HOW PRODUCING COUNTRIES CAN ENGAGE EFFECTIVELY WITH FINANCIAL MULTILATERAL INSTITUTIONS AND DONORS, AND ENSURE THAT FINANCING FROM THOSE ORGANISATIONS MEETS THE NEEDS OF PRODUCERS

Common Fund for Commodities - Partner in Coffee Development

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COMMON FUND FOR COMMODITIES

- Inter-governmental development financial institution Members : 103 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 commodity value chains

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CFC: Project Facts

- Financed over 370 projects
- Total cost ~USD 751 million,
  of which CFC funding of USD 307 million
- Coffee – 38 Projects, USD 106.8 million of which USD 56.8 million from CFC

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
- Proposals obtained through open call including through ICBs
- Project Partners – International organisations, Government, private sector, producer organisations, NGOs, etc.
- Financing: (1) CFC Funds, and (2) at least 50% of the project cost as Co-financing / counterpart contribution of which 50% in cash
- Financing Instruments : flexible depending on project needs

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CFC interventions use value chain approach as guiding principle

- A tool to analyse sustainable economic development
- Identifying chain actors
- 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*

CFC Vision

Contribute to social and economic growth, access to food and international and regional markets for Developing Countries through sustainable value addition to commodities and related value chains in a transparent manner.

Mission:

Be a leading partner in operationalized activities for commodities in Developing Countries

Type of CFC's projects

- innovative and target new opportunities in commodity markets leading to commodity based growth, employment generation, increase in household incomes, reduction in poverty, and enhancement of food security,
- scalable, replicable and financially sustainable,
- have a potential measurable positive socio-economic and environmental impact on the stakeholders in commodity value chains as compared to the prevailing baseline situation,
- develop stronger connections with existing markets or create new markets along the value chain,

Type of Projects – contd.

- increase financial or other services to commodity producers and commodity based businesses,
- enhance knowledge generation and information dissemination, and
- build effective and cost efficient collaboration between producers, industry, governments, civil society organisations and other stakeholders for commodity based development.
- Financial sustainability is demonstrated by obtaining commercial financing (equity or debt) and being current on all repayments.

CFC’s Areas of Support

Commodity based activities along the entire commodity value chain. Specifically targeted areas are:

- Production, productivity and quality improvements
- Processing and value addition
- Product differentiation
- Diversification
- Marketing
- Technology transfer and up gradation
- Facilitation of trade finance
- Risk Management

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Partner Institutions

Public and private institutions, bilateral and multi-lateral development institutions, cooperatives, producer organisations, small and medium enterprises, processing and trading companies, and local financial institutions that:

- operate in commodity value chains or provide financial services to small business operators, SMEs, cooperatives, producer organisations,
- have a proven track record in the proposed activities,
- have the ability to invest in the value chain to reduce transaction costs or increase revenues of producers / processors / storage / marketing,

Partner Institutions

- have a clear plan focusing on developing and/or diversifying their production / services,
- have a clear plan to expand their markets at local, national, regional and international level,
- have the technical, managerial and financial capacity to effectively and efficiently implement its activities,
- include social-, economic- and environmental aspects in their work programmes,

Partner Institutions

- share CFC’s values, including internationally recognized principles concerning human rights, labour, the environment and anti-corruption as reflected in the United Nations Global Compact, and
- can use CFC funding to extend their core activities in ways that create additional opportunities for commodities and the stakeholders in the commodity value chains.

Selection Criteria

Specifically each 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

Taxonomy of development assistance

TDA	NTDA	Other flows
• Traditional bilateral cooperation • Traditional multilateral cooperation	• • Non-DAC flows • Philanthropic and institutional giving • Social impact investment • Global vertical funds • Public climate finance	• Domestic resource mobilization • Export credits • DFIs (excluding those covered in OOFs) • Private remittances • FDI • Other private flows

Source: ODI, *The age of choice: developing countries in the new aid landscape, 2013.*

New donors: emerging market economies (EMEs)

New actors: private philanthropy and vertical funds

- New landscape has evolved to include a number of foundations and non-governmental organisations.
- Emergence of Impact Investment funds
- New development partners are breaking out of the mold of traditional ODA financing, promoting their own economic and strategic interests, while at least partially meeting needs not addressed by traditional donors.

What are we looking at today – Financing Coffee meeting needs of Producer Institutions

- post-harvest finance; available when goods are at a secure place, attendant risks are low. Warehouse receipts etc.)
- pre-harvest finance ; crop loan for pesticides, fertiliser etc. Depends on how value chain is structured. If harvesting, sale follows a predictable path, possible. If erratic and liable to change, risks increase
- long term patient capital to start new plantations or to rejuvenate old ones
- Coffee processing and Trade

Difficulties in Accessing Finance

- Each comes with its own baggage. Last mile is a problem in most situations. Banks – outreach and cost, MFIs – too small, too few. SACCOS could be an answer.
- Why is finance not available for Coffee while it is available for rubber, sugar, cotton etc. Is there a shortage of capital or is it production and marketing structures that prevent it? What pre-conditions must exist or what confidence building measures need to be put in place to obtain it.

Difficulties in Accessing Finance

- Providing finance is a question of availability and affordability. There are many hurdles - From producers (lack of titles, dispersed production, lack of history, collateral) to infrastructure and capacity of financial institutions to deal with small loans.

Flow of Resources

- Finance will go where it is needed and safely, securely, predictability, provide desired returns. Coffee sector is competing with other for finance. It needs to make itself more attractive to investors.
- 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 coffee processors, are in it in for a long haul. Service providers can move to other areas. Be it transporters, warehouses, financiers, traders etc.

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What can be done

- use of ICT for creating databases, recording history, providing financial services, tracking and tracing produce
- contract farming, out grower schemes
- strengthening cooperatives. Credible with democratic governance and professional management, they need to also be capitalised.. No political interference.
- Coffee bonds yes. Possible if right conditions exist : title, leasing, legal framework to appropriate incremental earnings, BOT and back.
- Sustainability Fund – will need angel investors, donors. Appetite from development partners is generally low, small amounts may come by.
- FDI – Internal Policy determine it

What can be done:

- providing assurances and sharing risks. Governments can do a lot. They benefit a lot from it – taxes, FE? They can share risks and provide guarantee capital.
- Collateral based lending. Is it what banks want? What will they do with land they will get in case of default. They must move to cash based lending, may be group lending, and be flexible.

What matters: Precise targeting of interventions against constraints

Production	Marketing	Capacity and Capability	Financing
small and scattered farm units	transportation	human and institutional	inappropriate funding mechanisms
risk management	storage packaging and branding	organisational support and development	reluctance of commercial banks to finance agriculture
quality	grades and standards	technical and managerial expertise	lack of favourable policy for agricultural financing
consistency of supply		advocacy skills	lack of venture capital
access to correct inputs			
support services			
planning and information services			

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Thank you for your attention

www.common-fund.org