

C.F.C. Common Fund for Commodities

Hirsch S.

in

D'Onghia A.M. (ed.), Menini U. (ed.), Martelli G.P. (ed.).
Improvement of the citrus sector by the setting up of the common conservation strategies for the free exchange of healthy citrus genetic resources

Bari : CIHEAM

Options Méditerranéennes : Série B. Etudes et Recherches; n. 33

2001

pages 75-83

Article available on line / Article disponible en ligne à l'adresse :

<http://om.ciheam.org/article.php?IDPDF=2001696>

To cite this article / Pour citer cet article

Hirsch S. **C.F.C. Common Fund for Commodities**. In : D'Onghia A.M. (ed.), Menini U. (ed.), Martelli G.P. (ed.). *Improvement of the citrus sector by the setting up of the common conservation strategies for the free exchange of healthy citrus genetic resources*. Bari : CIHEAM, 2001. p. 75-83 (Options Méditerranéennes : Série B. Etudes et Recherches; n. 33)



<http://www.ciheam.org/>
<http://om.ciheam.org/>

C.F.C

Common Fund for Commodities

S. Hirsch
Associate Project Manager
Operation Department

It is a great honour for the Common Fund for Commodities to attend the Joint Meeting of the Mediterranean Network on Certification of Citrus and the Mediterranean Citrus Network. May I convey to you the best wishes of the Managing Director of the Common Fund for Commodities, Dr. Rolf Boehnke, for a successful meeting.

Mr. Chairman,

Please allow me to provide a brief overview on the Common Fund for Commodities and its project work.

The Common Fund for Commodities

Intergovernmental financial institution

104 member countries, EC, OAU/AEC, COMESA

Commodity focus

The CFC is an autonomous intergovernmental financial institution.

The Agreement Establishing the Common Fund for Commodities was negotiated at the United Nations Conference on Trade and Development (UNCTAD) in the 1970s, concluded in 1980 and came into force in 1989.

Currently, the Common Fund has 104 Member Countries plus the European Community, the Organization of African Unity/African Economic Community (OAU/AEC) and the Common Market for Eastern and Southern Africa (COMESA). From 1989 to 1991 a small Secretariat was built up. In 1991 the Executive Board approved the first commodity development project.

The Common Fund operates under the novel approach of commodity focus instead of the traditional country focus. Commodity focus means to concentrate on the more general problems of particular commodities. In this

way, many countries benefit from the projects financed by the Common Fund. The rationale behind the Common Fund's projects is to enhance the socio-economic development of commodity producers and contribute to the development of the society as a whole.

The Five-Year Action Plan 1998-2002 of the Common Fund directs the activities of the Fund to commodities of interest to the Least Developed Countries and commodities with development potential. Projects will focus mainly on the poorer strata of the population, on smallholders as well as small- and medium-sized enterprises involved in commodity production, processing and trade in Developing Countries and Countries in Transition.

Commodity Focus To alleviate poverty through development, focussing on commodities in countries which are highly dependent on the commodities concerned.

Projects which focus on specific commodity problems or opportunities, cutting across national boundaries.

Most developmental institutions lend their support to national projects, but usually without reference to the implications of such projects on global markets for the commodities concerned. Promoting equilibrium between supply and demand with a view to sustaining real income from commodity production is an important consideration for the Common Fund. Indeed, with the establishment of the Common Fund, a novel approach to development has been launched, namely the commodity focus, as mentioned above. The Fund designs, implements, monitors and evaluates projects which focus on specific commodity problems or opportunities, cutting across national boundaries. The projects of the Common Fund are thus viewed primarily from the perspective of the situation and outlook of a particular commodity. Valuable experience in applying this perspective has been gained over the CFC's ten years of operation.

The commodity focus of the Fund makes sense in economic terms by recognising that there are many commonalities among commodity problems of different countries. General solutions for such problems are sought which are replicable. Therefore, each dollar spent on a Common Fund project usually has large multiplier effects. These projects have wider impact and cross-border significance, addressing multi-country strategic commodity issues.

The Common Fund has developed a particular advantage in small- to medium-sized projects which are suited for demonstrative and replicable

measures for: transferring technology, promoting investment in new end-use areas, introducing new products and disseminating research and development findings. Small- and medium-sized projects, such as those supported by the Common Fund, are well suited to the absorption capacity of LDCs.

Until 26 October 2001, the Fund has approved 102 regular projects plus a further 31 Fast Track projects with an overall cost of USD 306 million, of which the Fund financed USD 148.3 million. This comprises USD 121.9 million in grant and USD 26.4 million in loan (Fig. 1). The high co-financing ratio of about 52% is evidence of the catalytic role the Common Fund plays in attracting resources from other institutions for the Fund's commodity development projects. The projects cover 33 commodities, of which 31 are agricultural and two are mineral. The average size of a CFC-financed project is USD 3 million. Until the end of the year 2000, 24 projects have been completed. More are being completed this year.

CFC-funded projects can be classified into three broad categories, namely (a) pre-harvest productivity improvement (incl. research); (b) post-harvest processing, marketing and quality testing; and (c) market expansion projects. The figure 2 illustrates the breakdown of CFC-financed projects by type of project. In line with its market-oriented approach, the Fund concentrates on commodity development projects financed from its resources (capital subscription by member countries transferred to the Second Account, voluntary contributions and interest earned). Through co-operation with other development institutions, the private sector and civil society, the Fund endeavours to achieve overall efficiency and impact in commodity development. To date, projects approved have operating sites in approximately 103 countries, of which approximately 90% are developing countries, including 28 LDCs. Of the Developing Countries which have CFC project sites, 45% are in Africa, 26% in Asia and 25% are in Latin America and the Caribbean, as shown in the slide. Ten industrialised countries, or 4% of the total, are presently involved in CFC-funded projects, mainly of the research type, facilitating transfer of technology and know-how or expansion of demand in these countries. This is reflected in the 'Others' category of the figure 1.

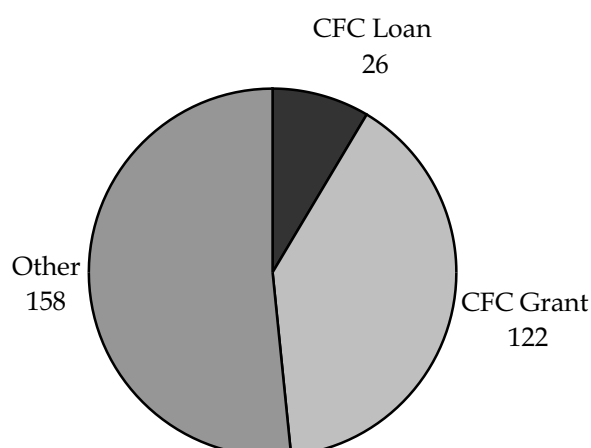


Fig. 1 CFC - Supported projects by source of Finance (values in USD millions)

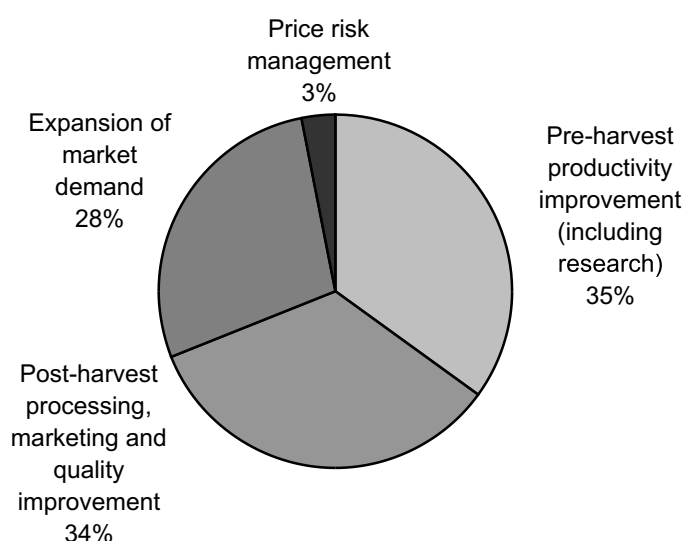


Fig. 2 CFC Supported projects by type

Most of the commodities covered by these projects, such as bananas, cocoa, coffee, groundnuts, jute, palm oil, rice, natural rubber, sisal, cane sugar and tea, are produced almost entirely in Developing Countries. Many of the world's poorest people depend on one or more of these commodities for their livelihood. Many Least Developed Countries derive most of their export earnings from them. CFC-funded projects are thus intended to make a sustainable difference to the world's poorest commodity producers. Projects aimed at improving the structural conditions in markets and at enhancing the long-term competitiveness and prospects of particular commodities include:

- research and development;
- productivity and quality improvements;
- transfer of technology; diversification and processing;
- improvement of marketing and market access.

Projects which assist Developing Countries and, in particular, the Least Developed Countries (LDCs) to function effectively in a liberalised global economy include:

- physical market development;
- enhancement of market infrastructure;
- facilitation of private sector initiatives;
- and commodity price risk management.

Several criteria for the appraisal and approval of projects are specified in the Agreement Establishing the Common Fund for Commodities while others reflect decisions of the Executive Board or Governing Council, or practice developed over previous years of experience.

Target Beneficiaries

Projects focus mainly on the poorest strata of the population; small producers-exporters, smallholders, as well as small- and medium-sized enterprises involved in commodity production, processing and trade in Developing Countries and countries in transition. The Least Developed Countries (LDCs) receive particular attention, both as a target group and with regard to location of projects. Projects will, therefore, generally aim to alleviate poverty, having also regard for gender issues.

Further points to observe are

projects shall pay due regard to sustainable development and its results should be sustainable and replicable;

projects shall concentrate on countries which are members of the Fund; co-financing from other sources and counterpart contributions increase the acceptability of a project;

in exceptional cases, nationally based projects can be considered if they are of interest to a number of countries and the results will be widely disseminated, if they are pilot projects or the nucleus of a multi-country project with a potential for further development and replication, or if they are concerned with vertical diversification;

the objectives of the project must be achievable within a specified period of time. The project preparation can be time-consuming and costly. It may be prudent to invest substantial time and effort only after the need for the project has been fully accepted in principle by the parties concerned.

In order to facilitate and expedite project formulation and reduce its cost, it is recommended to contact informally the Fund's Secretariat during the pre-formulation stage. Proponents of projects are encouraged to submit a brief project profile with a reasonably complete logical framework to the Managing Director of CFC for initial comment. The International Commodity Body (ICB), taking note of the comments and advice, can also submit the project logical framework and profile formally to the Fund for preliminary consideration by the Consultative Committee. In the light of feedback on the project profile, the ICB can proceed to presenting a full project proposal.

Project proposals can be formally submitted to the Managing Director of the Fund only by an ICB designated by the Common Fund. No other institution can formally submit projects.

The period which elapsed between the submission of a project profile to the Fund and the approval of the full project proposal by the Executive Board varies greatly, depending largely on the quality of the project preparation report submitted by the ICB. The period may vary from as little as six months in the case of a well-prepared project, to as much as 24 months if open questions are to be solved.

Currently, most of the Common Fund projects are grant-financed.

Taking into account the Fund's limited resources, loans are an additional means to pursue the Fund's catalytic role in using its own resources as seed money in the mobilisation of additional finance for commodity development from other institutions. The fact that loan repayments recycle the Fund's resources makes it possible to reach more beneficiaries and commodities. Grants and loans could often be mutually supportive, strengthening the impact of the Fund's measures. Loans may also provide a particular motivation for the borrower to achieve successful project completion and reach the project objectives.

The Five-Year Action Plan clarifies that "Grants will mainly be given to projects for commodities which are of importance to LDCs, to poorer groups within other Developing Countries and/or to support loan-financed projects". Common Fund lending should not substitute local sources of finance or stifle the private financial sector.

Loan Terms

Loan type	Interest rates ¹	Other charges to the borrower	Grace periods ³	Final maturities ⁴
Ordinary	Below commercial rate ² but above LIBOR	1% p.a. service charge 1% p.a. commitment fee	up to 2 years	up to 6 years
Intermediate concessionality	50% of that for "ordinary" loan	1% p.a. service charge 0.5% p.a. commitment fee	up to 3 years	up to 8 years
Highly concessional	interest free	1% p.a. service charge	up to 4 years	up to 10 years

1. In case the Common Fund for Commodities borrows money for its Second Account operations, interest rates will be based on the cost of borrowing to the CFC.
2. Commercial rate as applicable to the particular borrower in the Developing Country.
3. The grace period will take account of the time which elapses from the date of the first disbursement to the date at which the project is expected to generate income.
4. These periods include both the grace and the repayment period.

In the strict sense of the Agreement Establishing the Common Fund for Commodities, eligible borrowers are ICBs, agencies of ICBs and Member Countries, and loans may be covered by governmental or other suitable guarantees.

Whether the range of borrowers and guarantors can be extended is presently under discussion by the Executive Board and the Governing Council of the Common Fund for Commodities.

CFC Projects for the improvement of citrus fruit

To illustrate the activities of CFC in support of citrus fruits, I would like to briefly describe the following projects:

1. The objective of the project is to develop and test an "easy-to-use" and relatively cheap diagnostic kit for early detection of Citrus Tristeza Virus (CTV) and to disseminate related technology and techniques. A less expensive ELISA diagnostic kit was developed as an alternative to the initially envisaged immuno-fluorescence kit, which had proved to be too expensive for the purposes of the project. An additional advantage of the new kit is that it permits the virus to be identified, which is valuable for pest management in areas where complete eradication is

not viable. Successful laboratory tests were completed in 2000. Dissemination of the technique and project completion is expected for 2001. The Centro de Citricultura, in Faro, Portugal, in collaboration with Universidade do Algarve, is the Project Executing Agency. Prof. Nolasco can certainly provide you with all information concerning this project. Citrus production in the areas of the project's pilot intervention in China and Pilot dissemination in Bhutan and Indonesia has traditionally served as a cash crop and hence as an important vehicle for poverty alleviation. However, prices for the common citrus varieties, which constitute the major portion of output, have fallen recently and consumers are emphasising quality as opposed to price. Furthermore, smallholder producers have concentrated on low-grade breed of citrus fruit and are relatively uninformed about market trends and modern production techniques. The project develops a model for upgrading the citrus industry through meeting the added-value domestic demand, by introducing new citrus kinds and breeds and improving presentation to the consumer. In the Chinese pilot area, the project will:

- a) establish a nursery for improved citrus varieties;
- b) rehabilitate existing orchards in small farmer holdings across ten villages, including support for grafting, seed changing, felling old trees and replanting, soil and irrigation improvement;
- c) install a production line for fruit classification and preparation for marketing;
- d) establish a technical dissemination centre.

The Kaixian County Federation of Supply and Marketing Co-operatives is the Project Executing Agency. The project results will be initially disseminated to Indonesia and Bhutan for future implementation there. Project activities are expected to start in 2002.

3. The project aims at improving the production of citrus planting material so as to supply smallholders with a higher potential and healthy nursery trees for the normal replacement of old or unproductive trees. It will also promote the adoption and enforcement of mandatory certification programs, which are essential to limit the introduction and distribution of risk-prone planting or vegetative material. Coverage will be limited to selected production areas in four countries over three years, after which activities are intended to be extended to other countries in the Caribbean Basin and the Americas, although no longer under the project. Goals, attainable during the project period, are to increase the production of certified trees to 1,000,000 per year in Mexico,

900,000 per year in Cuba and 600,000 per year in Guatemala. Training and technical assistance extended to Trinidad and Tobago will permit the subsequent establishment of certification programs in that country, with benefits to the whole Southern Caribbean region.

Project components comprise

- a) Investment in commercial nurseries;
- b) Strengthening support services;
- c) Training and technical assistance.

The Food and Agriculture Organization of the United Nations (FAO) will be the Project Executing Agency, in collaboration with the Inter-American Citrus Network (IACNET). Project activities are expected to start in 2002.

The Common Fund has a track record of achievements to the benefit of countries for whom citrus fruits are an important source of income, employment and needed exports.

We all in the Common Fund look forward to continued co-operation with the International Commodity Bodies and other national and international institutions, for new joint achievements in that area. We stimulate all institutions active in the commodities to participate, bringing their project proposals to the International Commodity Bodies and the Common Fund.

Thank you.