Common Fund for Commodities: Partner in Commodity Development

Realizing the potential of commodity production, processing and trade for the benefit of the poor
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COMMON FUND FOR COMMODITIES

Composition
• Inter-governmental Development Financial Institution
• Headquarters: Amsterdam, The Netherlands
• Secretariat established in 1989
• 103 countries
• 10 regional Inter-Governmental Organisations: EU, AU, COMESA, SADC, ECOWAS, UEMOA, CARICOM, EAC, EAEC, Andean Community

Main Function
• Finance measures aimed at mitigating the vulnerability of commodity producers

Approach
• Address vulnerability of the poor, i.e. (a) exposure to volatility; (b) capacity to cope.
• Practical measures include diversification, value addition, market expansion, risk management, etc.
• Projects structured around commodity value chains
Common Fund for Commodities Mandate

“(…) to enhance the socio-economic development of commodity producers and contribute to the development of society as a whole.”

“The CFC supported interventions cover all aspects of the value chain from production to consumption”
Core Values

• Goal: Fair benefits from commodity production and trade to all
• CFC’s competence in commodity sector:
  • Over 25 years of project experience
  • About 390 projects
  • Total cost over USD 790million, of which USD 320 million is funded by the CFC
• Create a financing mechanism for the producers within the value chain.
• Make investments and linking to local, national and international organizations.
The CFC Network

- Agricultural Development Research Institutions (CGIAR)/NARS
- National Governments
- International Commodity Bodies (ICBs)
- Charity Foundations/Non-Profit Organizations
- National Governments
- International Commodity Bodies (ICBs)
- Charity Foundations/Non-Profit Organizations
- UN System
- Private Sector
- Impact Investing Funds
- Producer Organization/NGOs
- Consultants/Technical Experts

The network connects various stakeholders including governments, international bodies, non-profit organizations, private sector, and agricultural development institutions, forming a comprehensive structure for impact investing in agricultural development.
Aiming at the “Base of the Pyramid”

• Commodity production in Developing Countries is heavily concentrated at the bottom of the social pyramid

• Development of commodity based value chains primarily targets the incomes of the poorest and most vulnerable people

Tier 1
> USD 20,000
75 – 100 mil

Tier 2 & 3
USD 1,500 – USD 20,000
1.7 bln

Tier 4
< USD 1,500
4+ bln
CFC Projects: Value Chain Approach

as guiding principle

• A tool to analyse sustainable economic development
• Identifying chain actors and analyse how they might be barred from entering
• Analyse distribution of rents, governance and institutional issues
• Understanding opportunities and obstacles in specific commodity value chains will lead to identification of solutions
• Value chain analysis leads to suggestions for value chain development
Success and Challenges of Commodity Finance

Areas of Success

• Well organized small scale farmer business in stable value chains (Tea, coffee, sugar, horticulture etc.)
• Increase in availability of value chain based finance
• Short term finance (working capital)
Success and Challenges of Commodity Finance

Area of Challenges
• Limited small scale / small holder finance
• Limited long term and development finance
• Poor appetite for entrepreneurs risk irrespective of scale
• Poor integration of value chains
• Some policy environments not strong enough for vale chain finance.
• Value chain finance not compensating for the perceived primary agricultural risk.
Limited Access to Agricultural Finance...

Figure 1: The Small Scale Farmers and the Agricultural Value Chains

Characteristics (Left)
- Less risk
- Access to multiple financial institutions
- Growth among actors is too slow
  - Limited repeat business (Most are new farmers)

Characteristics (Right)
- Less risk
- Access to multiple financial institutions
- Limited local supply (size of operations)
- Limited demand (purchasing power) and scale is too small for profitable international export

Characteristics of the Missing Middle
- Activities led by the NGO sector
- Individual scale very small
- Poor profitability of the smallholder farmers
- Lack of adequate security/collateral
Value and Risk along the Value Chain ...

Figure 2: Perception of Risk in a Non-Integrated Value Chain

Financial Solutions

Flow of Money

Input Supplies → Growing Crop → Harvested Produce → Food & Energy

Value

Risk

Different Financial Relationship

Manufacture → Transport → Store → Plant → Produce → Harvest → Store → Transport → Process → International/Local market
Investments to Integrate Value Chain Operations ...

Figure 5: Aggregation of Activities within the Value Chain

- Strategic investments (Interests).
- No control: Leverage private sector skills (Avoid ownership of technical skills).
- Access income across the value chain.
CFC project intervention areas

Interventions “from field to fork” along the complete value chain:

• Improving the competitiveness of commodities and enhancing the cost effectiveness of commodity production

• Expansion of processing of primary products

• Diversification

• Risk management; commodity finance
Guiding principles of operations

- Invite ideas for solutions and activities for commodity development in identified spheres
- Target projects are:
  - Innovative
  - Financially viable
  - Sustainable
  - Scalable, and
  - Expect broad social and environmental developmental impact on stakeholders of commodity value chains
Flow of Resources

- Finance will go where it is needed – Commodity sector is competing with other sectors for finance.
- Securing good quality produce from small holder farmers is not a choice but an imperative - Both ends of the value chain, i.e. producers and commodity processors, are in it for the long term.
- Service providers can move to other areas e.g. transporters, warehouses, financiers, traders, etc.
How CFC invests in commodity development

- Commodity Orientation Interventions
- Development Relevance/Impact
- Environment Effects/Impact
- Addressing Receptive Market
- Financial Viability
- Quality of Loan Proposal
- Own Contribution
- USD 300,000 – USD 1.5 mln
Several windows of financial support

• Competitive bidding for projects targeting specific commodity issues seeking CFC support
• Partnerships with other bi-lateral and multi-lateral agencies and social investors

Recycling of funds and wider use of loan financing - Larger share of financial support in the form of loans.
Who’s eligible for CFC financing

CFC Partner Institutions include:

- Public and Private Institutions;
- Bilateral and Multi-Lateral Development Institutions;
- Cooperatives; Producer Organizations; SMEs; Processing and Trading Companies; and
- Local Financial Intermediaries such as MFIs.
Application Process

1. Open Call for Proposals and development of the Project Profile
2. ICB review (Optional)
3. CFC Secretariat review (& Preliminary Comments to ICBs if applicable)
4. CFC Consultative Committee
5. CFC Executive Board
Information & Documentation needed

• Completed application form and a business plan (if available).
• Application needs to clearly state expected impact such as:
  • Beneficiaries and Incomes
  • Impact on the environment
• Additional development impact indicators, as applicable for the proposed activity such as:
  • Impact on value chain
  • Impact on the market system
Selection Criteria

Each project and activity shall be assessed with respect to:

• Commodity orientation
• Innovation
• Development impact
• Financial sustainability
• Management and implementation strategy
• Beneficiary focus
• Cost effectiveness

• Track record
• Scalability/replicability, and potential for growth, including replication to other areas and markets
• Environmental and social sustainability
• Quality of the proposal
How to measure impact development commodity projects?

**Program Monitoring**
- whether we are on the right road
  - Measures outputs & outcomes
  - Focuses on two levels: project & firm
  - Does not attempt to “attribute” outcomes to project

**Impact Assessment**
- whether we have arrived at our destination
  - Measures outcomes & impacts
  - Focuses on three levels: household, firm, sector
  - Attributes outcomes & impacts to project
  - Requires comparison to counterfactual: what would have happened absence of project?
“(...) to enhance the socio-economic development of commodity producers”

We are looking for....

• Who benefited from the intervention?
• What were the agricultural development results? (reported yield increases, hectares, farm income, off-farm income increase, production increases)
• What added value the project bring?
• What was the value chain development results?
• Etc.

Any evidence of impact that was reported!
Indicators reported

**Beneficiaries (Who?)**
- Direct Beneficiaries
- Indirect Beneficiaries
- Number of Women
- Firms/Cooperatives assisted
- Business Created
- Jobs Created

**Economic (How much?)**
- (Net) Project Benefits
- Value Added
- Farmer Income with Project
- Farmer Income Without Project
- Production Costs
- Additional Farm Gross Revenue

**Production (How?)**
- Hectares under production
- Total Production
- Increase Production per farmer
- Yield increase
- Quality improvements

**Others**
- Food Security
- Sustainability
Sustainable and Secure Smallholder Systems at Scale
Revival of Robusta Coffee Chain, Madagascar
Rehabilitation of Coffee in Congo
Thank You