
Committee on Agriculture

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**ANNUAL MONITORING EXERCISE IN RESPECT OF THE FOLLOW-UP TO
THE MINISTERIAL DECISION ON MEASURES CONCERNING THE POSSIBLE
NEGATIVE EFFECTS OF THE REFORM PROGRAMME ON LEAST-DEVELOPED
AND NET FOOD-IMPORTING DEVELOPING COUNTRIES**

Attached are copies of contributions* made by the representatives of the Food and Agriculture Organization (FAO), the International Grains Council (IGC), the International Monetary Fund (IMF) and the World Bank at the meeting of the Committee on Agriculture on 20 November 2003 (Agenda Item Part II.B refers).

Comité de l'agriculture

**EXERCICE ANNUEL DE SURVEILLANCE DE LA SUITE DONNÉE À LA DÉCISION
MINISTÉRIELLE SUR LES MESURES CONCERNANT LES EFFETS NÉGATIFS
POSSIBLES DU PROGRAMME DE RÉFORME SUR LES PAYS LES MOINS
AVANCÉS ET LES PAYS EN DÉVELOPPEMENT IMPORTATEURS
NETS DE PRODUITS ALIMENTAIRES**

On trouvera ci-joint la copie des contributions* faites par les représentants de l'Organisation des Nations Unies pour l'alimentation et l'agriculture (FAO), du Conseil international des céréales (CIC), du Fonds monétaire international (FMI) et de la Banque mondiale à la réunion du Comité de l'agriculture du 20 novembre 2003 (voir point B de la deuxième partie de l'ordre du jour).

Comité de Agricultura

**EJERCICIO ANUAL DE VIGILANCIA DEL SEGUIMIENTO DE LA DECISIÓN
MINISTERIAL SOBRE MEDIDAS RELATIVAS A LOS POSIBLES
EFECTOS NEGATIVOS DEL PROGRAMA DE REFORMA EN
LOS PAÍSES MENOS ADELANTADOS Y EN LOS PAÍSES
EN DESARROLLO IMPORTADORES NETOS
DE PRODUCTOS ALIMENTICIOS**

A continuación se adjuntan copias de las contribuciones* formuladas por los representantes de la Organización de las Naciones Unidas para la Agricultura y la Alimentación (FAO), el Consejo Internacional de los Cereales (CIC), el Fondo Monetario Internacional (FMI) y el Banco Mundial en la reunión del Comité de Agricultura celebrada el día 20 de noviembre de 2003 (véase el punto B de la Parte II del orden del día).

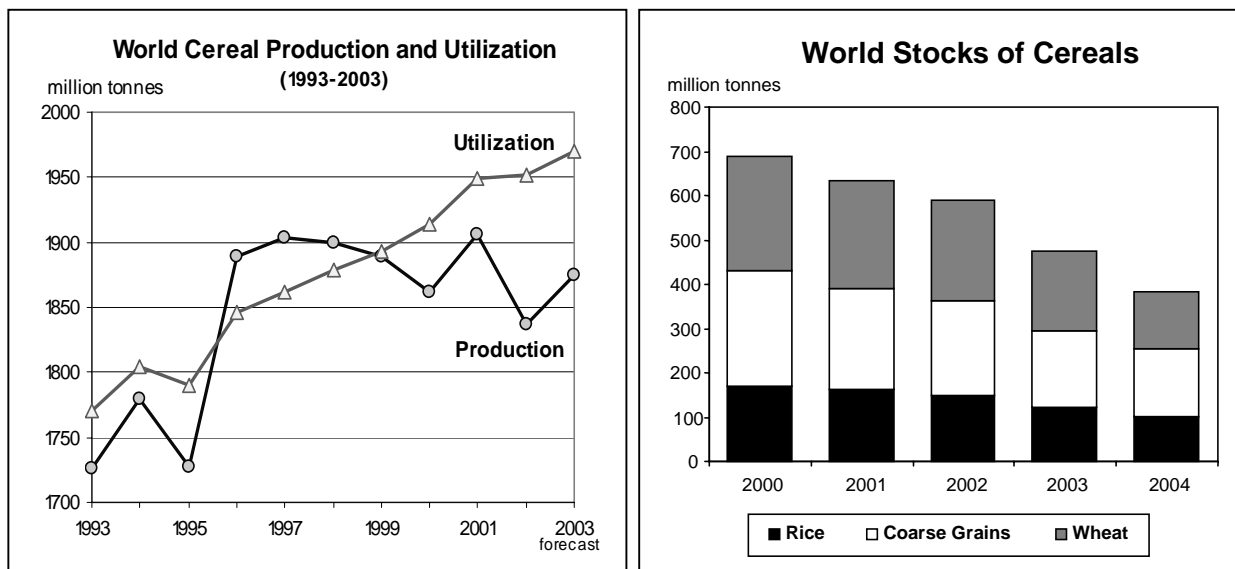
* In English only/En anglais seulement/En inglés solamente.

STATEMENT BY THE REPRESENTATIVE OF THE FOOD AND AGRICULTURE ORGANIZATION (FAO)

This Statement provides a brief overview of FAO's latest assessment of developments in the global cereal supply and demand balance, food aid and cereal import bills of the LDCs and the NFIDCs.

World supply/demand situation for cereals

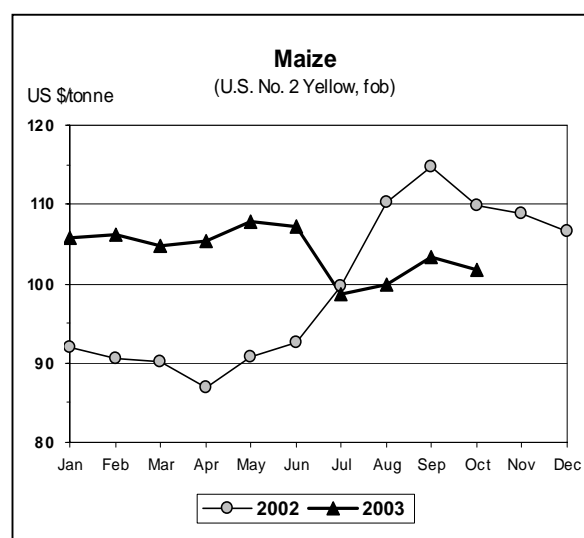
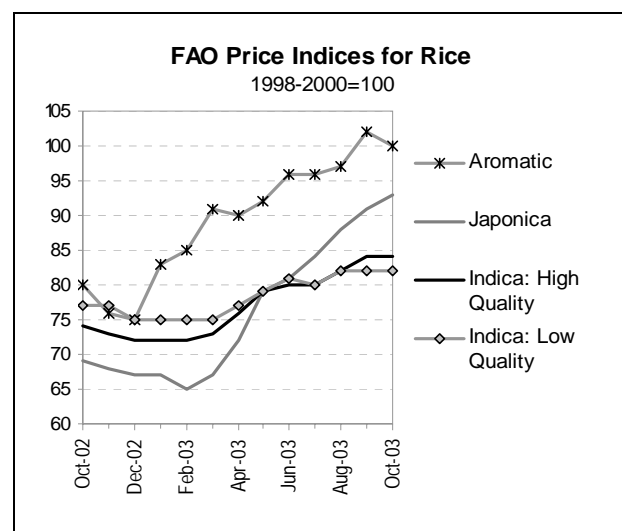
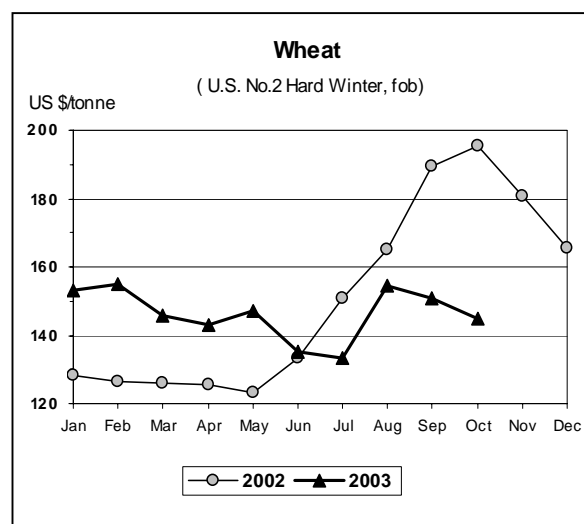
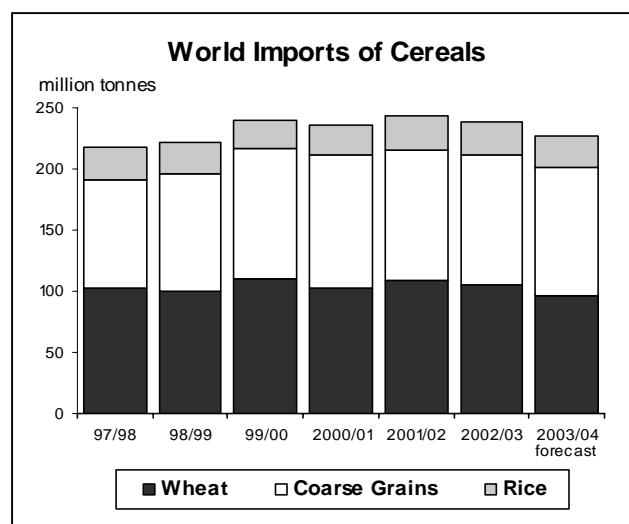
The FAO's latest forecast for global cereal **production** in 2003 points to 2 per cent increase from 2002 in spite poor crops in CIS and much of Europe. Recoveries in North America and Australia coupled with bumper crops in North Africa and several countries in Asia are behind the rise in global cereal production. World cereal **utilization** by the close of the marketing seasons in 2004 is forecast to expand by one per cent. While cereal food consumption is forecast to increase by 1.5 per cent, driven by modest increases expected from the developing countries, total cereal feed utilization is expected to remain unchanged from the previous season. However, since aggregate global production will remain significantly lower than expected utilization, global cereal **stocks** are forecast to contract by another 20 per cent, leading to total cereal stocks-to-use ratio dropping to 19 per cent, the lowest level in the past two decades. The anticipated massive decline in global cereal stocks in 2004 is being driven mostly by large reductions in China, India and several countries in Europe that have resulted mainly from smaller production levels. The forecast drop of around 53 million tonnes in wheat inventories would account for the bulk of the anticipated contraction in world cereal stocks, followed by an expected reduction of around 21 million tonnes in global coarse grain stocks and 20 million tonnes in rice inventories.



World cereal trade and prices

The main emerging feature this season has been the sharp drop in world cereal **trade**, mostly driven by smaller wheat purchases by the EU. The decline in trade has also been reflected in **price** movements since the start of the season. In recent weeks, however, tighter supplies in Europe and the weakening of the value of the US dollar have provided some support to the US wheat prices although fundamentals in the futures market continue to be characterized by weak demand and strong competition among the major exporters (all except the EU). In late October, expectation of higher demand in China pushed up wheat futures prices, but the surge proved short-lived as hopes for large

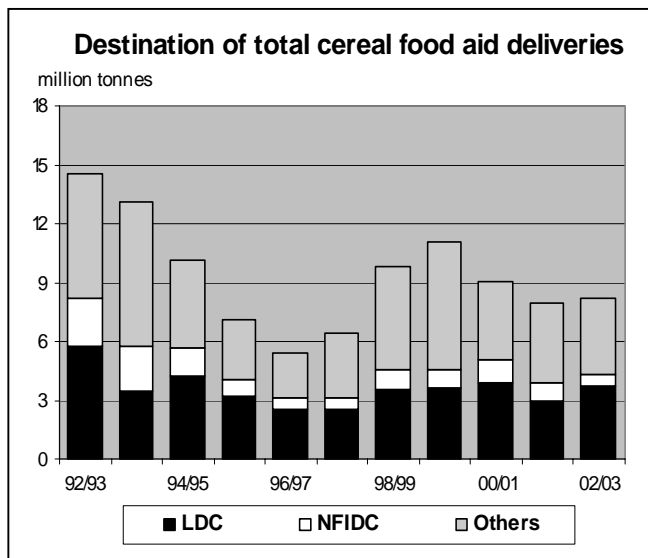
purchases by the country subsequently faded. In coarse grain markets, stronger demand for US sorghum and European feed barley as well as tighter exportable supplies of maize in China resulted in some upward movements in prices since mid-October. International rice prices have continued to rally since August, and the FAO Export Price Index (1998–00=100) rose from 85 in August to 87 in September and 88 in October. This strengthening was apparent in all rice categories except for the lower quality Indica rice.



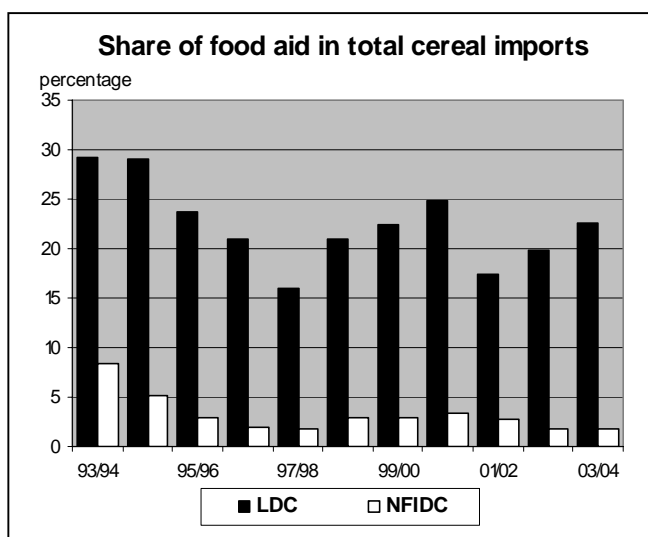
Cereal food aid

Based on the latest information supplied by WFP to FAO, total cereal food aid shipments in 2002/03 (July/June) rose to 8.6 million tonnes, up 1.2 million tonnes from the reduced level in 2001/02. The increase was mostly associated to higher shipments of wheat as food aid to Iraq. Food aid during the current marketing season in 2003/04 is likely to remain close to the previous season's level although total import requirements by Iraq and Afghanistan are expected to be smaller this season because of improved cereal supply conditions in both countries. Overall, the number of countries experiencing food emergencies currently stands at 38, with 23 in Africa, 8 in Asia, 5 in Latin America and 2 in Europe. Most Countries facing food emergency problems are among the LDC and NFIDC categories.

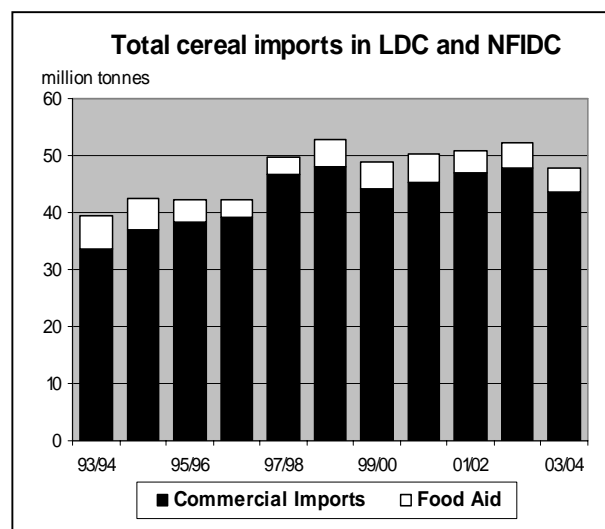
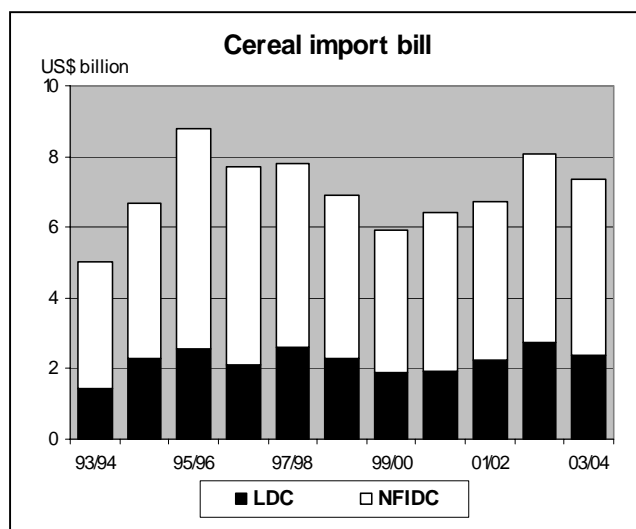
Cereal import bills of LDCs and the NFIDCs



The combined cereal import bill of the **Least-Developed Countries (LDCs)** and the **Net-Food Importing Developing Countries (NFIDCs)** is forecast at about US\$7.3 billion in 2003/04, down almost 10% from 2002/03 but still above the preceding 4 years. The decline in their cereal import bill in 2003/04 is mostly associated with a sharp reduction in total imports (quantity) which are forecast to fall from a near record level of around 52 million tonnes in 2002/03 to 48 million tonnes in 2003/04. This reduction is mostly driven by higher cereal outputs among several countries in Africa and Asia. On the other hand, international cereal prices have remained firm while freight rates increased sharply over the past few months.



As in the previous season, export subsidies and credits appear to be of limited importance to LDCs and NFIDCs. In addition, cereal food aid shipments to LDCs/NFIDCs in 2003/04 are expected to remain similar to 2002/03. Food aid continues to be a very important source of supply for LDCs for which it accounts for about 23% of their total cereal imports. In the case of the NFIDCs, food aid in cereals is less important, accounting for roughly 2% of their total cereal imports, which is also considerably less than ten years ago.



Cereal imports of LDCs and NFIDCs (1993/94 to 2003/04) - Information as of November 2003

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03 estimate	2003/04 f'cast
Import Bill (US \$ million)											
LDCs	1437	2275	2567	2107	2581	2277	1886	1933	2259	2755	2359
NFIDCs	3597	4398	6213	5596	5243	4627	4024	4460	4485	5312	4986
LDCs & NFIDCs	5034	6673	8780	7703	7824	6903	5910	6392	6744	8067	7345
% change over 1993/94-1994/95	-14.0	14.0	50.0	31.6	33.7	17.9	1.0	9.2	15.2	37.8	25.5
Total volume imported (000 tonnes)											
LDCs	11768	14559	13572	12119	15690	16895	16323	15756	16895	18847	16435
NFIDCs	27598	28021	28746	30148	34092	35866	32460	34592	33968	33330	31437
LDCs & NFIDCs	39366	42580	42318	42267	49782	52761	48783	50348	50863	52177	47872
% change over 1993/94-1994/95	-3.9	3.9	3.3	3.2	21.5	28.8	19.1	22.9	24.1	27.3	16.8
Food aid (000 tonnes)											
LDCs	3427	4222	3214	2534	2501	3549	3647	3913	2943	3724	3724
% of total imports	29.1	29.0	23.7	20.9	15.9	21.0	22.3	24.8	17.4	19.8	22.7
NFIDCs	2321	1431	836	590	610	1049	943	1196	918	582	582
% of total imports	8.4	5.1	2.9	2.0	1.8	2.9	2.9	3.5	2.7	1.7	1.9
LDCs & NFIDCs	5748	5653	4049	3123	3111	4598	4590	5109	3861	4306	4306
% of total imports	14.6	13.3	9.6	7.4	6.2	8.7	9.4	10.1	7.6	8.3	9.0
Commercial imports (000 tonnes)											
LDCs	8341	10338	10359	9585	13189	13346	12676	11843	13952	15122	12710
NFIDCs	25277	26589	27910	29558	33482	34817	31517	33396	33050	32748	30855
LDCs & NFIDCs	33619	36927	38269	39143	46671	48163	44193	45239	47001	47871	43566
% change over 1993/94-1994/95	-4.7	4.7	8.5	11.0	32.3	36.5	25.3	28.3	33.3	35.7	23.5
Per unit import cost (US \$/tonne) ^{1/}											
LDCs	122.1	156.2	189.2	173.9	164.5	134.8	115.5	122.7	133.7	146.2	143.5
NFIDCs	130.3	157.0	216.1	185.6	153.8	129.0	124.0	128.9	132.0	159.4	158.6
LDCs & NFIDCs	127.9	156.7	207.5	182.3	157.2	130.8	121.2	127.0	132.6	154.6	153.4
% change over 1993/94-1994/95	-10.1	10.1	45.8	28.1	10.4	-8.1	-14.9	-10.8	-6.8	8.6	7.8
Wheat export price (US \$/tonne)											
US no.2 hard winter	143	157	216	181	142	120	112	128	127	161	147 ^{2/}
% change over 1993/94-1994/95	-4.7	4.7	43.6	20.6	-5.4	-20.3	-25.3	-14.6	-15.6	6.8	-2.2
Wheat ocean freight rates (US \$/tonne)											
From U.S. Gulf ports to:											
Egypt	15.1	18.7	16.8	12.8	11.7	9.3	13.7	15.0	15.0	16.7	22.0 ^{2/}
Bangladesh	21.5	23.8	21.7	20.0	20.2	18.8	18.5	18.3	18.5	22.5	34.0 ^{2/}
Rotterdam	10.4	15.3	13.0	11.0	9.6	9.4	12.6	13.1	11.0	12.5	19.6 ^{2/}

Totals computed from unrounded data

^{1/} Based on per unit cost of total imports

^{2/} Average July-October

Source: FAO

***FAO RICE CONFERENCE: RICE IN GLOBAL MARKETS AND SUSTAINABLE
PRODUCTION SYSTEMS, 12-13 February 2004***

May I also take this opportunity to draw your attention to the forthcoming Rice Conference to be held on 12-13 February 2004 in FAO Headquarter in Rome. The United Nations General Assembly designated 2004 as the International Year of Rice (IYR) and to celebrate the event, FAO has organized a major international conference to examine developments in the global rice industry so as to mobilize the international community to confront existing challenges and opportunities related to food security, sustainable development and poverty alleviation. The Conference is open to representatives of governments, non-governmental and private sector organizations, research institutions, universities, the media and any other interested parties. FAO Rice Conference will immediately follow another important FAO event: the Joint Session of the Intergovernmental Group on Rice and the Intergovernmental Group on Grains, on 10-11 February.

For registration and more information about the Conference please visit the International Year of Rice on-line site at: www.rice2004.org

**CONTRIBUTION BY THE REPRESENTATIVE OF THE
INTERNATIONAL GRAINS COUNCIL FUND (IGC)**

Under the **Grains Trade Convention, 1995** the International Grains Council has continued its regular monitoring of world grains markets. In 2003, commercial markets remained adequately supplied with wheat and coarse grains, although stocks were being drawn down, particularly in China and the CIS. During the first half of the calendar year United States wheat export prices were on a falling trend, on the expectation of larger crops in most exporting countries and of somewhat lower import needs after good crops in North Africa, Near East Asia and Brazil. But poor harvests in Europe and the CIS, leading to sharply reduced export supplies from those regions, coupled with the weakening value of the US dollar against other currencies, contributed to a partial revival in world wheat prices later in the year. Coarse grains export prices, especially of maize (corn), were much less variable than those of wheat. They were at their lowest in the middle of the year but, despite a record US crop, subsequently strengthened in sympathy with oilseed markets and the expectation of reduced exports by China and Argentina in 2004. Towards the end of 2003 grain import costs were affected by sharply rising freight charges, largely a consequence of strong demand for minerals and soyabeans in Far East Asia.

For its part, the Food Aid Committee, which administers the **Food Aid Convention, 1999**, has kept under review the food situation in developing countries as well as donor Governments' responses to current food emergencies. Preliminary data on members' food aid shipments in 2002/03 (July-June) suggest that FAC members collectively shipped 7.9m tons of food aid (wheat equivalent) to eligible recipients, well above the combined minimum obligation of 4.9m tons, and that a further €130m of grain and other food aid products was supplied against commitments expressed in value terms.

**STATEMENT BY THE REPRESENTATIVE OF THE
INTERNATIONAL MONETARY FUND (IMF)**

**Recent IMF Initiatives in Favor of Least-Developed Countries and
Net Food-Importing Developing Countries**

Mr. Chairman, the International Monetary Fund (IMF) has been a regular participant in the Committee's annual monitoring exercise of the Marrakesh Ministerial Decision regarding least-developed countries (LDCs) and net food-importing developing countries (NFIDCs). **Today, I would like to highlight briefly IMF initiatives undertaken at both the global and country level in favor of these countries.** However, before I turn to the main purpose of my statement, I would like to place these initiatives in the context of the NFIDCs' recent economic performance as well as developments in primary commodity markets.

I. RECENT ECONOMIC DEVELOPMENTS IN NFIDCS AND PRIMARY COMMODITY MARKETS

Mr. Chairman, according to our latest World Economic Outlook (WEO), recent economic data in some advanced economies, the United States in particular, and forward-looking indicators, especially in financial markets, point to **a strengthening of global growth in the second half of 2003 and in 2004**, an improvement over the generally weak level of economic activity in the first half of this year (Table 1 of the Attachment). In light of this improved global environment, economic prospects for NFIDCs in 2004 are generally favourable, especially given the poor performance in 2003.

In 2003, GDP growth in NFIDCs is projected to decline to 0.6 per cent compared to an overall GDP growth of 5 per cent for developing countries as a whole, reflecting a contraction of NFIDCs' exports of goods and services by 0.4 per cent in volume terms, inadequate investment, and relatively high average inflation.

In 2004, GDP growth in NFIDCs is expected to pick up strongly to 4.5 percent. NFIDCs' trade is projected to grow somewhat faster than that of advanced economies, broadly in line with developing countries as a whole. The volume of NFIDCs' imports is projected to increase by 7.8 percent, while export volume is expected to grow by 6.9 per cent.

However, overall growth in most developing countries, and particularly in NFIDCs, will remain well below the level needed to achieve the enduring reduction in poverty called for under the Millennium Development Goals (MDGs). It will be no surprise to this audience that further progress on trade liberalization will be an important factor for future growth. Industrial country barriers impose significant costs on the developing world, but developing countries' own trade barriers impose even greater costs on their economies.

Turning to **developments in international food prices** – in recent months, prices for most agricultural commodities have experienced a recovery. After reaching its lowest level since September 1980 in October 2001, the IMF overall index of non-fuel commodity prices has shown a slow trend recovery. By October 2003, the index was 20 per cent above its value in October 2001 (Charts 1-3 of the Attachment). During the two year period ending October 2003, overall food prices increased by 16 per cent, cereal prices by 18 per cent and beverages by 24 per cent, in dollar terms. On specific food items:

- Notwithstanding the upward trend, **cereal prices** fell markedly from last year's drought-induced peaks, adversely affecting the cereal-producing regions of the United States, Canada, and Australia. Cereal prices are now near their five-year average price levels in SDR terms.

- **Cocoa prices** eased on account of stronger-than-expected production. Moreover, anticipated disruptions to exports from Côte d'Ivoire, the world's largest cocoa producer, did not materialize.
- **Cotton prices** are 46 per cent above the level at this time last year, partly due to a substantial increase in demand by China.
- While the effects of last year's drought have begun to wear off, **coffee prices** continue to hover above historical lows, having stabilized in recent months due to crop destruction and increased export retention in some coffee-producing countries.
- **Olive oil, soybean oil, palm oil, and coconut oil prices** have increased by 41, 21, 19, and 12 percent, respectively, over the last year. Soybean prices have been driven up by a large increase in demand by China due to weather-related threats to production.

For 2004, the IMF projects that non-fuel commodity prices will increase by 2 per cent. Within that category, food prices would decrease by 1 per cent and cereal prices by 2.5 per cent. In the longer run, upward pressure on commodity prices is expected due to liberalization of trade in agriculture and the removal of agricultural support. As some NFIDCs are large net exporters of cotton, rice, sugar, and beef, they would gain from liberalization of trade in these commodities. However, liberalization would also mean NFIDCs having to pay more for imports of wheat, maize, and milk.

II. IMF INITIATIVES IN FAVOUR OF LDCS AND NFIDCS AT THE GLOBAL POLICY LEVEL

Mr. Chairman, **at the global policy level, the IMF has been a tireless advocate of open trade**, open trade as a driving force of economic growth and a higher standard of living in all countries; especially in developing countries and the less-developed among them.

On the eve of, and during Cancún, the IMF highlighted the importance of a successful outcome for the world economy and demonstrated a clear commitment to help achieve this objective. The IMF announced a **new trade initiative** that would tailor Fund support specifically to the concerns of certain developing countries, in particular LDCs and NFIDCs, for which countries a multilateral agreement could generate a temporary balance of payments need, caused, for instance, by erosion of preferences, loss of tariff revenue, or other factors.¹ Specifically, the IMF announced that it would commit to providing financial support, either in the context of new or existing Fund-supported programs, to those members facing a near-term net negative impact on the balance of payments from the round. It would also offer additional financial help in circumstances where the actual impact of trade liberalization turned out to be greater than anticipated. The readiness of the IMF, together with the OECD and the World Bank, to help countries manage any adjustment pressure from more open trade was reaffirmed in a joint declaration by the heads of these agencies on the eve of the Ministerial Conference.²

Since Cancún, the IMF has urged members to rise above entrenched negotiating positions and create the necessary conditions for a successful conclusion to the round. At the Annual Meetings in Dubai in September, the world's Finance and Development Ministers urged a speedy resumption of the round, with focus on the issues of importance to all countries - open markets, fair access, and the reduction of trade-distorting subsidies in all areas, notably agriculture. They reiterated the crucial importance of removing obstacles and moving forward without delay, and called on all

¹ See Ms. Krueger's address at: <http://www.imf.org/external/np/speeches/2003/091003.htm>

² See <http://www.imf.org/external/np/sec/pr/2003/pr03140.htm>

countries to play their part. As a measure of the importance they attached to these issues, they asked the Fund and the Bank to prepare a report on the vital importance to the development agenda of an early resumption of the trade talks. They also agreed that a copy of this report should be sent to all Heads of State, Trade Ministers and Finance Ministers, along with an accompanying letter from the Managing Director and the President of the World Bank.

The Bank-Fund letter to Heads of State, which was sent on 11 November 2003, **reiterated the fundamental point that, far from being a "concession", trade liberalization was a key step in promoting opportunity and productivity for any society that adopted it.** Furthermore, expanding trade by collectively reducing barriers was the single most powerful tool that countries, working together, could deploy to reduce poverty and raise living standards and ultimately achieve the MDGs. The Bank-Fund letter suggests that progress can be made if the negotiations are based on the following elements:

- Early, concrete, and ambitious **commitments on agriculture**, including reductions in border protection, a time-bound phase-out of the various forms of export subsidies, and a curbing of trade-distorting domestic support;
- A willingness by all countries - developed and developing - to be fully engaged in the process and to take on **substantive obligations concerning market access** in manufactures, agriculture, and services trade;
- **Flexibility with regard to new regulatory obligations**, particularly the Singapore issues; the first step toward flexibility is to consider each issue separately and to examine the best way of spreading best practice in these areas.

III. IMF INITIATIVES IN FAVOR OF LDCS AND NFIDCS AT THE COUNTRY LEVEL

Mr. Chairman, in addition to its global policy message, the IMF has been working intensively over the last few months on **identifying the issues faced by countries facing exogenous shocks, which include many LDCs and NFIDCs, and designing assistance to aid them.** In discussing what the IMF is already doing and intends to do in this area, I would like to start with two general observations:

- First, **exogenous shocks, such as natural disasters, terms-of-trade shocks, and conflicts or crises in neighboring countries, can have a significant adverse impact on developing countries' growth, poverty, macroeconomic stability, and debt sustainability.** Low-income countries are particularly vulnerable to exogenous shocks, as they have a higher incidence of shocks compared to other developing countries and tend to suffer greater damage relative to GDP when shocks occur. While some shocks are temporary and reversible, others may reflect more permanent trends. In practice, however, it is difficult to predict the duration and severity of a shock at its outset.
- Second, **countries can mitigate the impact of shocks through better preparation and better policy responses, supported by the timely availability of external financial assistance.** However, many low-income countries have limited capacity to build up cushions of reserves and fiscal resources as a buffer against shocks. In addition, market insurance to manage shock risk is frequently expensive or unavailable to these countries. Timely external financial assistance can play an important role in helping countries mitigate the effects of such shocks. Recent research indicates that external assistance is unusually effective following a shock, and prevents diversion of other resources away from development purposes. External

financial assistance in these cases is provided most appropriately in the form of grants to avoid a further build-up of debt.

The Fund is already providing assistance to its members, including LDCs and NFIDCs, through three key channels: surveillance, financial support, and technical assistance. Out of the array of seven financial facilities currently available to our members, three are of particular importance for NFIDCs:

- **Poverty Reduction and Growth Facility (PRGF).** Loans under the PRGF are concessional and based on the country-owned Poverty Reduction Strategy Paper (PRSP). Currently, 21 LDCs are drawing on Fund financial resources under the PRGF.
- **Stand-By Arrangements (SBA).** Purchases under the SBA are not concessional and designed to address short-term balance of payments problems. Currently, four NFIDCs have an SBA in place.
- **Compensatory Financing Facility (CFF).** The CFF, which is intended to assist countries experiencing a balance of payments need due to a temporary shortfall in export earnings or an increase in the cost of cereal imports, has not been used since 1999. I shall come back to the CFF in a few seconds as this instrument is often cited in the discussions on NFIDCs.

The IMF has an important role to play in providing countries with macroeconomic policy advice on how to prepare for shocks and how to respond once a shock hits. Recently, the IMF Executive Board agreed that more systematic attention should be paid, in both surveillance and program contexts, to help countries devise policies to prepare better for shocks. Steps are already being taken in this regard.

- The IMF is expected to play a **greater role in helping countries devise policies to respond to shocks**, including help in selecting an appropriate mix of adjustment and financing. The Fund can also play an important catalytic role by alerting donors when a country may have unaddressed needs for financing, particularly in the case of "silent crises", such as commodity price shocks.
- While grant assistance is generally more appropriate after a shock, **the IMF could provide fast-disbursing balance of payments assistance when there is an immediate need and donor assistance is not immediately forthcoming**, including through the Emergency Natural Disaster Assistance. However, most of these instruments are currently only available on non-concessional terms.
- **The IMF Executive Board has asked staff to consider guidelines on how the Fund's response can be made more consistent in the context of PRGF programs**, and to consider whether the terms of Fund instruments targeted toward shock financing can be made more appropriate for low-income countries. These guidelines are expected by end-2003, early 2004.

Mr. Chairman, **I would like to conclude with one particular issue of relevance to LDCs and NFIDCs, that is, the Fund review of the CFF**, the Fund facility dealing with balance of payments shortfalls due a temporary fall in export earnings or a rise in cereal import costs. The review will assess the lack of demand for the CFF in recent years, despite the occurrence of several shocks that could have been expected to generate some demand for the facility. The CFF review will consider options on how to modify the facility in light of the broader discussion on how to better deal with exogenous shocks. The CFF review is scheduled for Board discussion early next year.

Attachments**Table 1. Overview of the World Economic Outlook Projections**
(Annual per cent change unless otherwise noted)

	Current Projections				Difference from April 2003 Projections 1/	
	2001	2002	2003	2004	2003	2004
World output	2.4	3.0	3.2	4.1	--	--
Advanced economies	1.0	1.8	1.8	2.9	-0.1	--
Developing countries	4.1	4.6	5.0	5.6	--	-0.2
Net Food Importing Countries 5/	4.0	2.3	1.6	5.3	-0.4	-0.9
Purely Net Food Importing Countries 6/	2.9	1.3	0.6	4.5	-0.2	-1.1
Africa	3.7	3.1	3.7	4.8	-0.2	-0.4
Developing Asia	5.8	6.4	6.4	6.5	0.1	--
China	7.5	8.0	7.5	7.5	--	--
India	4.2	4.7	5.6	5.9	0.5	--
ASEAN-4 2/	2.9	4.3	4.1	4.4	0.2	0.1
Middle East and Turkey3/	2.0	4.8	5.1	4.6	--	-0.3
Western Hemisphere	0.7	-0.1	1.1	3.6	-0.4	-0.6
Brazil	1.4	1.5	1.5	3.0	-1.3	-0.5
Countries in transition	5.1	4.2	4.9	4.7	0.9	0.6
Central and eastern Europe	3.1	3.0	3.4	4.1	--	-0.2
Commonwealth of Independent States and Mongolia	6.4	4.9	5.8	5.0	1.4	1.0
Russia	5.0	4.3	6.0	5.0	2.0	1.5
Excluding Russia	9.2	5.9	5.4	5.0	0.1	0.1
<i>Memorandum</i>						
World growth based on market exchange rates	1.3	1.9	2.3	3.2	0.1	--
World trade volume (goods and services)	0.1	3.2	2.9	5.5	-1.4	-0.6
Imports						
Advanced economies	-1.0	2.2	2.8	4.8	-1.9	-1.1
Developing countries	1.6	6.0	5.1	7.8	0.4	-0.2
Net Food Importing Countries 5/	4.2	-2.3	3.1	9.6	-0.1	0.4
Purely Net Food Importing Countries 6/	3.8	-3.7	0.4	7.8	-1.6	-2.3
Countries in transition	11.9	6.3	6.6	8.1	0.5	5.0
Exports						
Advanced economies	-0.8	2.2	1.6	5.2	-2.2	-0.6
Developing countries	2.7	6.5	4.3	6.9	0.6	-0.7
Net Food Importing Countries 5/	2.9	1.9	1.0	8.3	2.7	-4.8
Purely Net Food Importing Countries 6/	3.8	0.6	-0.4	6.9	2.8	-6.8
Countries in transition	3.8	0.6	-0.4	6.9	-0.1	2.9
Commodity prices (U.S. dollars)						
Oil4/	-14.0	2.8	14.2	-10.5	-10.0	8.8
Non-fuel (average based on world commodity export weights)	-4.0	0.6	5.0	2.4
Consumer prices						
Advanced economies	2.2	1.5	1.8	1.3	-0.1	-0.4
Developing countries	5.8	5.3	5.9	4.9	0.1	-0.2
Net Food Importing Countries	10.9	9.0	11.1	10.1	0.9	1.2
Purely Net Food Importing Countries	5.1	5.8	8.8	9.2	0.3	1.1
Countries in transition	16.2	11.1	9.7	9.1	0.3	1.7
Six-month London interbank offered rate (LIBOR, percent)						
On U.S. dollar deposits	3.7	1.9	1.3	2.0	-0.4	-1.5
On Japanese yen deposits	0.2	0.1	0.1	0.2	--	-0.1
On euro deposits	4.2	3.3	2.2	2.4	-0.1	-0.1

Table 1. Overview of the *World Economic Outlook* Projections
(Annual per cent change unless otherwise noted)

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during July 1-28, 2003.

1/Using updated purchasing-power-parity (PPP) weights, summarized in the Statistical Appendix, Table A.

2/Includes Indonesia, Malaysia, the Philippines, and Thailand.

3/Includes Malta.

4/Simple average of spot prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$24.96 in 2002; the assumed price is \$28.50 in 2003, and \$25.50 in 2004.

5/ 49 LDCs + 21 NFIDCs

6/ 21 NFIDCs

Chart 1. Indices of Non-Fuel Commodities, Cereals, Wheat and Maize, January 1996 - October 2003

January 1996 = 100

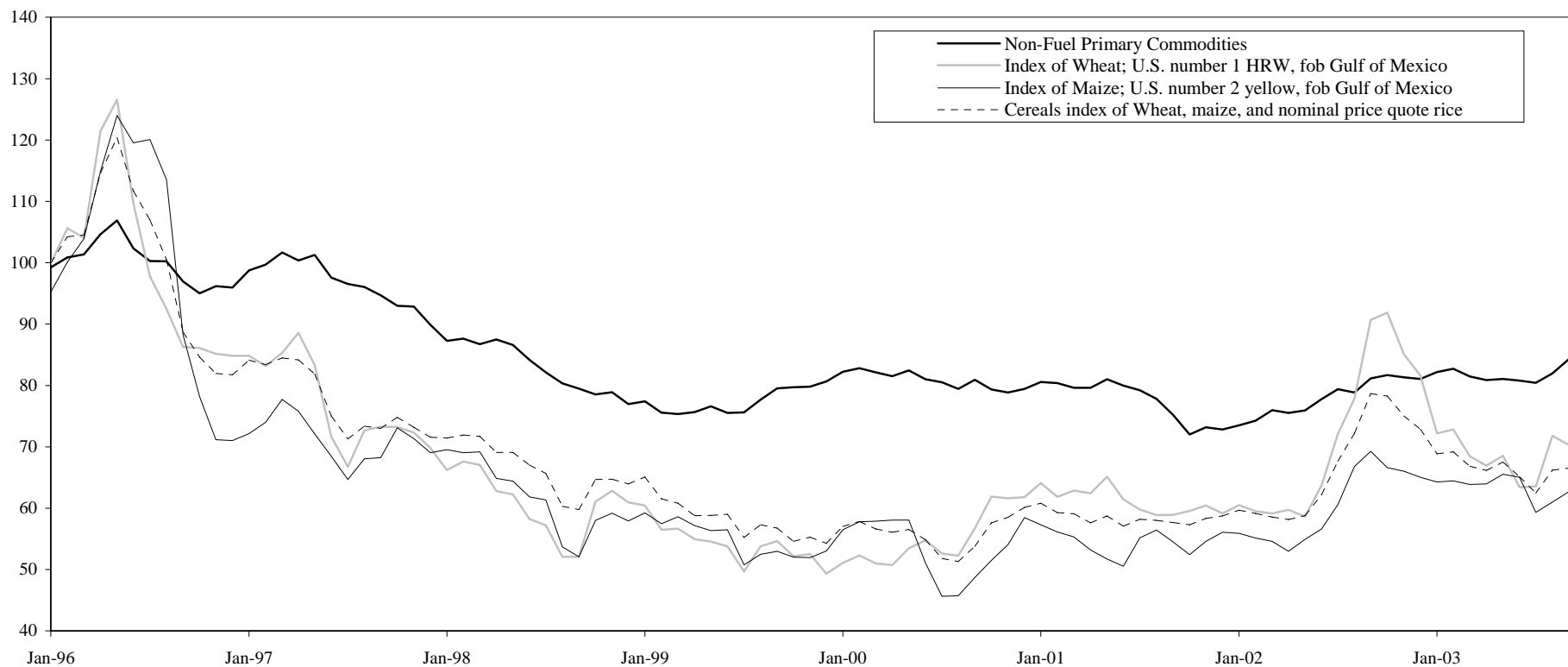


Chart 2. Indices of Non-Fuel Commodities, Cocoa, Coffee and Cotton, January 1996 - October 2003

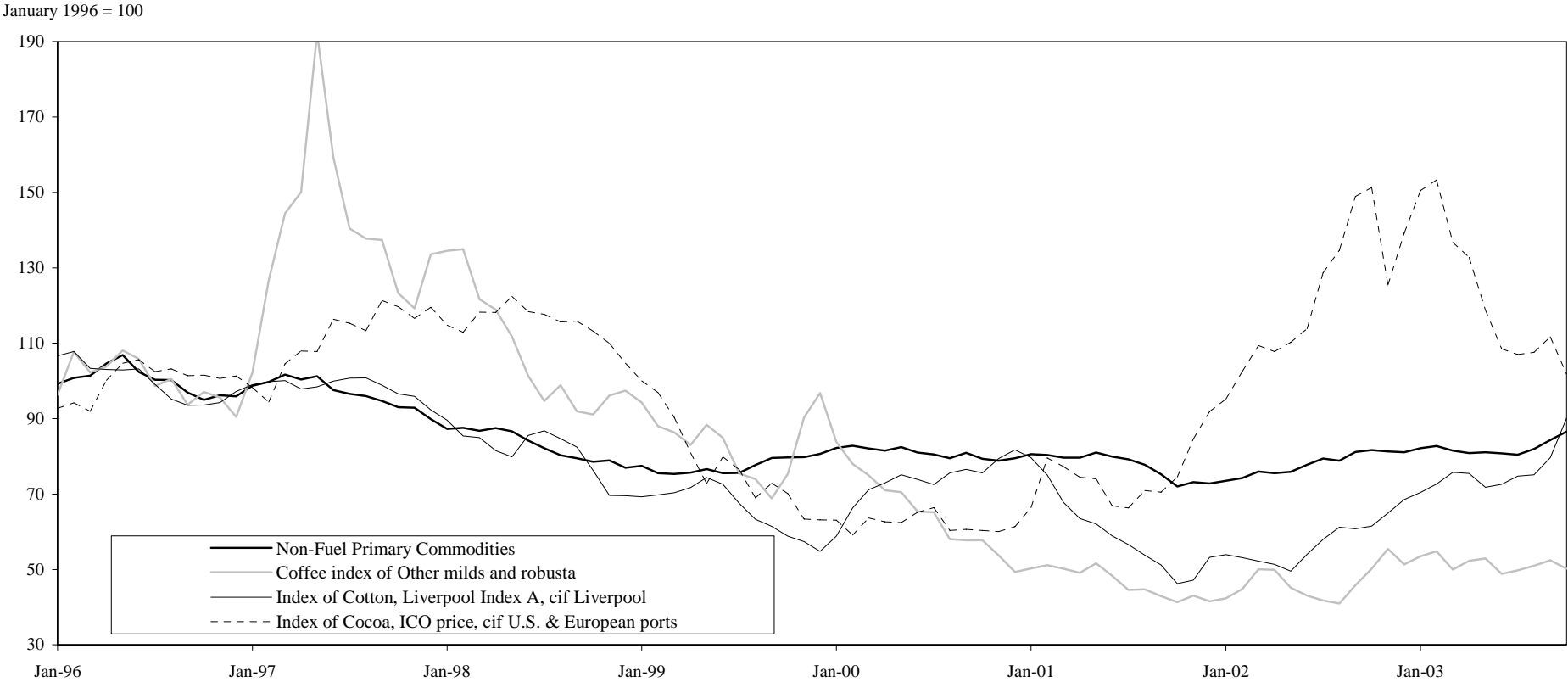
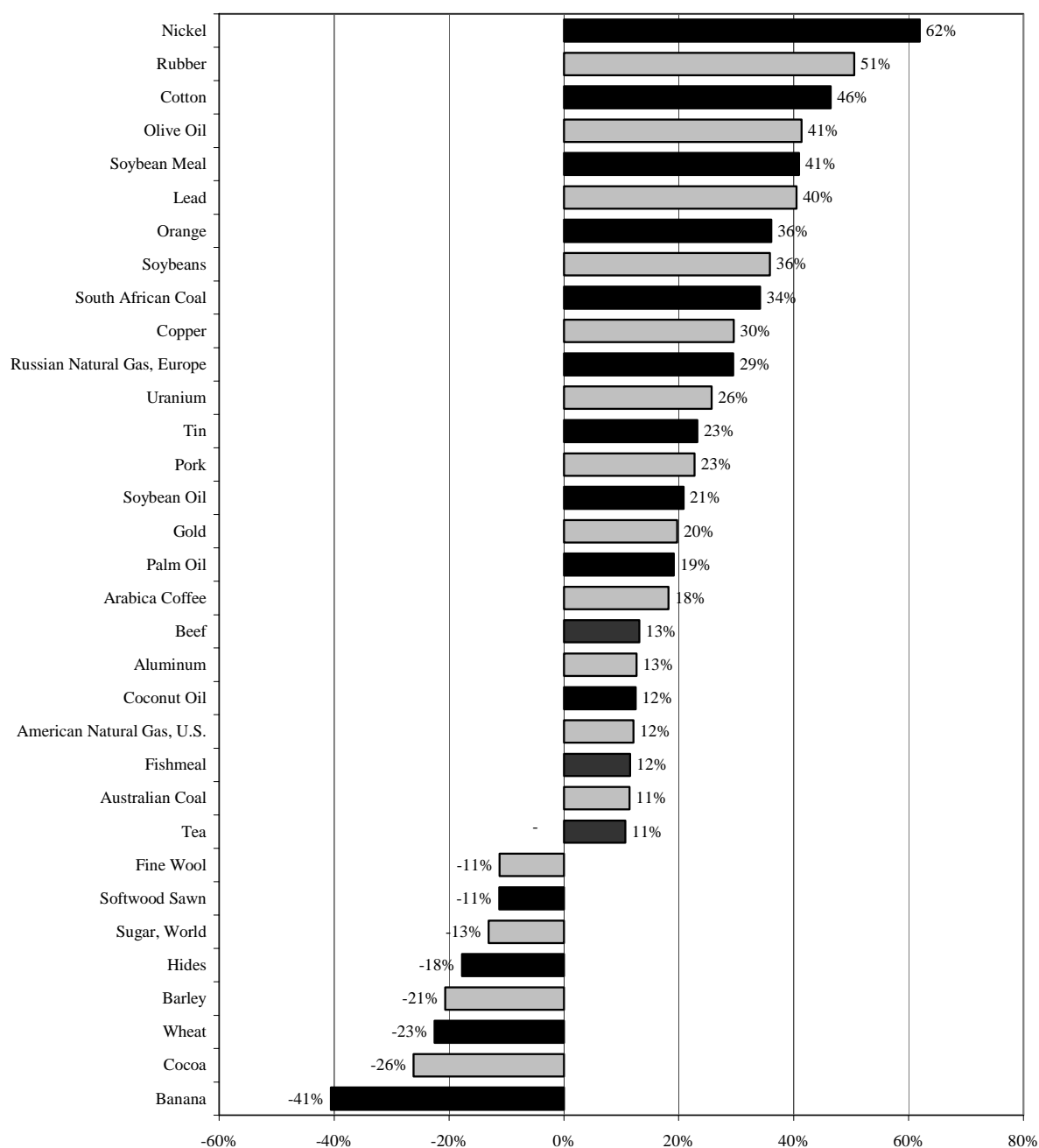


Chart 3. Year-on-Year Percent Changes of Select Commodities, October 2003



Note: Commodities selected by month based on an absolute percent change of 10%.

Source: IMF Staff

CONTRIBUTION BY THE REPRESENTATIVE OF THE WORLD BANK

This contribution will focus on two main areas. First, it outlines how the World Bank could assist NFIDCs to mitigate any shocks that would come from structural changes in the global markets for food products as a result of the Doha Round. Second, it provides some comments on a proposal to establish a Revolving Fund to finance food imports.

World Bank Assistance

The World Bank's comments to the last Monitoring Exercise discussion provided a comprehensive analysis and review of our support towards this issue. First a general point on World Bank assistance. Our support is determined through country-level dialogue and set out in Country Assistance Strategies. These reflect the Poverty Reduction Strategies prepared by partner Governments. PRSPs are increasingly becoming the primary policy tool through which the poverty linkages between overall macro and micro-policies are formed and explained. Including trade policy issues in this dialogue will improve communications inside and outside government on trade, strengthen and improve trade policies from a poverty-reduction perspective, and as a result help authorities develop more informed negotiating positions. Any World Bank assistance to the NFIDCs in response to shocks in food prices would need to be discussed and imbedded in Country Assistance Strategies and Poverty Reduction Support Strategies. This could best be done by specifying clearly what would be the Bank's and the government's responses in the case of food price (and other) shocks.

Looking forward, there are several concrete ways in which the World Bank could assist NFIDCs to mitigate any shocks that would come from structural changes in the global markets for food products as a result of the Doha Round. Such shocks would be : (1) gradual, as they would take place over the agreed implementation period; (2) permanent; and (3) foreseeable, once the final agreement is set. They could also, other things equal, produce balance of payment difficulties for food importers. These characteristics imply that the appropriate response to this kind of shock is structural adjustment. The magnitude of potential shocks should not be exaggerated, however; most studies conclude that even very deep liberalization would produce increases in the prices of basic foodstuffs, especially cereals, on the order of magnitude of 5 – 20 per cent, and the actual liberalization resulting from the Doha Round is not likely to be sweeping. Furthermore, the secular trend of prices for these products has been - and is likely to continue to be – downward. Nonetheless, the Bank has tools available to give LDCs and NFIDCs some comfort that they will not be subjected to food price shocks with no safety net.

The World Bank announced at the WTO Ministerial Meeting in Cancun a program of enhanced assistance to help countries meet new commitments made in the Doha Round and to resolve transition problems. Through this programme, the Bank could assist countries in addressing shocks in food prices through a full range of AAA (Analytical and Advisory Activities) work, including conducting a set of comparative case studies, adjustment lending, and investment finance. Countries that would benefit from this should be identified through the PRSP and CAS processes.

Adjustment lending would be appropriate in cases where countries face balance of payments crises from food price spikes and need policy reform. The AAA and investment finance would be aimed at, for example:

- Improving agricultural production systems, so local farmers could take advantage of the higher world prices, thereby reducing reliance on imported food;

- Restructuring food marketing systems to reduce costs and keep down prices for consumers, while increasing the share of the final price captured by farmers.
- Reducing post-harvest losses, costs of storage, and transport costs by improving warehouse facilities and infrastructure. For a number of countries, a major source of price instability is the poor quality of storage facilities and high cost of storage.
- Restructuring and privatizing state-owned enterprises charged with food procurement and distribution and improving public sector food security stockpiling policies.

Comments on a Revolving Fund to finance food imports

World Bank staff participated in the Inter-Agency Panel's discussions in 2002 on a proposal to establish a Revolving Fund to finance food imports, one recommendation of which (paragraph 168b of the Panel's report¹) was to explore the feasibility of an ex ante mechanism. Staff reviewed the proposal of the Chairman for a roundtable discussion (i) to explore the need for a safety net to assist the LDCs and NFIDCs during the reform process leading to greater liberalization in agriculture, including an examination of objective criteria and trigger mechanisms, and (ii) to identify appropriate mechanisms within the framework of the Marrakesh Decision, taking into account their technical feasibility, as well as their financial and institutional implications on potential donors and beneficiaries. Staff also reviewed the Background Paper drafted for the FAO roundtable discussion on this subject on 2 May 2003² (hereinafter the "Background Paper"), and a paper commissioned by DFID³ (hereinafter "Ruffer and Roe"), and submitted comments to that roundtable discussion⁴.

We submit the following comments as inputs into the WTO monitoring exercise on the Marrakesh Decision, which will take place on 20 November 2003. Since we believe that the proposal in the Background Paper will serve as the point of departure for the monitoring exercise, the current comments reflect the World Bank's earlier comments sent for the FAO roundtable, and expand on the contribution that existing World Bank instruments could make to mitigating the problems of the net food importing countries.

First, we commend the authors of the Background Paper for a careful and authoritative analysis of the difficulties faced by private sector food importers in these countries in periods when financing requirements rise above normal levels, and for a carefully thought out proposal to resolve some of these difficulties. The paper makes a very plausible case that the ceilings on credit to developing country importers constrain their ability to rapidly increase food imports in times of price spikes or increases in local demand. There are various ways that importers use to deal with these situations, but these all raise local food prices. The case would be more compelling if it were quantified (e.g. by estimating imports foregone or extra financial costs incurred in episodes of food price spikes). We recognize of course that this kind of quantification is difficult, and would probably require extensive survey data of importers, exporters, and banks. We presume that this fell outside the terms of reference for this study. However, its absence makes it impossible to carry out any rigorous cost-benefit analysis of the proposal.

¹ "Report of the Interagency Panel on Short-term Difficulties in Financing Normal Levels of Commercial Imports of Basic Foodstuffs", WT/GC/62/G/AG/13, 28 June 2002.

² "Mechanisms for Financing Imports of Basic Foodstuffs by Net Food-Importing Developing Countries and Possibilities for Improvements", drafted by Lamon Rutten and Frida Youssef of the UNCTAD secretariat, supported by Mohamed Elkeiy and Ton Schurink, with research financed by the FAO.

³ "Mechanisms to Implement the Marrakesh Decision: an Options Paper", T. Ruffer and A. Roe, Oxford Policy Management, March 2003.

⁴ "Comments for the Roundtable Discussion on the Proposal of the NFIDCs and LDCs for an Ex Ante Financing Mechanism for Food Imports, 19 May 2003".

Second, we note that several of the observations made in the World Bank submission to the Inter-Agency Panel remain relevant to the deliberations of the current Roundtable:

- Available evidence does not suggest that reforms resulting from the Uruguay Round Agreement on Agriculture (URAA) caused structural increases in the world prices of foodstuffs; to the contrary, world food prices have shown a secular declining trend, which does not appear to have been interrupted by the URAA. This observation does not imply that there is no need for the proposed fund, but it does imply that a direct and mechanistic link to the URAA (as envisioned in the Marrakesh Decision) would not be possible.
- Food insecurity is an individual, not a national, phenomenon. It does not appear that there would be a rationale grounded in equity concerns for providing special assistance (e.g., subsidies) to the LDCs and NFIDCs, when many poor consumers in other countries would be hit equally hard or harder by food price increases. It is also not clear what kind of mechanisms could be designed to ensure that any aid to the LDCs and NFIDCs is targeted to the appropriate population of poor consumers. If it were possible to design mechanisms to target them, then the aid could be given in the form of food vouchers. That said, it must be recognized that the benefits of even untargeted measures that reduce the magnitude of food price increases would flow disproportionately to the poor, who spend a greater proportion of their incomes on food.
- If the mechanism would involve subsidizing food imports, e.g. through subsidized credit, it would have the effect of discouraging local food production and storage. For this reason, the Background Paper recommends against any explicit subsidy element in the on-lending terms to traders, though it does apparently suggest that the rate to be paid by the national window should be subsidized, with the resulting profits from the spread used to subsidize food distribution to vulnerable groups or to deal with credit risk.
- Criteria for countries' access to the fund - both long-term and year-to-year - would have to be crafted carefully. First, consider long-term eligibility. It is not clear which, even among the net food importing countries, would be net losers from an agreement liberalizing trade. Export revenues in many of these countries would be increased by the better market access resulting from an agreement, and prices of their other imports might decline. Second, triggers for year-to-year access would need to be carefully defined. Automatically granting access based on an increase in import bills for food would reward poor economic policy. (Food subsidies and macroeconomic mismanagement, together or separately, could trigger a sharp increase in food imports). Thus, if triggers were defined in this way, access would need to involve some kind of policy review, which is a major issue concerning the operation of the IMF Compensatory Financing Facility. Access triggers would also have to take into account the overall financing needs of the countries in question, not food alone. It would not make sense to give help to countries when their food import bills are rising, if at the same time their export receipts are rising even more, e.g. from oil export receipts. Taking into account these shortcomings of triggers based on variables over which the country itself has substantial control, there is a strong argument for using some more objective indicators as triggers, as the Background Paper recommends.

To these, we would add some further observations relevant to the discussions of the proposal elaborated in the Background Paper.

- While the Background Paper clearly and convincingly identifies constraints to the operation of trade finance mechanisms for food imports, these constraints are not unique to food markets. They are in fact common to every kind of credit market in developing countries, which is why credit is expensive and generally requires high collateral. To make a case for the proposal made here, given that donor funds are limited, there would need to be a clear articulation of why resolution of this credit constraint in food import markets should be given priority over its resolution in other markets, and indeed, over other alternative uses of donor funds.
- The proposal itself (as described in detail in chapter 6 of the Background Paper) appears to be reasonable at face-value, although there would need to be a careful assessment of the details. For example, as it recognizes, in setting the degree of risk that is shared with the local banks, there is a tension between minimizing moral hazard (i.e., making sure the bank has an incentive to assume responsibility for a "due diligence" assessment of borrowers' risk) and making sure the scheme would increase the bank's incentives to finance imports. The former argues for making the bank assume a high share of the risk; the latter for a low share. This trade-off would need to be carefully considered. Another crucial design detail would be the mechanism for determining who (within a qualifying country) would have access to the guarantees. The ex ante financing mechanism is directed at private sector importers. Presumably, a large number of firms would like to import during a food price spike if they had special access to credit, and it is not clear that there is any workable way to select among importers, especially since there would be pressure to make the decision quickly while import prices are rising. One mechanism could be government designation of approved firms, but this could lead to cronyism and corruption. Another would be selection by the international fund secretariat, but it is not clear on what basis this could be done quickly, especially with the small secretariat envisioned. The access could be auctioned, but this would raise the price of the credit and consequently raise the price of food.
- It is not clear that the technical assistance proposed (page 51) would be simple or cheap to administer; it might in fact require more than the minimal secretariat the proposal envisages.
- Before a final decision is made, options other than that proposed in the Background Paper should at least be explored. The Ruffer and Roe paper mentions several, including a mechanism based on existing price risk management tools available on international markets, and a scheme based on long-term supply contracts. (They consider others as well, such as the IMF's CFF and PRGF, but conclude that provision of finance to the private sector is not consistent with the IMF's Articles of Agreement.) There is already a pilot program connecting small producers in developing countries to international price risk management markets, operated by the World Bank's Commodity Risk Management Group in the Agriculture and Rural Development Department, with the International Task Force on Commodity Risk Management as its steering committee. This could in principle be expanded to help consumers of imported food products deal with upside price risks, though these risk management instruments are short-term (a year at most) and so only useful in dealing with short-term price movements. The group's *modus operandi* explicitly excludes subsidies. It operates at present as a small scale pilot program.

Conclusions:

- Since it would not be possible to link the proposed fund in a direct way to the URAA, the argument for its establishment in the context of the ongoing trade negotiations would need to rest on the probable effects of the liberalization that will eventually result from this process. Available research does indicate that if there is significant reduction of import barriers, export subsidies, and domestic support, there will be significant, though not enormous, structural increases in prices of many foodstuffs. Depending on the commodity and the study, the effects on average prices of a comprehensive liberalization have generally been estimated to run from 5 per cent to 20 per cent, with a few commodities higher. This structural increase in average levels would be accompanied by a reduction in volatility of prices. At this point, it is uncertain how much liberalization will indeed occur and over what time horizon, but it would appear likely that the effects will not begin to be felt for several years, at the earliest.
- Given that the financial sectors in developing countries in general face many of the same problems as the shortcomings in the market for food import trade finance (e.g. low credit limits, lack of collateral, reluctance of lenders to lend without collateral, high finance charges), both potential donors and beneficiaries of the proposed scheme need to consider the question of whether it would be more cost-effective to tackle these issues on a broader basis. An argument for the narrower approach might rest on some special characteristics of the food market or its significance for the poor, although it should be recognized that this would not be a targeted intervention. The possibility that donor contributions to this facility might in essence substitute for (i.e., reduce) other forms of assistance must also be weighed.
- The design of the ex ante scheme proposed in the Background Paper has a number of attractive features, including its reliance on, rather than displacement of, private sector trade and finance mechanisms. If it could be made to operate well, it could even have the concomitant benefit of increasing linkages between financial institutions and traders in developing countries on the one hand, and international financial markets on the other. The use of exogenous indicators as triggers, as recommended in the proposal, is also attractive, in that it would minimize the problem of moral hazard and the need to carry out an extensive country policy review before granting the country's banks and importers access to the financing mechanism. In our view, there would remain some policy issues, however, that might require some kind of ex ante review to qualify for access to the mechanism. It might be necessary, for example, to ensure that there are no general food subsidies or price controls in place that would artificially inflate the requirements for imports. Perhaps this kind of review could be carried out in a pre-qualification process, so that access would not be delayed when it is actually needed. Using external triggers would also exclude cases in which domestic shortfalls are caused by exogenous domestic factors (e.g. drought). These cases could conceivably be included by having some kind of carefully crafted double trigger involving not only external prices, but also domestic weather indicators (or indicators of drought based on early warning systems), but the groundwork to judge the feasibility of doing so has not yet been laid.
- The detailed design of the fund would clearly require more thought, including addressing the issues raised above, before deciding if the scheme laid out in the Background Paper is feasible. In addition, Ruffer and Roe note that some LDCs may not have the basic private sector institutions needed, and raise some other questions that would need to be addressed. Perhaps none of these are insuperable, but they

clearly require more thought. In any case, before a final decision is made to move eventually to a large-scale scheme, it would be prudent to carry out a pilot project first.

- It is not possible on the basis of the available evidence to conclude whether the benefits of the proposed scheme would exceed its costs. This would require further study, including quantification of the effects of the constraints on financing for food imports.
-