



## Common Fund for Commodities

Workshop on the Potential for Diversification in Coffee Exporting Countries

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## Membership of the Common Fund for Commodities

- CFC is an autonomous inter-governmental development financial institution established within the framework of the United Nations.
- It is a partnership of 106 member States and three intergovernmental institutions.

## What are the main objectives of the Common Fund?

- To improve the opportunities and prospects of commodity producers by financing the following measures.
- Financing Commodity development projects which improve the functioning of supply chain including value addition, productivity improvement, diversification and improvement of trading systems.
- To act as a catalyst in mobilizing trade and investment resources into the commodity sector.
- Advocacy for Producers and Traders of Commodities in major international forums.

## Reasons for Diversification – Why diversify?

- To increase or stabilize income for the Producers
- Regulatory threats to the market for the commodity e.g. Tobacco and coca farmers
- Price decline of the commodity due to over-supply or cheaper alternatives. – Coffee is a good example.
- Climatic Changes – Change in the rainfall patterns
- Investment in Infrastructure could increase the value and quality of the land therefore High Value Agricultural Products will be required for a satisfactory return on capital invested.

## What are diversification options available to producers?

- Horizontal diversification to other higher value agricultural products but in the same section of the value chain.
- Horizontal diversification into non-agriculture related business.
- Vertical Diversification – venturing into processing and distribution of the final products.
- Vertical Diversification – Producers investing in the processing, transportation, marketing and distribution companies. Coffee producers buying shares in Roasting Companies and Supermarket Chains.

### What are the limitation of Horizontal Diversification?

- Farmers are affected with what happen at every stage of the chain and the effect is reflected in the price they receive. A chain is as strong as its weakest link.
- Human Resources – Skills and brains are required to work out the diversifications strategy and skill to implement that strategy. Successful sector have attracted the best brains.
- Aids – AIDS has killed more than 50% of Agricultural Extension and Research Officer in Southern Africa with a degree/diploma level training.
- Markets for Alternative crops usually not developed.

### What are the limitation of Horizontal Diversification? (Continued)

- Breakeven Volumes and Value – Farmers not organized to produce the economical volume and value.
- Social and Political Environment – Farmers being serious affected by external effects like sanctions on the country. "Sanctions are genocide against poor people – Development Institutions have a responsibility to advise politicians against the use of this horrible instrument."
- Access to Finance – Development and Working Capital
- Agricultural Development Polices – An integrated agricultural Production system with support services.
- Land Tenure Systems – Farmers do not have title documents to their land hence they cannot borrow.
- Management Skills – Managerial capacity for diversification.

### What are the limitations of vertical diversification?

- Vertical diversification implies farmers moving away from their area of competency as farmers to areas of business where they do not have experience. (A good farmers is not necessarily a good trader)
- Vertical diversification requires skills not found in the farmers.
- It requires a huge investment into business of which the farmers have not experience.
- Vertical diversification is certainly good for the economy but not necessarily for the farmers.

### Investing into Vertically integrated Companies by Producers

- Farmers can invest in the processing, transportation and distribution companies.
- Farmers can remain in their core business of farming but still earn additional returns from dividends in the processing companies.
- Farmers will have a seat on the board and will ensure their products get preferential treatment and are produced based on the demand requirements.

### What is the Way Forward?

- NRI has provided you the tools to help you plan your diversification.
- The Common Fund is prepared to carry out a number of pilots which are properly planned.
- We would like to have your views and experiences so that the same can be taken into consideration when preparing pilot projects.
- More strategic thinking is required before projects are designed and submitted. The projected results must be considered in the national and regional context where possible.