

**PROPOSAL TO IMPLEMENT THE MARRAKESH MINISTERIAL DECISION
IN FAVOUR OF LDCS AND NFIDCS**

Submitted by Côte d'Ivoire, Cuba, Dominican Republic, Egypt, Honduras,
Jamaica, Kenya, Mauritius, Morocco, Pakistan, Senegal, Sri Lanka, St. Lucia,
Trinidad and Tobago, Tunisia and Venezuela

Addendum

The attached Addendum concerning the Proposal to Implement the Marrakesh Ministerial Decision in favour of LDCs and NFIDCs is being circulated at the request of the above-mentioned Members.

OPERATIONALIZING THE MARRAKESH DECISION:

A NEW APPROACH TO SHORT-TERM FINANCING REQUIREMENTS

Introduction

The aim of this paper is to serve as a background document for the Roundtable on Operationalizing the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Process on Least-Developed Countries and Net Food-Importing Developing Countries (hereinafter referred to as the Marrakesh Decision).

The Roundtable seeks to bring together all the parties concerned (LDCs, NFIDCs, donor countries, the WTO, FAO, IMF and World Bank), in an effort to discuss the operationalization of part of the proposals presented by a number of WTO Member states (document G/AG/W/49), namely to create a new fund whose purpose is to provide the 'safety net' promised by the Marrakesh Decision, under terms and conditions compatible with the latter. It is hoped that the Roundtable would produce an agreement on forging forward with ideas for financing LDC/NFIDCs, to be presented at both the autumn session of the IMF/World Bank and the WTO Ministerial in November 2001 for implementation.

Sincere thanks is hereby extended to Mr. Yoichi Suzuki, Minister Plenipotentiary at the Mission of Japan to the WTO, whose untiring efforts as Vice-Chair of the Committee on Agriculture at the WTO were instrumental in revitalising a subject long-thought dead and organising the Roundtable. Special gratitude also goes to Frank Wolter and Thomas Friedheim, Director and Counsellor respectively of the Agriculture Division and their staff, for their help and cooperation with the current effort. Last, but most definitely not least, to all the men and women of the delegations of Member states who have, over the years, kept the flame burning. To them we owe our appreciation, gratitude and thanks. May the Almighty bless our efforts.

Why the Decision? And Why the Roundtable?

There is little argument that agriculture is - and will remain for the foreseeable future - the essential sector for the majority of LDCs and NFIDCs, whose impact spills over from the economic into the social and political arenas. Food security is also a major policy objective of these countries, particularly as they depend - to a smaller or larger extent - on importing a sizeable proportion of their populations' food requirements.

In order for LDCs and NFIDCs to sign onto the Agreement on Agriculture (AoA) in 1994, the Decision was taken by Ministers attending the launch of the WTO, with the express aim of providing a 'soft landing' for those Member states whose economies were most liable to be affected from the liberalisation of agriculture under the AoA. Particularly, the Decision focused on the concept of 'availability of **adequate** supplies of **basic foodstuffs** from external sources on **reasonable** terms and conditions'. Hence, the Decision proposed three short-to-medium term response mechanisms (more food aid in grant form, S&D treatment on export credits, short-term credit facilities), as well as a longer-term mechanism (technical & financial assistance to improve agricultural productivity and infrastructure).

In view of the fact that the Decision has been a subject for little more than 'discussion' and 'review' for the last six years, the Roundtable, therefore, aims to:

- Galvanise all concerned states and parties into adopting a more practical and pragmatic work programme aimed at moving from the 'discussion' phase to the 'doing' one; and
- Study the proposal presented herein to address the needs of LDCs and NFIDCs in their quest to satisfy their basic foodstuff requirements from the world market; under a mix of terms and conditions that may be considered reasonable, with a view to presenting a workable plan for implementation by the IV Ministerial Conference in Doha.

In order to visualise the urgency and importance of the issue at hand, a few figures would be needed. Drawing on figures published by FAO, the WTO¹ and other international sources, the following facts stand out:

1. The combined **populations** of the 49 LDCs and 20 NFIDCs broke through the 1 billion mark in 1998, representing over 22 per cent of the combined population of all developing countries. Meanwhile, undernourishment touched around 38% of LDC populations, and 17 per cent of those of NFIDCs.
2. **Per capita incomes** of LDCs in 1997 were 17 per cent of the average of developing countries, while the p.c.i. for the NFIDCs in the same year stood at about 70 per cent of the developing country average.
3. The combined **cereals import bills** for LDCs and NFIDCs rose by over 10 per cent from 1993-95 to 1998/99, with a peak rise of 42.6 per cent in 1995/96. It is forecast that the year 2000/01 will see a further rise of around 3 per cent (\$800 million) in the value of cereal imports for these countries over the figures for 1999/2000.

¹ 'Implementation of the Decision on Measures...', document no. G/AG/W/42/Rev.3, WTO, 31 October 2000; and 'Towards Improving the Operational Effectiveness of the Marrakesh Decision', Discussion Paper no.2, FAO, Rome 2001.

4. **Food aid** deliveries to LDCs and NFIDCs **fell** from 5.65 million MTs in 94/95 to an estimated 4.59 million MTs in 99/00; a drop of around 19 per cent. It is notable that the volume of food aid to LDCs in 1999 represented 99 per cent of the 90-99 ten-year average, while that for NFIDCs was only around 63 per cent of said average - compared to a 60 per cent rise in food aid deliveries to 'other' countries during the same period. As to the **concessionality** of food aid, there remains at least one donor country which does not yet provide such aid on a 100%-grant-basis.
5. The volume of **commercial imports** by LDCs and NFIDCs **rose** from 35.2 million MTs in 94/95 to an estimated 42.9 million MTs in 99/00 (a rise of over 21 per cent), with a further increase of 750,000 MTs forecast for 2000/01.
6. Although cereal **import bills** are now thankfully lower than the peaks reached in 1995/96, they still remain at a higher plateau than the period prior to 1994/95.

Scope and Magnitude of the problem

A recent FAO study² concluded that the inadequacy of physical supplies of basic foodstuffs on world markets are not currently an issue for reflection, and that the real problem lies in the conditions of access facing LDCs and NFIDCs in obtaining their food requirements. The study also concluded that, in view of the language used in formulating the Decision, the triggering mechanisms for 'operationalising' the Decision should be based on the totality of effects and factors, i.e. on unexpected levels of food import bills of LDCs and NFIDCs on an individual basis, rather than limiting them to individual factors that lead to the outcome (e.g. rises in world market prices, declines in food aid deliveries, and so on).

Based on these conclusions, the study went on to compute the magnitude of excess import bills for the period 1989-1998 based on 5 per cent and 10 per cent alternative thresholds. It concluded that, for all food items and 46 LDCs and 19 NFIDCs covered by the Decision, the aggregate "excess" food bill in the 'maximum' year (1995/96) over the mean of the period was \$900 million (on the 5 per cent rule) and \$605 million (based on the 10 per cent rule)³.

Availability of Financial resources

The Decision foresees the need of LDCs and NFIDCs to address both short-term financing ('to cover difficulties in financing normal levels of commercial imports') and a longer-term financial need ('to improve their agricultural productivity and infrastructure').

On the short-term front, allusion has been made to the availability of financial resources under the **IMF's** Compensatory Financial Facility (CFF). A recent evaluation undertaken by the IMF itself points to the fact that 'there has been very little use of the CFF in recent years'⁴. In fact, reliable evaluative studies has come to the conclusion that, to make the CFF compatible with the terms of the Decision, the CFF would need 4 adjustments:

² 'Towards improving the Operational Effectiveness....', FAO, op. cit, pg. 4.

³ As shown in the FAO paper, the mean is the average for 1989-98 of the total "excess" import bills (i.e. the aggregate of all countries studied with import bills greater than 5 per cent or greater than 10 per cent above trend). Negative deviations from trend were not taken into account, since such deviations do not constitute a 'problem' to be addressed by the Decision.

⁴ 'The Fund's Compensatory Financial Facility – Recent Developments', IMF Speaking points for the Geneva Roundtable on Selected Agricultural Issues, Geneva March 21st, 2001 pg.2.

1. Extend its coverage to all basic food imports (rather than cereals only).
2. Relaxation of its general conditionalities and rules on eligibility.
3. Streamline eligibility requirements for both LDCs and NFIDCs.
4. 'Concessionalise' its resources, both in terms of repayment periods and interest levels.

It is to be noted that the same study concludes that 'the CFF is not the most suitable instrument for addressing the problem .. (sic. to be addressed through the Marrakesh Decision)'⁵. Meantime, the role and operations of the **World Bank** in the provision of short-term financing for emergency food imports are not clear.

The longer-term requirement for multilateral financial resources is **theoretically** available through the World Bank's contributions to the Consultative Group on International Agricultural Research (CGIAR), estimated at \$ 50 million in 1998⁶, and other World Bank projects in the field of agriculture. No clear figures are available to quantify the long-term technical assistance and capacity-building programmes for LDCs and NFIDCs, or a detailed evaluation of their effectiveness in raising productivity and production – a key component of the assistance foreseen in the Decision.

To sum up, the financing required to address the 'short-term difficulties' is practically non-existent from any multilateral source on the terms - and under the conditions – foreseen in the Decision; while the longer-term financing needed to upgrade physical and human resources in agriculture are partially available via the World Bank.

The New Fund

This dearth of suitably conditioned short-term (<24 months maturity) financial resources leads us to believe in the need for a totally new approach for the future, to be based on the philosophy and intent of the Decision. It is, in fact, neither inconceivable nor unreasonable to assume that the 1995/96 surges could happen repeatedly in the future. The idea is for the creation of a special Food Financing Facility (F³), solely designed for the implementation of the Decision. The F³ could be visualised as follows:

- (a) In view of recent experience, its resource base is estimated at around \$1,200 million⁷; to be drawn from a 'consortium' of multilateral financial organisations, G-7 and other donors, and major developed exporting Member states.
- (b) The 'eligibility' of LDCs and NFIDCs to draw on the resources of the Fund would be decided on a country-by-country basis and in accordance with agreed-upon guidelines, and after a fair and factual computation/assessment was made of its requirements. Levels of each country's compensation package could be capped in periods of surges in import bills, in order to avoid harming the Fund's long-term financial viability.
- (c) The resources available to the Fund could be 'recycled' or repayable, so as not to unduly inflate the capital of said Fund. In fact, in the years when import bills are amenable, the resources could be earmarked by donors, but not disbursed, with a view to the optimal

⁵ Ibid.

⁶ WTO document G/AG/GEN/31 of 15 December 1998, pg 23.

⁷ This figure was calculated on 2 years worth of credit facilities at the lower end level of \$600 million, as per the FAO study.

utilisation of such resources. Repayments of financial resources drawn-down by beneficiaries would be effected under a medium-term scheme on terms more favourable than current open market conditions.

- (d) The responsibility for the administration and management of the Fund would need to be centralised in a small bureaucracy; said bureaucracy to be overseen by a Management Board comprising representations from the WTO, FAO, IMF, World Bank, donor states as well as the beneficiaries.

This Fund would, obviously, not cover the longer-term requirements of LDCs and NFIDCs to improve their basic infrastructures and enhance agricultural productivity. In this respect, a call is made out to all donor parties to earmark a greater proportion of any multi- and bi-lateral aid programmes for such use. It was the vision of the signatories to the Marrakesh Decision to 'wean' recipients away from their food-aid 'dependancy'. This can only be achieved through a serious, concerted and cooperative effort aimed at improving levels of self-sufficiency of LDCs and NFIDCs – while maintaining the gains achieved in the agricultural reform process under the AoA, and spurring these countries towards greater engagement in future reform processes under the current negotiations under Article 20 of the AoA.
