



COMMON FUND FOR COMMODITIES (CFC)

**Statement by
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Managing Director**

3rd WORLD COFFEE CONFERENCE

Opening Ceremony

Guatemala City, 26 February 2010

*Mr. Chairman,
Excellencies,
Distinguished Delegates,
Ladies and Gentlemen*

May I begin by joining previous speakers in welcoming you all to this important World Coffee Conference and thanking the Government of Guatemala and The Guatemalan National Coffee Association (ANACAFE) for hosting this august Conference. I would also like to express my deep appreciation for the kind hospitality extended to me and my delegation.

This Conference could not have been hosted at a more opportune moment especially for the Common Fund because consultations involving Member countries and other stakeholders on the future role and strategy of the Common Fund are currently underway and the outcome of these consultations will impact on how the CFC will in future intervene in the coffee sector and other commodities. We all know how critical incomes derived from production and trade of commodities is for a large proportion of rural populations in developing countries and for the revenues and foreign exchange earnings of the Governments of those countries. We are also aware that although coffee has transformed itself into a global commodity, coffee remains essentially a commodity connected with poverty mainly because it is grown or harvested by poor small-holder farmers or in poor rural areas which have not yet benefited from the global coffee industry.

Mr. Chairman,

As you may be aware, the Common Fund for Commodities was conceived and created with the objective of improving the terms of trade of commodity dependent developing countries (CDDCs) and in order to assist developing countries towards expanding and diversifying their trade, improving and diversifying their productive capacity, their productivity and increasing their export earnings through commodity development measures mainly implemented by providing project financing in the form of grants, concessional loans and technical assistance.

There is no doubt that coffee plays a central role in the economies of many developing countries and the Common Fund is cognisant of this fact and it is for this reason that coffee remains the leading commodity benefiting from CFC assistance among the more than 32 commodities which receive CFC financing. Over the last 20 years, the Common Fund has financed 32 projects on coffee development (22 regular and 10 Fast Track projects) with a total cost of USD 93.5 million of which CFC has provided USD 51.1 million and of which USD 40.3 million in the form of grant and USD 10.8 million as concessional loan. The measures and actions supported by the Common Fund in the coffee sector cover interventions such as production and productivity improvement, value addition, finding new markets, introducing new trading systems, improving access to finance through structured trade finance and piloting innovative credit schemes.

The financial commitment of the Common Fund in the coffee sector is testament to the importance the Common Fund attaches to coffee in the development process especially with regard to the attainment of the Millennium Development Goals (MDGs). CFC intervention in the coffee sector is greatly facilitated by the excellent working relationship and collaboration with the International Coffee Organization (ICO) and I would like to personally thank Dr. Osorio and his colleagues in the Secretariat for this productive mutual co-operation. As indicated in the program, soon after the opening ceremony, we will witness the signature of the Project Agreement of yet another Common Fund-financed project in the coffee sector with our coffee partners ICO and ANACAFE. The project “*Competitive Coffee Enterprises Program in Guatemala and Jamaica*” with a cost of USD 4.8 million, and co-financing provided by Oikocredit, will aim at improving the competitiveness of small coffee producers in selected regions of the two countries and the project implementation will be supported by the Rural Development Bank of Guatemala (Banrural).

Mr. Chairman,

The Common Fund was established at a time when there was strong realization of the need to stabilize the income of commodity producers and producing countries. It is important to take note that at that time the financial markets for commodity derivatives were not as big and as sophisticated as they are today. The thinking at that time was that we could control or manage price movements through buffer stocking which meant buying and holding surplus stocks and releasing the commodity at the appropriate time when market conditions had improved. We now all know that given the sophisticated commodity markets the prices are now set by a number of other factors such as commodity derivatives markets or other underlying causes such as climate change. In other words, the fundamentals of production and market conditions are no longer the only factors which determine the commodity prices and other variables play a key role.

Price volatility has remained as a major feature in commodity markets in general and in the coffee sector in particular. This issue remains of great concern for the Common Fund because of many reasons, one of them being the fact that the effects of price volatility are not distributed evenly across all market participants. Instead, the weakest market participants absorb most of the costs. The socioeconomic consequences of these effects depend on many factors, including access to credit, availability of capital, alternative sources of income, etc. Given the obvious disadvantages of poor Commodity Dependent Developing Countries (CDDCs) in this respect, we note that the adverse effects of commodity price volatility fall disproportionately on the poorest market participants; thus adversely affecting CDDCs, and particularly Least Developed Countries (LDCs) among them.

Mr. Chairman,

Given the foregoing background, it is clear that the international community is faced with a major challenge needing innovative initiatives to manage the coffee sector in the current international market economy. Let me now address some of the major key intervention areas pertaining to the commodity sector, with special reference to coffee.

Commodity Development Measures

The first line of defense for a farmer is to become an efficient producer. In this case efficient production means maximum output at least cost per unit of land. This will help farmers because they will have larger profit margin to protect them from small price fluctuations. In order for farmers to achieve this they need support in coffee research, production and processing technologies, post-harvest handling; access to finance for both capital assets and working capital.

The Common Fund has already been supporting the coffee sector in this area. Just to give you examples of Common Fund-financed interventions in which further collaboration could lead to upscaling are project on **pest and disease control** such as coffee wilt disease; leaf rust; stem borer; and berry borer. The results of these projects have added to the body of knowledge and have lead to the reduction of crop losses in a number of coffee producing countries across the globe. Also, the CFC has financed a number of **quality improvement projects**. Just to name a few examples we financed the *Prevention of Mould Formation* which had produced a code which has now been adopted as the standard by CODEX; we have also financed quality improvement projects in Ethiopia and Rwanda which introduced water efficient coffee processing equipment. In the area of coffee **rehabilitation**, the Common Fund has assisted countries affected by natural disasters or wars to rebuild their coffee production capacity and also introduced new processing technologies; Angola, Nicaragua and Honduras are some of the countries which have benefited from these interventions.

One area of growing intervention has been the development of **niche marketing for specialty coffee** of which we have financed a number of gourmet coffee marketing programs including the now renowned “Coffee Cup of Excellency” At the moment we have projects on gourmet coffee in Central America, gourmet robusta coffee in West Africa and Coffee certification and verification in Eastern and Southern Africa. These have been very successful initiatives and again possible upscaling of successful interventions would be possible.

Recently the Common Fund has devoted more attention to the **development of financial products** and in this respect the Common Fund has introduced and helped to set up frameworks for rural credit management systems, warehouse receipt systems and collateral management for trade finance. The Common Fund will soon start working with Robobank, a major agricultural bank in the Netherlands, to design and pilot a Credit Guarantee Scheme. If the Credit Guarantee Scheme is successful it could lead to the unlocking of local liquidity from domestic banks for on-lending to the commodity production and processing sector.

Value Addition

The transformation of products from primary commodities into secondary or finished products remains of vital importance to allow farmers to effectively participate in the commodity chain and capture more earnings. Strategies in this area should contemplate assisting regions with a high concentration of marginal coffee producers to diversify into other commodities. This is particularly important in the case of coffee farmers unable to differentiate their products or compete on price. In this context, farmers could also be assisted to diversify their coffee

production by adding value, such as roasting and grinding, to capture a higher market premium on their product. Of course, at a global level issues such as tariff peaks and escalations would need to be tackled through the negotiation process in the framework of the World Trade Organization (WTO).

We are convinced that countries which process and market their products with higher value addition not only stimulate growth in other sectors of their economy but also improve their earning capacity, ultimately also resulting in acquisition of new skills, new technologies and upgrading of basic infrastructure for industrial capacity.

Price Risk Management

While efforts have been made to try to introduce price risk management tools to commodity producers, this type of intervention has not yet proven to be successful in addressing the long-lasting issue of price volatility. In fact, the approach used so far has left a lot to be desired because the starting point was how the producers could fit into the frame of commodity derivative markets instead of developing a comprehensive instrument which could be suitable to commodity producers especially small-farmers.

The Common Fund has been part of the efforts to implement and build price risk managements schemes including in the coffee sector in Eastern Africa. In this area the Common Fund would like to lead the way to invite all stakeholders to design a new instrument which allocates risk fairly and to those who take the risk. The design of the instrument should start from the producer and should seek to protect the producer and not seek to protect the financial market ahead of producers. Thus we need to adjust the existing instruments or design new instruments or change the trading framework. We also feel that it is important to go beyond the pure operational aspects of setting up price risk management mechanism and we need at the same time to address regulatory and institutional aspects that could facilitate the implementation of such mechanisms.

Mr. Chairman

As I conclude, I would like to point out that good management of the commodity sector will lead to stability within and among countries in the world. Last year the Common Fund has celebrated 20 years of existence and we have remained a key partner in coffee development. I hope this Conference will serve as a platform to look ahead and point to directions in which the Common Fund could contribute to the emerging debate towards a sustainable coffee sector. The time for such discussion is appropriate as our Governing Bodies are now undertaking consultations on the future role and mandate of the Common Fund as I have already indicated at the beginning of the statement. This Conference could pave the way for the adoption of win-win strategies bringing together the various players in the coffee field, including the Common Fund, with the ultimate objective of making coffee become an important instrument in the fight against poverty and the attainment of the Millennium Development Goals (MDGs).

I thank you for your attention.