



INTERNATIONAL COFFEE ORGANIZATION  
ORGANIZACIÓN INTERNACIONAL DEL CAFÉ  
ORGANIZAÇÃO INTERNACIONAL DO CAFÉ  
ORGANISATION INTERNATIONALE DU CAFÉ

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**Restructuring of the  
Common Fund for Commodities**

### **Background**

The representative of the Common Fund for Commodities (CFC), Mr Parvinder Singh, Chief, Policy, Programme Management and Evaluation, made a presentation to the 107<sup>th</sup> Session of the Council on the restructuring of the CFC, a copy of which is attached together with background information.



**The Common Fund for Commodities  
and  
The International Coffee Organization**

**Partners in Coffee Development**



**COMMON FUND FOR COMMODITIES**

- Inter-governmental development financial institution  
Members : 105 countries and 10 regional Inter-Governmental Organisations
- Main Functions – financing measures aimed at mitigating the vulnerability of commodity producers
- Approach – address vulnerability of the poor, i.e. (a) exposure to volatility, and (b) capacity to cope. Practical measures include diversification, value addition, market expansion, risk management etc.
- Projects structured around global commodity value chains, instead of “traditional” IFI country focus
- A shared financing facility of ICBs

**Distinctive features of the CFC’s activities**

- it has an exclusive focus on commodities;
- its projects are:
  - mainly Aid for Trade (AFT);
  - identified and implemented without formal governmental involvement,
  - are proposed, prioritised, formulated and supervised by an ICB,
  - normally involve co-financing and / or counterpart contribution (in cash and/or kind) by any entity with a direct interest in the project (*inter alia* to foster ‘ownership’ and ‘sustainability’);

**Distinctive features of the CFC’s activities**

- it aims systematically to cover *all* commodities that are of importance to least developed countries (LDCs) and to poorer groups within other developing countries.

### Relationship with International Commodity Bodies

- CFC works in close collaboration with 25 designated International Commodity Bodies (ICBs)
- ICBs are inter-governmental agencies comprising producing and & consuming countries
- Collaboration ensures balanced approach in the interest of producers and consumers of the commodity concerned
- ICBs provide technical supervision of projects
- ICB for coffee is the International Coffee Organisation (ICO)

### CFC: Project Facts



- Financed 320 projects
- Total cost ~USD 593 million, of which CFC funding of USD 302 million
- Coffee— 34 Projects, USD 102.1 million of which USD 54.9 million from CFC
- The CFC Secretariat in collaboration with ICBs carries out
  - Identification
  - Screening
  - Formulation
  - Appraisal of projects, and
  - Assembling a coalition of co-financiers

### CFC Projects: Typical Features

- Small pilot projects: probing for effective way to reduce vulnerability, test a large number of approaches, and mobilise resources to scale up what works
- Endorsed by International Commodity Bodies e.g. International Coffee Organisation
- Project Executing Agency – International organisation, Government, NGOs, etc.
- Financing: (1) CFC Funds; and(2) at least 50% of the project cost as Co-financing / counterpart contribution
- Both loans and grants possible; depends on project needs

### Feasible Areas of Interventions

- Improving the competitiveness of commodities and enhancing the cost effectiveness of commodity production;
- Expansion of processing of primary products with a view to assisting in moving up the value addition chain;
- Diversification: horizontal, vertical and geographical diversification of production with a view to increasing the export earnings of developing countries and/or reducing the dependency on a few commodities;

### Feasible Areas of Interventions

- Commodity-chain development to increase income; improving access to markets; support for transparent and competitive markets;
- Access to improved agricultural technologies; imparting innovative technologies, good agricultural and manufacturing practices (GAPs, GMPs);
- Introduction of measures to minimize the physical marketing and trading risks; risk management; commodity finance.

### Future Role and Mandate - Revisited

- 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 beyond 2013 in a sustainable manner, and
- a need to align the capacity of the organization to make it financially sustainable.

### Future Role and Mandate of the CFC and its Long-term Financial Sustainability

- The Governing Bodies of the Fund are discussing the future role and mandate of the Common Fund for Commodities (CFC) and its long-term financial sustainability since 2009
- It is expected that decision would be taken by Member States in December 2012.

### Options being considered



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

### **Assumptions of Proposals**

- No additional financial contributions, beyond those already committed as voluntary contributions from Member Countries within the framework of CFC, may be expected.
- The capital the CFC should be preserved.
- Resources for future projects to be raised from other sources, e.g. international financial institutions, private sector, foundations etc.

### **AGREED CONCLUSIONS OF THE WORKING GROUP OF THE EXECUTIVE BOARD AFTER CONSIDERING DIFFERENT OPTIONS**

#### **THE PRINCIPLES OF AGREEMENT**

- Build upon the identity and expertise of the CFC
- The necessity to improve its governance, efficiency, accountability and effectiveness.
- Pursue reform based on elements contained in Options A and C and to further elaborate on Option D in order to properly examine it.

### **AGREED CONCLUSIONS OF THE WORKING GROUP OF THE EXECUTIVE BOARD AFTER CONSIDERING DIFFERENT OPTIONS**

#### **THE RATIONALE FOR REFORM**

- The Working Group agreed that Members shall reform the CFC to face its current challenges
- The reform should lead to an effective, efficient, transparent and visible CFC, within the limits of approved budget.
- The CFC should deliver high impact results through its commodity based interventions.

### **AGREED CONCLUSIONS OF THE WORKING GROUP OF THE EXECUTIVE BOARD AFTER CONSIDERING DIFFERENT OPTIONS**

The reform should be guided, *inter alia*, by:

- (i) preservation of identity and expertise of the CFC,
- (ii) streamlining of the working of the CFC including its governing structure,
- (iii) focussed 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.

**IMPLEMENTATION PLAN FOR REFORM: REFORM COMMITTEE**

- Member led. Establishment of an open-ended Committee of Member States to elaborate the details of reform and recommend time table for its implementation.
- The proposed Committee would make an interim report at the Executive Board in April 2012 and its final 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 2012.

**CONSEQUENCES OF DIFFERENT OPTIONS**

- Continuation of financial support for commodity development measures
- Commodity Focus
- Relationship with ICBs
- Financial Resources
- Knowledge sharing and dissemination of project results
- Advocacy of commodity issues
- Ongoing projects and projects in pipeline

**CFC AT CROSSROADS**

- Reformed CFC to better fulfill its Mandate
- Further need for continued support to commodities to realise their full potential for economic development of CDDCs
- 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.

**ADDITIONAL INFORMATION ON CFC**



Please visit our website

**[www.common-fund.org](http://www.common-fund.org)**

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## 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.

**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.

### **Future Role and Mandate of the CFC and its Long-term Financial Sustainability**

The Governing Bodies of the Fund are discussing the future role and mandate of the Common Fund for Commodities (CFC) and its long-term financial sustainability. The discussions have been going on for some time 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.

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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.

### **Options being considered**

After deliberations, the Working Group decided to further explore the following options:

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

The proposals for consideration of different scenarios are to be developed keeping the following in view:

- (i) No additional financial contributions, beyond those already committed as voluntary contributions from Member Countries within the framework of CFC, may be expected.
- (ii) The capital the CFC should be preserved.
- (iii) Resources for future projects to be raised from other sources, e.g. international financial institutions, private sector, foundations etc.

### **Meeting of the Executive Board in September 2011**

The Ad hoc Working Group of the Executive Board considered and discussed options A, B, C and D for the future role and mandate of the Common Fund for Commodities, and consulted with representatives of UNIDO and UNCTAD on their proposals under Option D. The 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 rationale for reform

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

- the changed context since its establishment,



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- 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.

The Members agreed that reform should lead to an effective, efficient, transparent and visible CFC, within the limits of approved budget. The CFC should deliver high impact results through its commodity based interventions.

The reform should be guided, *inter alia*, by:

- (i) preservation of identity and expertise of the CFC,
- (ii) streamlining of the working of the CFC including its governing structure,
- (iii) focussed 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.

### Implementation plan for reform: reform committee

The reform is being driven by the Member States and for this purpose an open-ended Committee of Member States is to be established. This Committee would elaborate the details of reform and recommend time table for its implementation. This Committee would make an interim report at the Executive Board in April 2012 and its final recommendations not later than the 1<sup>st</sup> of July 2012 in order to submit them for action to the Governing Council in 2012.

### **Consequences of the Options**

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 would 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

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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**

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.

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## CONSEQUENCES OF DIFFERENT OPTIONS

	Option A and C	Option D
Mandate of the Option	The reform of the CFC including possible amendments, or eventual re-negotiation of the Agreement.	Reaching a collaboration agreement with an international organization
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.	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.
Commodity Focus	Under reformed CFC, the commodity focus would continue	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. 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 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 24 million as on 1.1.2013) would be utilised for the benefit of 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
Knowledge sharing and dissemination of project results.	Retained and built upon.	Severely reduced within a distinct possibility of losing knowledge base of the CFC.
Advocacy of commodity issues	Likely to be diluted	Uncertain
Ongoing projects	Under reformed CFC, these development outcomes can be realised.	Arrangements for completion of projects would need to be made.