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London, United Kingdom

**Future role and mandate of the Common  
Fund for Commodities**

## **Background**

The representative of the Common Fund for Commodities (CFC), Mr Parvindar Singh, Chief, Policy, Programme Management and Evaluation, introduced the attached report on the future role and mandate of the CFC to the Projects Committee.



# COMMON FUND FOR COMMODITIES

## Background

The Common Fund for Commodities, an intergovernmental financial institution, was established in 1989 as centre of development financial assistance in the network of International Commodity Agreements. Currently the Fund has a membership of 105 member countries and ten institutional members.

## The CFCs Objectives

The founding principles of the CFC underscore equitable distribution of economic benefits from commodity production and trade in the long-term interest of both Developed and Developing countries, making the CFC an instrument of technical and economic cooperation, especially in the context of increasing South-South cooperation.

## Current Status

- Members, Institutional members, International Commodity Bodies( ICBs), and Memoranda of Understanding (MOUs)
  - Countries - 105
  - Institutional members - 10
  - International Commodity Bodies : 24 of which 10 hosted by the FAO Intergovernmental Groups
  - Memoranda of Understanding (MOUs) - 17
- Financing over USD 594 million of which half obtained as co-financing or counterpart contributions from project partners (CFC contribution about USD 302 million)
- Commodities supported – over 40 (Mainly agricultural but also metals - copper, lead, nickel, zinc)
- Countries with project sites – 90
- Only one office at Amsterdam. No field offices

## Project Objectives

The CFC support covers all aspects of commodity related opportunities and vulnerabilities, e.g. production and productivity, value addition, new uses, value chain integration and price risk management. In all instances projects give priority to leveraging commodity value chains to alleviate poverty and promote sustainable economic growth. While the scope of the CFC projects is wide, the focus of every individual project is very narrow, targeting specific issues in commodity value chains with the greatest growth potential.

## The Common Fund for Commodities and the International Commodity Bodies

The CFC was founded as an instrument of producer-consumer cooperation to further their common interest expressed through International Commodity Bodies (ICBs). For this reason, while projects can be formulated by any interested party, they must be supported by an ICB, established under an International Commodity Agreement. In the current operations of the CFC, the ICBs are responsible for prioritisation, formulation and supervision of projects.

The current CFC-ICB cooperation framework provides a mechanism whereby a constraint, or a growth opportunity identified in a commodity value chain could obtain seed financing from the CFC based on its merit and potential to generate economic value for the sector, avoiding much of the political debate typically involved in international action in commodity markets. The CFC-ICB relationship allows such facility to be offered to the widest possible circle of beneficiaries with very limited financial resources and with fair access to all stakeholders from all sides of commodity value chain.

### **Status of Consultations on “The Future Role and Mandate of the Common Fund for Commodities and its Long-Term Financial Sustainability”**

The Future Role and Mandate of the Common Fund for Commodities and its Long-Term Financial Sustainability has been under consideration of the Governing Council and the Executive Board since the approval of the Third Five-Year Action Plan 2008-2012. The discussions are at advanced stage and it is expected that decision would be taken by Member States in December 2012. The current Five-Year Action Plan of the CFC, which was prepared with active participation of ICBs, is concluding in 2012 and the resources of the CFC would need to be replenished to sustain its support for measures and actions for commodity development from 2013 and beyond.

CFC is facing two simultaneous challenges (i) a gap in its administrative cost coverage, and (ii) a lack of funds for future financing of projects.

#### Discussions in the Ad hoc Working Group of the Executive Board

The Executive Board in October 2009 decided to establish an *ad hoc* Working Group of the Executive Board open to all CFC Member States. The Working Group of the Executive Board of the CFC commissioned an independent study to provide policy guidance on issues relating to the future role and mandate of the Common Fund. The outcome of the study reinforced the relevance of the Common Fund to the niche area in which it functions and the need for the continued existence of the Common Fund, albeit with some recommendations for changes to the nature and mode of operations to better fit the current priorities of its beneficiaries. However, there was no unanimity in the Board on the conclusions of the study. Many Members concurred with the conclusions and felt sufficient data was available for arriving at a decision while others felt that there was still a need for further assessment of the effectiveness and efficiency of the CFC to enable them to arrive at a considered decision regarding the future of the Fund.

After series of consultations and obtaining reports from external consultants the Working Group decided to explore various options for the future role and mandate of the CFC and its long-term financial sustainability.

#### Options considered

The Ad hoc Working Group of the Executive Board in its meeting in September 2011 considered the following Options:

- a. Option A : The reform of the CFC including possible amendments, or eventual re-negotiation of the Agreement.
- b. Option B : Transformation of the CFC into a Trust Fund.
- c. Option C : Transformation of the CFC into a project management and fundraising agency
- d. Option D : Reaching a collaboration agreement with an international organization

It also consulted with the representatives of UNIDO and UNCTAD on their proposals under Option D:

After discussions on Options A, B, C and D for the future role and mandate of the Common Fund for Commodities, the Working Group adopted the Agreed Conclusions of the Sixth Meeting of the Ad-hoc Working Group of the Executive Board, which were subsequently endorsed by the Executive Board and the Governing Council.

#### Summary of Agreed Conclusions of the Sixth Meeting of the Ad-hoc Working Group of the Executive Board

The Working Group concluded to further build upon the identity and expertise of the CFC and reiterated the necessity to improve its governance, efficiency, accountability and effectiveness. The group agreed to pursue reform based on elements contained in Options A and C and to further elaborate on Option D in order to properly examine it.

The Working Group agreed that Members shall reform the CFC to face its current challenges:

- the changed context since its establishment,
- a gap in its administrative cost coverage due to falling revenues from the First Account resources,
- lack of financial resources to sustain project financing functions, and
- a need to align the capacity of the organization to make it financially sustainable.

Guiding principles of reform :

- (i) preservation of identity and expertise of the CFC,
- (ii) streamlining of the working of the CFC including its governing structure,
- (iii) focused mandate to deliver high impact results,
- (iv) increasing effectiveness and efficiency,
- (v) enhancing transparency and accountability,
- (vi) a strategy for strengthening the financial base for future project operations, including fundraising, and
- (vii) further elaboration of Option D in order to properly examine it.

It is expected that the proposed Committee would make an interim report at the Executive Board in April 2012 and would make its recommendations as soon as possible but not later than the 1<sup>st</sup> of July 2012 in order to submit them for action to the Governing Council in December 2012.

#### **Consequences of the Options**

The options currently considered by the CFC Governing bodies would modify the current relationship of the CFC with ICBs and its manner of financing in a number of ways, and the implications would vary. The first fundamental implication of the current direction of CFC reform would, therefore, be undermining the capacity of multilateral support for coordinated interventions in commodity value chains.

Some of the specific issues that might occur in the course of the reform of the CFC include:

- (i) A forum of interaction of 105 Member countries and 10 institutional members to deliberate on the commodity related matters may vanish.
- (ii) Practical measures and actions that require international consensus and support of both consumers and producers in the framework of ICBs that are supported by the CFC may not materialise.
- (iii) Window of financial support for practical measures and actions for projects endorsed by ICBs may not be available or severely curtailed.

- (iv) With larger financial resources expected from private sector and foundations and not from Member States the targeting of support may change and shift from current practice of consensus and support of both consumers and producers to more priorities of these bodies.
- (v) In case of merger with other International organisation, the focus on commodities and on priorities indicated by ICBs may diminish and priorities as determined by the host institution may become paramount.
- (vi) The overhead cost of any interventions initiated by ICBs could increase by an order of magnitude as the ICB might have to contact individual countries one by one to find suitable donors. Furthermore, the cost for countries in dealing with ICBs would also increase, as they would have to deal individually with financing requests from individual ICBs, also one by one.
- (vii) The elevated cost would reduce the scope for small-scale pilot interventions, missing on potentially important development opportunities. Concentration of international aid in fewer larger projects without due attention to pilots would also increase the cost of inevitable errors.

Likely consequences of exercising different options for the CFC are annexed.

## Conclusion

Tripleline Consultants in their interim report had argued for the reform of the CFC and had stated:

*“There is a further unspoken option and that is ceasing operations and winding up the CFC. This would clearly be a significant political decision by the members and send out a contradictory statement in the north-south dialogue at a time: i) when poverty alleviation policy and the reality the role commodities could play in this is of international strategic concern, and ii) of renewed commitment to the less developed countries, and by association the CDDCs, in the current global financial crisis. **This argues for the reform of the CFC not its demise.**”*

In the 18<sup>th</sup> Annual Meeting of CFC and ICBs, held in April 201, on the issue of merger of the CFC with other International Organisation the following was noted :

*“particular attention was given to the proposal to merge the CFC with one of the larger international organizations, e.g. UNCTAD or the FAO. The meeting noted and largely appreciated the view of the Consultants pointing out that there were significant reasons to maintain CFC autonomy as a matter of maintaining its commitment to provide financing for commodity projects. In view of political pressures ever present in organizations a with more general mandate, merging the CFC in their structure presented a significant risk of losing that exclusive commodity financing capacity. It was further pointed out that in view of the need to maintain and strengthen the global capacity for commodity project financing, the possibility of incorporating commodity departments of other development institutions concerned with project financing into the CFC should be seriously pursued;”*

The CFC is currently at a very critical point of its existence and needs support of all its partner organisations and their Members to chart its future course. The international community needs to be impressed upon for further continued support to commodities to realise their full potential for economic development of CDDCs. Member countries may like to develop internal policy coherence with respect to commodities so that a unified position is presented both at the meeting of ICBs where projects for support of CFC are endorsed and recommended and in the Governing bodies of the CFC where such financing is approved and commitments made for furthering international cooperation in commodity development.

**CONSEQUENCES OF DIFFERENT OPTIONS**

	<b>Option A</b>	<b>Option C</b>	<b>Option D</b>
Mandate of the Option	The reform of the CFC including possible amendments, or eventual re-negotiation of the Agreement.	Transformation of the CFC into a project management and fundraising	Reaching a collaboration agreement with an international organization
	<b>Likely Consequences</b>		
Continuation of financial support for commodity development measures	Possibility of the CFC to continue to support measures and actions for commodity development would be retained. The scale of support would depend upon the ability of the CFC to raise additional resources from other sources.	Practical measures and actions that require international consensus and support of both consumers and producers in the framework of ICBs that are supported by the CFC would not materialise. The CFC would primarily concentrate on executing projects of other organisations. The scale of support for commodity development measures would depend upon the ability of the CFC to raise additional resources from other sources.	Depending on the mandate of the hosting organisation some of the activities supported by the CFC would be continued.  Continuation of support at current levels would depend upon the ability of the hosting organisation to raise additional resources or divert resources from its current portfolio to commodity development.  This option does not, however, reconcile the problem of access to funds to finance operations and would require extra-budgetary resources, once again placing demands on donors.
Commodity Focus	Under reformed CFC, the commodity focus would continue	It would certainly lead to a dilution of the commodity focus, and risks becoming just another duplicatory arm of development.	It would certainly lead to a dilution of the commodity focus, and risks becoming just another duplicatory arm of development. It also raises the issue of which organisation would be suited to hosting the CFC given its characteristics and as a funding agency.
Relationship with ICBs	Its distinct role in focusing on commodity issues and ties with the ICBs gives the CFC a continuing relevant mandate in the international architecture of development. This relationship would be continued.	This relationship could be continued but on a modest level.	This would depend on the on the nature of arrangement entered into. The relationship is likely to be diluted.

Financial Resources	The current resources available (anticipated to be about USD 20 million as on 1.1.2013) would be utilised for the benefit of commodity development. Depending on fresh resources made available by Members and raised from other resources	Very limited resources would be available for supporting commodity development. Availability of additional resources would depend upon the ability of the CFC to raise additional resources from other sources.	The availability of resources would depend upon the ability of the hosting organisation to raise additional resources or divert resources from its current portfolio for commodity development.
Commodity Expertise	Retained and built upon.	Severely reduced as the focus would be on project management and fund raising.	Severely reduced
Knowledge sharing and dissemination of project results.	Retained and built upon.	Severely reduced within a distinct possibility of losing knowledge base of the CFC.	Severely reduced within a distinct possibility of losing knowledge base of the CFC.
Advocacy of commodity issues			
Ongoing projects (It is expected that as on 1.1.2013, about 60 projects with undisbursed amount of USD 88 million would be at various stages of implementation. For these projects the CFC has entered into financial and administrative obligations with the Project Executing Agencies (PEAs) and ICBs. The PEAs, in turn, have entered into binding obligations with the Collaborating institutions and the national counterparts as the case maybe. These obligations have to be fulfilled and the expected development outputs of the projects realized. )	Under reformed CFC, these development outcomes can be realised.	Arrangements for completion of projects would need to be made. Under the project management functions focus on completion of these ongoing projects would be diluted.	Arrangements for completion of projects would need to be made.