow of diversification ideas, (b) to select the best ones for further elaboration as projects, and (c) to involve the private sector, the government and technical experts so that the projects fit into the national development priorities. The setting up of national-level diversification bodies would also help in capacity-building in the countries of the region. It is therefore suggested that consideration be given to establishing a network of national diversification councils to work in close collaboration with the diversification facility for African commodities.

65. The proposed national diversification councils (NDCs) could comprise (a) representatives of the main ministries concerned (e.g. agriculture, industry, trade, planning and finance); (b) representatives of chambers of commerce, industry, farmers' organizations, women's groups, and other concerned NGOs; (c) technical experts in scientific disciplines; and (d) representatives of multilateral organizations (e.g. AfDB, World Bank, United Nations, UNDP, FAO and UNIDO). The NDCs would be assisted by a small locally recruited secretariat.

66. The functions of the NDCs could include:

(a) Identification of opportunities for diversification - horizontal, vertical and new end-uses - in the light of an in-depth review of the commodity sector of the country;

(b) Assessing the feasibility of the identified diversification opportunities in relation to domestic market needs, possibilities of intraregional trade and prospects for exports to international markets;

(c) Preparation and appraisal of diversification projects taking into account the structural, institutional, infrastructural and human resources situation of the country and the realistic assessment of overcoming bottlenecks in these areas in the medium term;

(d) Setting up pilot phase activities to demonstrate the viability of alternative crops, innovative technologies and/or new end-uses;

(e) Fostering dialogue and information-sharing between government and the private sector and promoting the adoption of policies and programmes designed to encourage diversification;

(f) Encouraging the dissemination of technical, economic and commercial information through workshops and seminars.

67. In order to support the work of the NDCs in preparing projects, DFAC would make available to each NDC an amount up to US$ 500,000-750,000 as a grant over a three- to four-year period. This amount would be released in tranches in accordance with the progress of the preparatory work of the NDCs. In addition, DFAC would, upon request by an NDC, also finance selected pilot phase activities to test the viability of new products, technologies and end-uses.

68. In preparing the projects, the NDCs would use local consultants and institutions to the maximum extent possible. It would also follow the project procedures and standards of AfDB so as to ensure that projects would be eligible for financing by multilateral financing institutions and others.

69. The project documents once approved by the NDC would be transmitted to DFAC, which would seek donor support.

IX. SUPPORTING ACTION

70. The effectiveness of the above proposal for promoting diversification would depend to a considerable extent on parallel actions being taken in several other areas. These would aim primarily at overcoming the constraints discussed in section VI above. Some of the actions that are of particular importance for diversification are referred to briefly below.

71. Primarily, African countries will need to provide the right "enabling environment" in which economic growth can flourish. National policies can make or break an otherwise worthwhile diversification project. This implies the need for continued progress to achieve a balance in the macroeconomic situation. Diversification has to be viewed as an essential part of the development process: indeed, diversification is a logical starting-point for triggering economic development when the policy and legal framework are favourable and the infrastructure and necessary basic services are in place.

72. Infrastructure is high on any list of development needs in Africa, but it plays a crucial role in many forms of diversification. The growth of the horticultural exports of Kenya was facilitated by the expansion of air freight. The lack of intraregional trade is put down as often as not to poor transport connections within Africa. High priority in public investment will continue to be required for infrastructural investments.

73. The development of human capital, i.e. investment in people, is also of basic importance to diversification, which requires the adoption of new ideas, new technologies and new approaches. To generate such novel ideas does not always require training, but the vetting, sifting and judging of such ideas certainly requires highly trained technical, banking and managerial skills. Formal education is one approach to providing the skills, but on-the-job or vocational training is also of great importance. The need to use the existing trained manpower to the maximum extent, where available, e.g. in middle-income countries of Africa, and to develop skilled human resources in other countries cannot be over-emphasized. Otherwise, the process of diversification would worsen the balance-of-payments position in the service sector.

74. The international community too has much to do to assist diversification of the commodity sector in Africa. In addition to providing resources for diversification programmes and projects, the international community could and should help by action in two other areas. The first is the enhancement of market access opportunities; these need to be allowed to grow and not be blocked when some new diversified product finds an opportunity in the market. In particular, the escalation of tariffs, whereby the tariff is effectively greater on the processed product than on the raw material, needs to be addressed. The second area is restraint and elimination of the practice of subsidized exports, which hinders the efforts of African countries to diversify.

75. The international community also has the responsibility of providing adequate external finance for Africa’s development via debt reduction, ODA and facilitating private capital flows. In this connection, sight should not be lost of the potential benefits to the industrialized countries of the diversification of the African commodity sector through greater investment possibilities and the market opportunities provided by more dynamic economic growth of African countries. However, in all the developmental efforts the one key to eventual success is that African Governments should give much greater priority to diversification in their overall development policies and in investment programmes financed from their own resources or from external sources. In addition, existing development agencies and multilateral financing institutions should be encouraged to give more emphasis to diversification programmes and projects in their sectoral programmes.

Concluding remarks

76. In order to accelerate the economic performance of Africa, simultaneous and synergistic actions are needed in a number of areas. As discussed above, the efficacy of the proposed diversification facility for African commodities would depend on the progress being made in overcoming the existing constraints in some crucial areas. None the less, the proposed facility, although modest in terms of its size, could make a significant contribution to transforming the African commodity sector and to stimulating economic growth. If the General Assembly agrees in principle to the setting up of a diversification facility for African commodities along the lines discussed in section VIII above, it may wish to consider requesting the African Development Bank, in cooperation with the World Bank and other organizations concerned, to consult with potential donors and member countries with a view to reaching an agreement on its establishment as soon as possible.

Notes

1/ See Economic Commission for Africa, "Strategies for financial resource mobilization for Africa’s development in the 1990s" (E/ECA/CM.19/5).

2/ "Agricultural Commodity Projections to 2000" (forthcoming).

3/ World Bank, "Market outlook for major primary commodities", October 1992.

4/ Primary commodities, excluding fuels, comprise agricultural primary commodities and mineral commodities defined as SITC Section 0, 1, 2 (less 233, 244, 266, 267S), 4, 68 and 522.56.

5/ Background working papers for FAO's forthcoming study, "Agriculture Towards 2010".

6/ See, for instance, Exporting high-value food commodities: success stories from developing countries, by Steven Jaffee with the assistance of Peter Gordon (World Bank Discussion Paper No. 198, May 1993).

7/ A frequently noted constraint to exploiting the crop potential of Africa is the problem of the tsetse fly. It is estimated that about 9 million km^2 of land in west, central, eastern and southern Africa is infected with the tsetse fly and it poses a potential threat of transmitting trypanosomiasis to livestock and sleeping sickness in humans. About 60 million cattle are exposed to the threat of the disease, although at varying levels of disease challenge. However, it would be too simplistic to conclude that eradicating the vector and the disease would lead to greatly increased agricultural production in sub-Saharan Africa. Much of the tsetse area has low potential for agriculture and some of it is protected (national parks etc.) and populated by wildlife. Moreover, the eradication or control programme would need to be accompanied by an agricultural development programme to ensure the proper and continued use of the land, as otherwise reinfestation by the fly would occur.

8/ The following brief summary is based on the document "Implementation of diversification in the commodity sector in Africa at the national, subregional and regional levels with the support of the international community" (A/46/324/Add.1).

9/ See "Financial resources for diversification projects and programmes" (TD/B/C.1/AC).

10/ The total requirements of external assistance for Africa's development have been assessed by the Economic Commission for Africa (ECA) at US$ 66.5 billion in 1993 rising to US$ 145.5 billion by the year 2005. As the commodity sector accounts for around one quarter of economic activity in Africa, some fairly large sums could be implied for the development of this sector, including its diversification. See "Strategies for financial resource mobilization for Africa's development in the 1990s" (E/ECA/CM.19/5).

11/ Proceedings of the United Nations Conference on Trade and Development, Seventh Session, vol. I, Report and Annexes (United Nations publication, Sales No. E.88.II.D.1), part one, sect. A.

12/ See A/46/324/Add.1, sect. III, "Mobilizing regional financial resources".

13/ See, in particular, General Assembly resolution 45/200 of 21 December 1990 on commodities.
