COMMON FUND FOR COMMODITIES

MANUAL

FOR THE PREPARATION AND MANAGEMENT OF PROJECTS TO BE FINANCED BY THE COMMON FUND FOR COMMODITIES

5th Edition, 2nd Revision
Amsterdam, May 2004

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FOREWORD

The livelihoods of hundreds of millions of the world's poorest people in developing countries, and in particularly in the least developed countries, are heavily dependent on commodities. Commodities form the backbone of the economies and account for the bulk of the export earnings of these countries. The development of commodities is thus vitally important in the global struggle to alleviate poverty.

The Common Fund plays a catalytic role in poverty alleviation through commodity-focused development. The unique commodity focus of the Common Fund has the advantage of seeking more generally applicable solutions for commodity problems benefiting many countries. The Common Fund assists commodity producing developing countries, and countries with economies in transition, to meet the challenges of the global liberalised world economy and to participate in new opportunities. The Fund supports, *inter alia,* productivity enhancements, development of new end uses and commercial outlets for new products, improving marketing channels, diversification of production and commodity exports and the processing of commodities in the countries of origin. The Fund will continue to play its role in these areas, assessing interventions from a chain management perspective, while giving special attention to the least developed countries.

This Manual is intended to assist institutions and persons involved in conceptualising and formulating commodity projects for which financing is sought from the Common Fund. In the fifth edition of the Manual the focus set in the Five-Year Action Plan 2003 to 2007 has been incorporated and consequently the procedures for project submission as well as criteria for project appraisal and approval have been updated. The first revision contains an extended list of commodities which can be supported by the Common Fund, following the adoption of additional commodities by Intergovernmental Groups of the FAO. The second revision clarifies further in Section 6.5 which measures would not be financed by the Common Fund.

The Common Fund looks forward to a close collaboration with Member Countries, the International Commodity Bodies and other development partners in the strive to enhance the socio-economic development of commodity dependent countries and people.

Dr. Rolf W. Boehnke
Managing Director

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Abbreviations Used

CC	Consultative Committee
CFC	Common Fund for Commodities
DSA	Daily Subsistence Allowance
ICA	International Commodity Agreement
ICB	International Commodity Body
LDC	Least Developed Country
MD	Managing Director
PEA	Project Executing Agency
SB	Supervisory Body
SDR	Special Drawing Rights
TA	Technical Assistance
UNCTAD	United Nations Conference on Trade and Development
USD	United States of America Dollars

1. INTRODUCTION

1.1 This Manual is intended to guide International Commodity Bodies (ICBs) and the institutions and persons co-operating with ICBs in conceptualizing, formulating and submitting commodity project proposals for financing by the Common Fund for Commodities (CFC).

1.2 Because all ICBs represent producers and consumers of agricultural or mineral products, and because these commodities are important to developing countries, many examples used in this Manual relate to agricultural commodities. However, the general principles, procedures and formats presented also apply to non-agricultural commodities.

1.3 The Manual reflects relevant provisions of the Agreement Establishing the Common Fund for Commodities, the CFC's Five-Year Action Plan for 2003 to 2007 and its other policies and regulations. The fifth edition of this Manual incorporates experience gained and developments since the fourth edition was published in January 2002.

1.4 Fund-assisted projects aim to alleviate poverty through commodity development consistent with the Fund's commodity focus which entails that projects must address general problems of a commodity. CFC projects concentrate exclusively on commodities, and not, like other development funding institutions, on countries. Fund projects, thus, typically cut across national boundaries to cover several countries and benefit many producers. Projects must also be in line with a specific commodity development strategy by each ICB, developed in accordance with Annex VI.

1.5 CFC seeks to reduce vulnerabilities of poorer commodity producers, processors, and/or traders arising from their dependency on one or more primary commodities. CFC-financed projects also promote greater efficiency in production, processing and distribution systems so that transaction costs from original producer to final consumer are reduced. By addressing strategic commodity issues, problems and opportunities, CFC-financed projects benefit both producing and consuming countries.

1.6 By 1 December 2002, the Fund had approved 114 regular projects and plus a further 43 Fast Track Projects costing about USD 343 million in total. Of this, CFC finances 48%, other donors 26% and participating institutions 26%, through counterpart contributions. The average project size is USD 3 million and the duration is between two to five years. 32 projects were completed by 1 November 2002.

2. BRIEF OVERVIEW OF THE COMMON FUND FOR COMMODITIES

2.1 Establishment and Membership

2.1.1 The Common Fund for Commodities (CFC) is an autonomous intergovernmental development financial institution established within the framework of the United Nations. The Agreement Establishing the Common Fund for Commodities (the Agreement) was negotiated in the United Nations Conference on Trade and Development (UNCTAD) from 1976 to 1980 and became effective in 1989.

2.1.2 The CFC forms a partnership of 105 Member States and three intergovernmental organisations (see Annex X). Membership is open to all State members of the United Nations or of any of its specialised agencies, or of any intergovernmental organisation of regional economic integration which exercises competence in fields of activity of the Fund.

2.2 Functions and Objectives

2.2.1 In line with its market-oriented approach, the Fund concentrates on commodity development projects financed from its own resources and co-financed from other institutions. Through co-operation with other development institutions, the private sector and civil society, the Fund endeavors to achieve overall efficiency in and impact on development. The rationale behind the Fund's activities is to enhance the socio-economic development of commodity producers and contribute to the development of the society as a whole. The activities mainly comprise:

- commodity development measures aimed at improving the structural conditions in markets and at enhancing the long-term competitiveness and prospects of particular commodities. These measures include research and development; productivity and quality improvements; transfer of technology; diversification and processing; improvement of marketing and access to markets; and

- commodity market development actions which assist developing countries, in particular least developed countries (LDCs), and countries with economies in transition, to function effectively in a liberalised global economy. Projects in this field include physical market development; enhancement of market infrastructure; facilitation of private sector initiatives; and commodity price risk management.

2.2.2 The support to stabilization of commodity prices though the financing of buffer stocks, as foreseen in the Agreement, has not become operational. The Fund nowadays assists producers to mitigate against price fluctuations though market-based price risk management instruments, in close cooperation with the World Bank and other cooperating institutions.

2.3 Commodity Focus

2.3.1 The Fund operates under the novel approach of commodity focus instead of the traditional country focus. Commodity focus means concentrating on the general problems of particular commodities. In this way beneficiaries in several countries can be reached through individual projects financed by the Fund.

2.4 Governing Bodies

2.4.1 The governing bodies of the Fund are its Governing Council and the Executive Board. The Managing Director is the Chief Executive Officer and at the same time, Chairman of the Executive Board. The Executive Board is advised by a Consultative Committee on the technical and economic aspects of projects submitted to the Fund. The Governing Council meets once a year, and the Executive Board and Consultative Committee, biannually.

3. COMMODITIES TO BE SUPPORTED

3.1 The Agreement requires that commodities which can be supported by the Common Fund must be covered by an International Commodity Body (ICB) as defined in Schedule C of the Agreement (see Annex XI). Therefore, while projects can be developed by any interested party, projects must be approved by one of the presently 24 ICBs (see Annex XIII). Table 1 below shows the commodities presently covered by these ICBs.

Table 1
Commodities which can be supported by the Common Fund for Commodities

Commodity	Designated International Commodity Body (ICB)
Abaca	FAO - Intergovernmental Group on Hard Fibres
Almonds	FAO - Intergovernmental Group on Citrus Fruits
Apples	FAO - Intergovernmental Group on Citrus Fruits
Apricots	FAO - Intergovernmental Group on Citrus Fruits
Asparagus	FAO - Intergovernmental Group on Citrus Fruits
Aubergines	FAO - Intergovernmental Group on Citrus Fruits
Avocado	FAO - Intergovernmental Sub-Group on Tropical Fruits
Baby corn	FAO - Intergovernmental Group on Citrus Fruits
Bamboo	International Network for Bamboo and Rattan
Banana (cooking)	FAO - Intergovernmental Sub-Group on Bananas
Banana (dessert)	FAO - Intergovernmental Sub-Group on Bananas
Barley	FAO - Intergovernmental Group on Grains
Black beans	FAO - Intergovernmental Group on Citrus Fruits
Butter castor seed	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Cabbages	FAO - Intergovernmental Group on Citrus Fruits
Capsicum	FAO - Intergovernmental Group on Citrus Fruits
Cashew nuts and fruits	FAO - Intergovernmental Sub-Group on Tropical Fruits
Cassava	FAO - Intergovernmental Group on Grains
Cattle	FAO - Intergovernmental Group on Meat
Cattle hides	FAO - Intergovernmental Sub-Group on Hides and Skins
Citrus fruits (other -)	FAO - Intergovernmental Group on Citrus Fruits
Citrus juices	FAO - Intergovernmental Group on Citrus Fruits
Cocoa	International Cocoa Organisation (ICCO)
Coconut	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Coffee	International Coffee Organisation (ICO)
Coir	FAO - Intergovernmental Group on Hard Fibres
Copper	International Copper Study Group (ICSG)
Copra	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Copra meat	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Cotton	International Cotton Advisory Committee (ICAC)
Cottonseed	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Crustaceans	FAO - COFI - Sub Committee on Fish Trade
Cut flowers	FAO - Intergovernmental Sub-Group on Tropical Fruits
Dairy Products	FAO – Intergovernmental Group on Meat
Dates	FAO - Intergovernmental Group on Citrus Fruits
Durian	FAO - Intergovernmental Sub-Group on Tropical Fruits
Essential oils	FAO - Intergovernmental Sub-Group on Tropical Fruits
Fibres (other hard fibres)	FAO - Intergovernmental Group on Hard Fibres
Fish	FAO - COFI - Sub Committee on Fish Trade
Fishmeal	FAO - COFI - Sub Committee on Fish Trade
Fonio	FAO - Intergovernmental Group on Grains
Fruits (non temperate)	FAO - Intergovernmental Sub-Group on Tropical Fruits
Goat skins	FAO - Intergovernmental Sub-Group on Hides and Skins
Grains	International Grains Council (IGC) and FAO - IGG on Grains
Grapefruits	FAO - Intergovernmental Group on Citrus Fruits
Green beans	FAO - Intergovernmental Group on Citrus Fruits
Green peppers / chillies	FAO - Intergovernmental Group on Citrus Fruits
Green peas	FAO - Intergovernmental Group on Citrus Fruits
Groundnut	FAO - Intergovernmental Group on Oilseeds, Oils and Fats

Guava	FAO - Intergovernmental Sub-Group on Tropical Fruits
Gum Arabic	FAO - Intergovernmental Group on Citrus Fruits
Henequen	FAO - Intergovernmental Group on Hard Fibres
Hides and Skins	FAO - Intergovernmental Sub-Group on Hides and Skins
Jute	International Jute Study Group (IJSG)
Karité butter/Shea butter	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Lard	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Lead	International Lead and Zinc Study Group (ILZSG)
Lemons and limes	FAO - Intergovernmental Group on Citrus Fruits
Linseed	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Litchi	FAO - Intergovernmental Sub-Group on Tropical Fruits
Livestock	FAO - Intergovernmental Group on Meat
Maize	FAO - Intergovernmental Group on Grains
Mango	FAO - Intergovernmental Sub-Group on Tropical Fruits
Mangosteen	FAO - Intergovernmental Sub-Group on Tropical Fruits
Meats (other -)	FAO - Intergovernmental Group on Meat
Medicinal herbs	FAO - Intergovernmental Sub-Group on Tropical Fruits
Melons	FAO - Intergovernmental Group on Citrus Fruits
Millet	FAO - Intergovernmental Group on Grains
Molluscs	FAO - COFI - Sub Committee on Fish Trade
Nickel	International Nickel Study Group (INSG)
Oats	FAO - Intergovernmental Group on Grains
Oil cakes	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Oil palm	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Oilseeds (other -)	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Okra	FAO - Intergovernmental Group on Citrus Fruits
Olive Oil	International Olive Oil Council (IOOC)
Onions	FAO - Intergovernmental Group on Citrus Fruits
Oranges	FAO - Intergovernmental Group on Citrus Fruits
Palm kernel oil and meat	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Papaya	FAO - Intergovernmental Sub-Group on Tropical Fruits
Paprika	FAO - Intergovernmental Group on Citrus Fruits
Passion fruit	FAO - Intergovernmental Sub-Group on Tropical Fruits
Pears	FAO - Intergovernmental Group on Citrus Fruits
Pig meat	FAO - Intergovernmental Group on Meat
Pineapple	FAO - Intergovernmental Sub-Group on Tropical Fruits
Plantain	FAO - Intergovernmental Sub-Group on Bananas
Plums	FAO - Intergovernmental Group on Citrus Fruits
Potatoes	FAO - Intergovernmental Group on Grains
Poultry	FAO - Intergovernmental Group on Meat
Pulses	FAO - Intergovernmental Group on Grains
Rape seed	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Rattan	International Network for Bamboo and Rattan
Rice	FAO - Intergovernmental Group on Rice
Roots and Tubers (other -)	FAO - Intergovernmental Group on Grains
Rubber	International Rubber Study Group (IRSG)
Rye	FAO - Intergovernmental Group on Grains
Seaweeds	FAO - COFI - Sub Committee on Fish Trade
Sesame	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Sheep and Goats	FAO - Intergovernmental Group on Meat
Sheep skins	FAO - Intergovernmental Sub-Group on Hides and Skins

Sisal	FAO - Intergovernmental Group on Hard Fibres
Sorghum	FAO - Intergovernmental Group on Grains
Soybeans	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Spices	FAO - Intergovernmental Sub-Group on Tropical Fruits
Star fruit	FAO - Intergovernmental Sub-Group on Tropical Fruits
Strawberries	FAO - Intergovernmental Group on Citrus Fruits
Sugar	International Sugar Organisation (ISO)
Sunflower seed	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Sweet potatoes	FAO - Intergovernmental Group on Grains
Tallow	FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Tangerines	FAO - Intergovernmental Group on Citrus Fruits
Taro	FAO - Intergovernmental Group on Grains
Tea	FAO - Intergovernmental Group on Tea
Tomatoes	FAO - Intergovernmental Group on Citrus Fruits
Tropical Timber	International Tropical Timber Organisation (ITTO)
Wheat	FAO - Intergovernmental Group on Grains
Yams	FAO - Intergovernmental Group on Grains
Yautia	FAO - Intergovernmental Group on Grains
Zinc	International Lead and Zinc Study Group (ILZSG)

4. FINANCING MODALITIES

4.1 Grant and Loan-Financing

4.1.1 The finance for projects comes from capital paid in by Member States in accordance with Schedule A of the Agreement and from voluntary contributions. Projects are financed by grants, loans, or a combination of grants and loans. The capital of the Second Account can only be used for loan-financing of projects, whereas voluntary contributions can be used for either grants or loans. The capital of the First Account is in an endowment fund not to be used directly.

4.1.2 During the first twelve years of operation, the Common Fund has concentrated mainly on grant-financed projects. In order to access the capital of the Second Account and, more importantly, to recycle over time scarce financial resources, the Fund will gradually increase the portion of loan-financed projects. This will complement, not replace grant-financing. Increasing the ratio of loan-financing will require efforts from all involved in project design, implementation and monitoring, because of the usually greater complexity of loan-financed projects. The Five-Year Action Plan indicates that grants will mainly be given for projects on commodities important to LDCs, to poorer commodity-dependent people in other developing countries and to support loan-financed projects. All projects, within the Fund's mandate, that generate financial returns sufficient to pay back capital and interest are in principle suitable for loan-financing. The Common Fund's loans policy is detailed in Section 7.

4.1.3 The Fund seeks to enhance the impact of its own limited resources by seeking co-financing. For this reason, CFC's Five-Year Action Plan stipulates that the combined share of co-financing and counterpart contributions should remain at between 40 and 50%. Thus substantial co-financing and counterpart contributions usually enhance the prospects of a project to be approved by CFC. Loan co-financing from other multilateral or bilateral institutions is also encouraged.

4.1.4 The financial resources of the Common Fund are denominated in Special Drawing Rights, but disbursements are made in major currencies, mostly USD. Since April 1999, the budgets of all newly approved projects are determined in USD.

4.2 Project Preparation Facility (PPF)

4.2.1 The Fund's Project Preparation Facility (PPF) was approved in 1997, to assist ICBs in formulating projects which have already been supported in principle by the Consultative Committee and which are clearly aimed at alleviating poverty in LDCs and amongst poorer commodity dependent producers and exporters or which are loan-financed for other developing countries or countries in transition. The costs of project preparation financed by the PPF are recovered if the project is approved so that the PPF operates as a revolving fund. The criteria for applying the PPF are given in Annex XIII.

4.3 Fast Track

4.3.1 A Fast Track facility was established in 1997 for financing small projects (up to USD 120,000). Whereas regular projects need the approval of the Executive Board, Fast Track projects that are supported by an ICB and reviewed by the Consultative Committee can be approved by the Managing Director. Examples of proposals so far funded by the Fast Track are studies, very small pilot projects and workshops. The format of Fast Track proposals should be in line with the Project Profile as explained in Annex I.

5. PROCEDURES FOR PROJECT SUBMISSION, REVIEW AND APPROVAL

5.1 Commodity Strategy

5.1.1 The process of project formulation starts with the definition of a clear development strategy for the commodity concerned by the designated ICB. Within the strategic framework, development issues must be identified and prioritised, and measures to address them indicated. Such a strategy is subject to review in response to the changing circumstances of the commodity concerned (see Annex VIII).

5.2 Early Consultations, Project Logical Framework with Profile

5.2.1 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.

5.2.2 In order to facilitate and expedite project formulation and reduce its cost, it is recommended that submitting International Commodity Bodies (ICBs) informally contact the Fund's Secretariat during the pre-formulation stage. ICBs are encouraged to submit a brief project profile with a reasonably complete logical framework to the Managing Director of the Common Fund for initial comment. The 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. However, the Consultative Committee has indicated a preference to review more elaborated project documents. The format for a project profile is provided in Annex I and that of the logical framework in Annex II. In the light of feedback on the project logical framework and profile, the ICB can proceed to develop a full project proposal. The processes involved are shown in Figure 1 below.

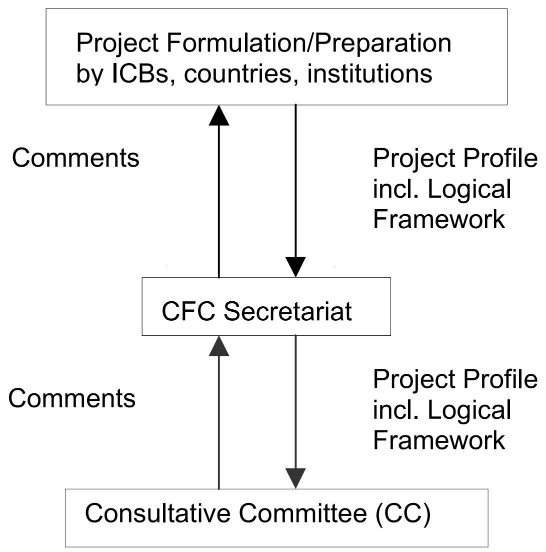
5.2.3 The framework is a means of logically deriving objectives from the problem or opportunity that the project is intended to address. The framework may then be used to derive outputs to meet each objective, activities and inputs to meet each output etc. In short, the logical framework provides a concise one-page summary of major project elements and their relationships to each other and the overall objective. A logical framework forms part of all project submissions to CFC's Executive Board and Consultative Committee. The earlier in the development of a project a logical framework is prepared and used, the better. For such reasons, it is suggested that a logical framework be the first development of any project idea submitted to the Managing Director for consideration.

5.2.4 The period which elapses between the submission of a project profile to the Fund and 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 many open questions need to be resolved.

5.3 Role of International Commodity Bodies (ICBs)

5.3.1 As mentioned before, project proposals can be formally submitted to the Managing Director of the Fund by an International Commodity Body designated by the Common Fund. Member Countries can also submit project proposals directly to the Managing Director of the Common Fund for Commodities who will arrange for the co-ordination with the ICB concerned. The ICBs are also responsible for prioritisation, formulation and supervision of projects. In the process of project identification and design, the ICB should seek stakeholder, and most particularly meaningful target beneficiary, participation.

Figure 1: Early Consultations



5.4 Common Fund Secretariat

5.4.1 The Secretariat screens project proposals and provides comments and advice. For this purpose, the Secretariat has an internal Project Appraisal Committee (PAC), which reviews new proposals and reports to the Managing Director. The Secretariat's project briefs are presented to the Consultative Committee along with the project proposal submitted by the ICB.

5.4.2 Upon recommendation of the Consultative Committee to finance the project and the drawing up of a full project proposal by the project initiators, the Secretariat appraises the project. This involves, *inter alia*, discussion with the respective parties of the detailed structure of the project, assessing the adequacy of inputs and costs and the capacity of the PEA and any implementing agencies to execute the project, financing arrangements and conditions and terms of financing (loan, grant, guarantee and co-financing requirements). The procedures which will govern the project's implementation will also be discussed and agreed.

5.4.3 The agreed terms and conditions, which should be clearly formulated, constitute the legal basis for the obligations to be assumed by the respective parties under the Project, Grant, Loan, or Guarantee Agreements. The Secretariat's appraisal is finalised in a Final Appraisal Report which, along with the Project Agreement, Grant, Loan and Guarantee Agreements, constitutes the official documentation of the project, if approved. With regard to loans, terms and conditions will be agreed in line with guidelines established by the Executive Board.

5.4.4 The Secretariat summarises the full appraisal report in a short document which is submitted by the Managing Director to the Executive Board for approval. This includes the logical framework, project summary, brief project background, commodity overview, project rationale and objectives, project components, financing and expenditure plans, benefits and beneficiaries, organisation and management, implementation schedule, monitoring, evaluation and risks.

5.5 Consultative Committee

5.5.1 After initial screening by the Secretariat, project proposals are comprehensively reviewed by the Consultative Committee: for this, project documents should be as complete as possible. The Consultative Committee consists of thirteen external commodity experts appointed for a period of two years by the Executive Board on recommendation of the Managing Director. The task of the Consultative Committee is to advise the Executive Board on technical and economic aspects of the project proposals submitted by ICBs and on the priorities attached to such proposals. The Consultative Committee also comments on reports from the Managing Director on the supervision, implementation and evaluation of projects financed by the Fund. It meets twice yearly, usually in January and July. All project proposals for submission to the meetings of the Consultative Committee should be received by the Secretariat at least two months before the start of the meeting concerned.

5.5.2 The Committee often offers suggestions for amending the proposals which are passed, through the Secretariat, back to the ICBs concerned. The resulting modified proposal may require further review by the Consultative Committee and/or appraisal by the Secretariat. If reviewed positively by the Committee, the project is submitted by the Managing Director to the Executive Board.

5.6 Executive Board

5.6.1 The Executive Board is responsible for the conduct of the operations of the Fund and reports to the Governing Council thereon. The Board meets twice a year, normally in April and October. The Executive Board decides on the approval of a project, taking into account the recommendation by the Managing Director and the comments of the Consultative Committee. Once a project is approved by the Board, a project agreement will be negotiated based on conditions and terms reached during the appraisal, and subsequently signed by the Common Fund, the submitting ICB and the Project Executing Agency. A Grant Agreement is also signed between the Common Fund and the ICB concerned. In the case of a loan, a Loan Agreement is negotiated, within the terms determined by the Executive Board, and signed between the borrower(s) and the Fund. In addition, a Guarantee Agreement will be signed with the guarantor(s) for each loan.

5.6.2 Figure 2 below indicates the stages of the project cycle and identifies the responsibilities for action.

6. CRITERIA FOR PROJECT APPRAISAL AND APPROVAL

6.1 General Criteria

Introduction

6.1.1 Several criteria for the appraisal and approval of projects are specified in the Agreement while others reflect decisions of the Executive Board or Governing Council, including the Five-Year Action Plan, or practice developed over previous years of experience. Common Fund financed measures and actions shall be designed and implemented in a way that they reach the target beneficiaries and make an identifiable contribution to sustainable development and poverty reduction. Projects financed by the Fund contribute to reducing the economic imbalance between developed and developing countries, assist in making commodity chains efficient and diversifying commodity production and trade, improving quality and productivity in a sustainable way, and aim at developing predictable conditions in commodity trade. This section also presents examples of the kind of projects funded by CFC, from its First Account Net Earnings, Second Account and of loan-financed projects.

Specific Objectives

6.1.2 The specific objectives of the Fund's supported interventions, as contained in the Five-Year Action Plan, are given below:

- to improve access to markets and reliability of supply for primary products and the processed products thereof;
- to expand processing of primary products in developing countries with a view to promoting their industrialisation and increasing their export earnings through moving up the value addition chain including packing for the consumer markets;
- to improve the competitiveness of commodities and enhance the cost effectiveness of commodity production;
- to improve marketing, storage, financing, distribution and transport systems for commodity exports of developing countries, including an increase in their participation in these activities;
- to improve market structures in the field of commodities of export interest to developing countries and to address market failures;
- to broaden the range of exportable commodities and their respective chains;
- to encourage the corporate social responsibility of multinational and national companies engaged in the commodity sectors;
- to highlight the importance of commodities in economic development and the concerns of commodity producers.

Outcome and Impact

6.1.3 Outcomes should be directly linked to the CFC objectives and CFC measures and actions shall contribute mainly to the following:

- sustainable improvements in the welfare and livelihoods of commodity-dependent people through increased income, reduced vulnerability to shocks and by strengthening their asset base, including through diversification;
- improvement of policies, either directly or indirectly, at various levels that inter alia facilitate improved market access for commodity exports from developing countries without leading to excessive dependence;

- strengthening the capacity of stakeholders, including regulatory frameworks in which they operate, to compete in an increasingly globalised marketplace.

6.1.4 **Target Beneficiaries**: Projects focus mainly on the least developed countries and on the poorer strata of the population in other developing countries. 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 will also take part in Common Fund financed projects. The least developed countries (LDCs) (see Annex XI) receive particular attention, both as a target group and with regard to location of projects. Projects will, therefore, generally aim to make an identifiable contribution to sustainable development and poverty alleviation paying due respect to the role of the private sector and civil society and having also regard for gender and environmental issues.

6.1.5 **Type of Commodity**: The Common Fund pays special attention to commodities of interest to LDCs and the poorer strata of the population in other developing countries. Commodities with development potential and non-traditional commodities, including value addition and the supply chain, will also be considered.

6.1.6 The **supply chain concept** is an essential element in project design and monitoring. Projects may address particular elements of the chain. The interrelationships of the elements of the chain, in particular weak links, are to be taken into account. Where appropriate and in the interest of improving the incomes of the beneficiaries, projects may also aim at shortening the supply chain.

6.1.7 **Type of Projects**: The Common Fund concentrates on small to medium sized projects (with an indicative range of total costs from USD 1 to 5 million) and on projects which are particularly well suited for the low absorption capacity of LDCs. The main criteria for project selection include project quality, impact, beneficiary focus, replicability, sustainability, cost effectiveness and manageability. Overly complicated projects, those with a large number of institutions involved or spanning over a large number of countries or different continents are to be avoided. Replication of projects in different regions or continents, having regard to the diverse conditions, is preferred. Market development projects and those addressing market failure, diversification and productivity improvement, appear to be particularly valuable for the target beneficiaries identified above.

6.1.8 **Project Design**: Projects address general and common problems of a particular commodity, thereby having a spin-off effect on a number of developing producing countries. Projects have to be demand-driven: to ensure this, the ICBs and the Common Fund keep in close contact with producers. Beneficiary involvement is an essential element in project development, and involvement of country representatives, as far as practical, is recommended. Project design shall particularly focus on impact. Qualitative and quantitative targets have to be clearly set out. Due regard is to be given to the economic rate of return, private sector involvement and environmental concerns. National development plans are to be taken into consideration in project identification.

6.1.9 **Further points to observe are**:

- the commodity or commodities in question must be covered by a recognised ICB which submits/endorses the project;
- the project must be consistent with the overall commodity development strategy of the ICB;
- projects shall pay due regard to sustainable development;
- results of projects should be sustainable and replicable;
- projects shall have strong dissemination component including an exit strategy;
- 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;
- while projects have to be beneficial to the commodity as such and to several producing countries, 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; and
- the Fund will maintain a balance between the amounts allocated to projects for different commodities and between supply-side and demand-side projects.

6.2 Additional Criteria for Loan-Financed Projects

6.2.1 Generally, both loan- and grant-financed projects are assessed on the same criteria and in particular, their impact on commodity-focused poverty alleviation in developing countries. In the case of loan-financed projects, however, projects must normally generate a financial rate of return sufficient to pay back the borrowed capital and interest. There may also be loan-financed projects without a sufficient financial rate of return if the overall benefits (economic, social, environmental) of the project motivate the borrower, e.g., a Member Government, to take and repay the loan. The considerations to be taken into account for loan-financed projects are outlined in Section 7.

6.3 Projects Funded from the First Account Net Earnings Initiative

6.3.1 The Governing Council agreed at its meeting in December 1995 that most of the Net Earnings from the First Account "shall be used within the framework of the present operations to enhance the capacity of the Common Fund to finance commodity market development actions through projects designed to assist developing countries, and especially the Least developed and land-locked among them, to function effectively in a liberalised global economy. Due consideration will be given to countries with economies in transition. Such projects would focus on, *inter alia*: promoting physical market development; the enhancement of market infrastructure and support services to facilitate private sector initiatives; institution strengthening including training at all levels; enhancement of commodity market risk management and commodity trade financing; and micro-policy advice on commodity market development." Within the frame of the above, the following elements can be considered, in particular:

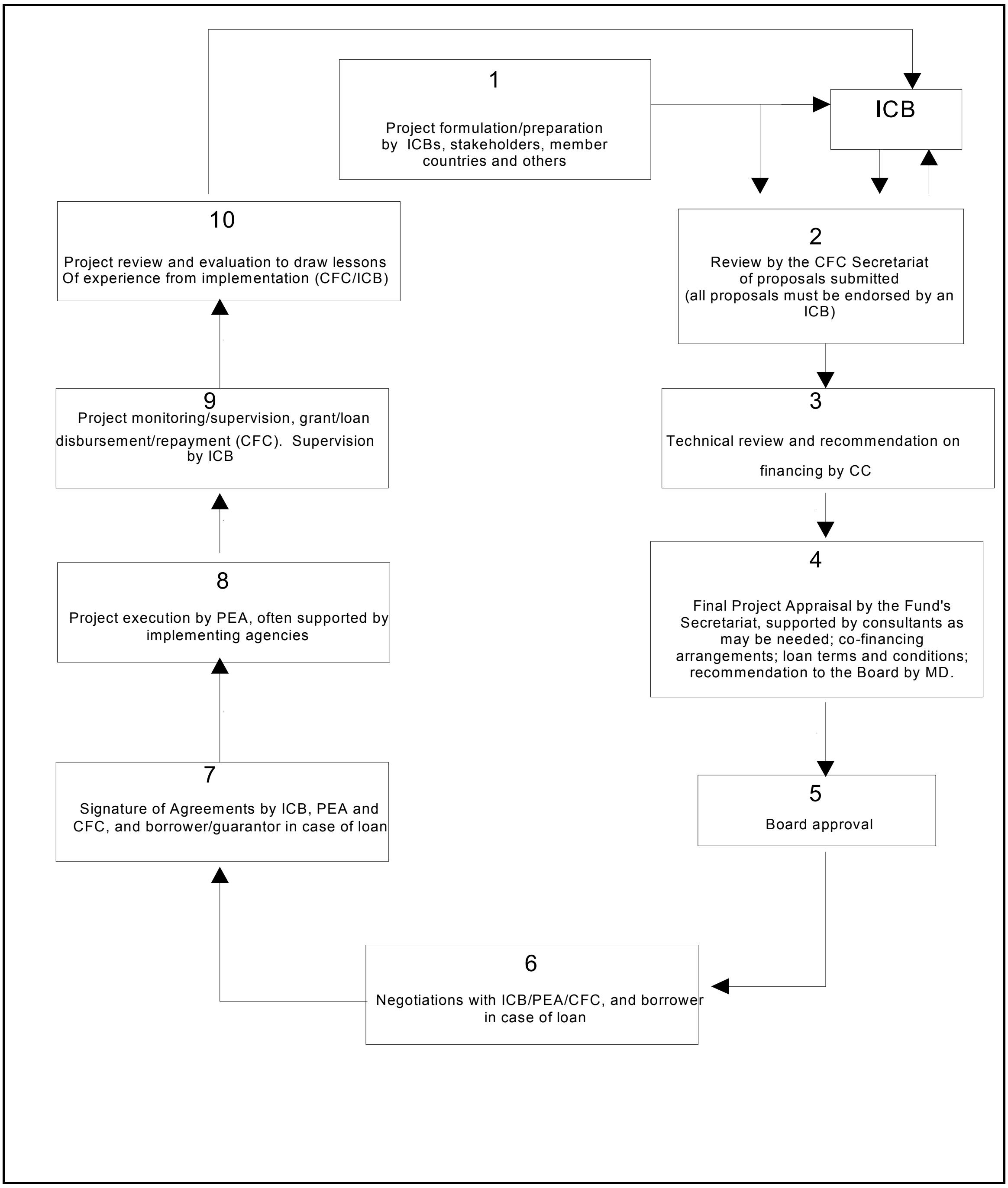
- <u>Introduction of measures to minimise the physical marketing and trading risks:</u>

    - quality standards and grading measures, taking account of public health and hygiene standards;
    - collection and warehousing systems;
    - warehousing standardisation, inspection and supervision; and
    - market information collection and dissemination.

- <u>Assistance to improve the legal and policy framework:</u>

    - aspects of commercial law (bankruptcy laws, security and title of goods acquisition and transfer of titles, creation and registration of security interests, etc.)
    - a system of registration of warehouse receipts, making such receipts traceable and tradeable; and
    - availability and accessibility of commodity insurance.

Figure 2: CFC Project Cycle



- <u>Facilitation of trade finance to include:</u>
    - introduction of integrated market risk management with suitable trade financing, such as intermediation for factoring, and pre-export financing linked with intermediation for factoring;
    - securitisation of warehouse receipts linked with hedging;
    - introduction of appropriate tax and accounting systems that do not discourage such management and securitisation; and
    - commodity market development including through rural commodity finance systems.

- Piloting of market risk pooling through the organisation of producer co-operatives and small traders organisations:

    - Since small operators cannot have access to market risk/price risk management instruments directly, an attempt could be made to pool market/price risks through organisations such as producer co-operatives, traders' associations, or others who can pool their products, pool risks and hedge the price risk in international markets through appropriate intermediation.

- Awareness raising and training:

    - awareness raising is targeted at government officials at policy level and chief executives of industries including banks to promote a more enabling policy and regulatory environment; and
    - training is targeted at practitioners including local traders, exporters, officers of producer and traders' associations, senior government and industry officers with involvement in market operations.

6.4 Projects Funded from the Second Account

6.4.1 Article 18.3 (a) of the Agreement states that:

> "The measures shall be commodity development measures, aimed at improving the structural conditions in markets and at enhancing the long-term competitiveness and prospects of particular commodities. Such measures shall include research and development, productivity improvements, marketing and measures designed to assist, as a rule by means of joint financing or through technical assistance, vertical diversification, whether undertaken alone, as in the case of perishable commodities and other commodities whose problems cannot be adequately solved by stocking, or in addition to and in support of stocking activities."

6.4.2 Examples of the kind of projects which are financed from the Second Account include, but are not necessarily confined to, the following:

- Diversification

    - encouraging local processing of primary products with a view to promoting industrialisation;
    - introduction of pilot and demonstration plants;
    - feasibility studies, if linked to a project financed by the CFC, and other forms of technical assistance and support; and,
    - horizontal, vertical and geographical diversification of production, including food production, with a view to increasing the export earnings of developing countries and/or reducing the dependency on a few commodities.

- Marketing

    - promoting greater use of a commodity through the development of new end uses or opening up of niche or new geographical markets;
    - promoting work which aims to strengthen the competitive position of commodities

facing particular difficulties, such as a falling market share in competition with synthetic substitutes or structural changes in their markets;
- measures designed to providing producers with a larger share of the differential between the producer price and the price charged to the final consumer,
- improving the marketing, distribution and transport systems for the commodity exports of developing countries, as well as increasing their participation in these activities and their earnings from them; and,
- fair trade, ethical trade and organic production in certain cases.

- Productivity and quality improvements

  - improvement of genetic material;
  - reduction of losses in the quality and quantity of commodities during harvest, post-harvest, processing, storage or transportation; and,
  - processing technologies.

- Improving efficient utilisation of resources

  - encouraging sustainable management of natural resources, including genetic resources;
  - encouraging effective use of resources, e.g., by making optimum use of waste and by-products; and,
  - encouraging the use of renewable resources.

- Applied research and development and the transfer of technology and know-how

  - finding new uses for commodities or their by-products;
  - finding new processing methods;
  - adapting existing technologies to new applications;
  - transferring existing technologies into new geographical areas and to commodity-dependent people who lack access to this technology; and,
  - encouraging research on, and development of, processing of natural products to improve their competitiveness. Such research and development may involve the development of new products through the blending of two or more natural commodities or blending of natural and synthetic materials.

- Sustainable commodity development

  - improving environmental conditions of production and use;
  - addressing environmental concerns in connection with commodity production or processing. Such measures could be either stand-alone projects or projects which would top-up ongoing projects of the Common Fund; and,
  - disseminating environmentally sound practices in commodity production or processing. These would typically be follow-up projects to make more widely known the results of Common Fund projects which have an environmental or sustainable development component.

6.5 Factors which Lead to Rejection of Projects

6.5.1 Further guidance may be provided by listing some characteristics of projects which have rendered them less suitable for financing from CFC. These include, but are not necessarily confined to, projects which are seen to have one or more of the following traits:

- relate to commodities not covered by a designated ICB;
- concentrate on general training or extension services;
- financing of events, conferences, meetings etc. and travel of other institutions or individuals;
- translation of documents or publications of other institutions or individuals;
- entail disproportionate overhead and administrative costs;
- have institution building or strengthening research capacity as their main objective;
- deliver results which will not be sustained beyond the life of the project, e.g., establishing new services which are unlikely to continue after the project is concluded;
- consist of basic research, i.e. research which will not yield applicable results at the end of the project;
- concentrate on research which does not effectively benefit poorer commodity-dependent producers;
- require large-scale investments;
- consist of general marketing studies;
- duplicate previous, current or planned work elsewhere;
- form part of the core work of an ICB or other participating institution;
- cover countries which are not members of the Fund, unless the expenditure related to these countries is wholly funded from sources other than the CFC;
- concentrate predominantly on the production of food for domestic consumption, except for least developed countries; or,
- concentrate on generic promotion of commodities.

7. CONSIDERATIONS FOR LOAN-FINANCED PROJECTS

7.1 Introduction

7.1.1 Article 18.C 3(c) of the Agreement Establishing the Common Fund for Commodities provides the legal authority for the Fund to give loans for commodity development measures to be financed from the resources of the Second Account. More specifically, the capital of the Second Account can be used for loans only (Article 18.3 of the Agreement), whereas voluntary contributions can be used for either grants or loans. The Governing Council confirmed at its Ninth Annual Meeting in December 1997 that the Net Earnings from the First Account can be applied for either grants or loans to finance projects under the First Account Net Earnings Programme.

7.1.2 Taking into account the Fund's limited resources, loans are one of the 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 provides for more beneficiaries and commodities to be reached. 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.

7.1.3 The Five-Year Action Plan clarifies in its paragraph 9 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.

7.1.4 Eligible borrowers are ICBs, agencies of ICBs and Member Countries and loans may be covered by governmental or other suitable guarantees. The Governing Council has further clarified this provision and established provisional guidelines on eligibility of borrowers and guarantors and other forms of security. According to those guidelines, the following institutions are also eligible as borrowers:

	Guarantees Required
Ministries authorised by their Governments and, if necessary, approved by Parliament, to take loans	No
National Banks, for example Central Banks	No
Governments of large administrative regions within countries	Normally* Not
International Financial Institutions, for example Regional Development Banks (e.g. the African Development Bank, the Asian Development Bank, the PTA Bank), owned by States, where at least some members are Members of the Fund	No
State owned banks involved in development	Normally Not
Parastatals	Normally Yes
Inter-governmental organisations, where at least some members are Members of the Fund	Normally Yes
Private Banks and other credit institutions, active in commodity development financing, with a focus on social (e.g. gender) aspects and poverty alleviation and which have a track record of such activities and of repayment.	Yes
Federations of co-operatives, recognised by national governments.	Yes

*The qualification "normally" indicates that the Executive Board will decide in individual cases based on the characteristics and condition of the borrower and other particular circumstances regarding the project in question.

7.1.5 According to those guidelines, the following institutions are also eligible as guarantors:

1. Central Banks
   Ministries
2. Multilateral institutions
3. Parastatal institutions
   State owned development banks
4. Private guarantors
   - Private banks
   - Other financial institutions
   - Mutual Savings Associations
   - Non-financial institutions

The Borrower and Guarantor cannot be the same institution with respect to any one loan.

7.1.6 When additional security is required, the following can be considered as collateral, provided that the objects or rights concerned belong to the borrower or the guarantor and have a market value:

- Pledged cash deposits
- Assignment of rights, e.g. under contracts or insurance policies
- Real Estate
- Commercial stocks
- Goods to be delivered / in transit
- Movable assets (vehicles, equipment, etc.)
- Equity
- Insurance policies

7.1.7 In a first step, both loan- and grant-financed projects are assessed on the same criteria and in particular, their impact on commodity development in the beneficiary countries. In the case of loan-financed projects, however, projects normally must generate a financial rate of return sufficient to pay back capital and interest. A project will be considered as having sufficient financial returns if its projected cash flow indicates capacity to service all liabilities.

7.1.8 There may also be loan-financed projects without a sufficient financial rate of return, but because of the overall benefits (economic, social, environmental) of the project the borrower, e.g., a Member Government, is willing to take and repay the loan.

7.2 Lending Terms and Conditions [1]

General

7.2.1 The loan conditions as reflected in the overall financial package will mainly take into account:

- the financial rate of return of the project and its prospects;
- the economic situation and prospects of the borrower and any guarantor;
- the beneficiaries to be reached;
- the impact of the project;
- any associated grant-financing; and,
- loan co-financing from other sources.

7.2.2 The Common Fund applies shorter maturity periods than those normally used by other international development institutions. The Fund will not fund long-term investment projects which require an extended repayment period. A typical project financed by the Fund, for instance, concerns the introduction of new technology with a fairly high rate of financial return, or measures which can subsequently be taken up by the private sector. The loan period will normally be linked to both the project period and the capacity of the borrower to repay.

Loan Types

7.2.3 The choice of loan terms would largely depend on the financial rate of return which the borrower would be able to earn from the project. The Common Fund applies three main loan types reflecting different levels of concessionality in line with policies generally followed by other development institutions. This is specified as follows:

7.2.4 Ordinary loans are used to finance projects near but not at full market conditions if the financial rate of return is sufficiently high. Certain pilot projects may be suitable candidates for such loans.

7.2.5 Intermediate loans are used to finance projects when one of the following conditions apply:

- the expected rate of financial return is low but the project is justified in other terms, for example on socio-economic or environmental grounds;
- the facilities operated by the project will run below full capacity at the introductory

[1] The text of sections 7.2 to 7.10 is a slightly shortened and edited version of the Loans Policy approved by the Governing Council (document CFC/EB/26/16).

stage; or,

- there will be disproportionate costs for an intermediary in collecting repayments from the direct beneficiaries of the project, for example, because they are too numerous or too widely dispersed.

7.2.6 Highly concessional loans are mainly used to finance projects which are of particular benefit to commodity producers in least developed countries and which would not need to be grant-financed because they generate a financial rate of return.

Interest Rates and Charges

7.2.7 Interest rates could be either fixed or variable, at the choice of the borrower. A fixed interest rate would be set for the full duration of the loan. Variable interest rates would be determined every six months (January and July) on the basis of the prevailing London Inter-Bank Offering Rate (LIBOR) for the currency and term concerned. The Executive Board would annually review the rates applied to different loan types.

7.2.8 Service charges will be calculated *pro rata temporis* on the outstanding balance of the loans and will be payable together with each interest payment. Commitment fees will accrue *pro rata temporis* on contracted but undrawn balances of loans and will be invoiced semi-annually.

7.2.9 Interest rates, charges, grace periods and maturities for the different loan types are indicated in Table 2.

Table 2
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, as foreseen in Articles 18.1 (d) and 16.5 (a) of the Agreement, 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.

7.3 Grant/Loan Mix

7.3.1 The level of concessionality will be substantially increased if the project has a grant component. There are established formulae, for instance by the OECD, to calculate the level of concessionality. The grant will normally cover those project components which are not expected to generate a financial rate of return, such as technical assistance, etc. This is also relevant where a loan-financed project was preceded by a grant-financed project which prepared the ground for the follow-up measures.

7.4 Loan Co-financing

7.4.1 The Agreement and the Five-Year Action Plan point to the need to co-operate with other multilateral or bilateral institutions. This can include loan co-financing from such organisations, either in the form of a jointly given loan or as separate but co-ordinated loans for a particular project or components thereof. Common Fund lending should serve as a catalyst for follow-up lending from other sources, thereby having a spin-off effect.

7.5 Specific Forms of Loans

7.5.1 Credit can be given in different ways. The most common form of credit is the straight loan to a borrower at the conditions outlined above. Additional credit forms, for example lines of credit, can also be considered.

7.5.2 A line of credit is a loan given to a borrower for on-lending to approved sub-borrowers, for example, in the form of micro-loans for small producers or exporters. The Fund would agree on the overall criteria and monitor the subsequent lending processes without approving each micro-loan. The borrower takes care of the loan supervision and administration at the micro level. The credit risk of the sub-loans is held by the borrower. The use of local infrastructure would enable the CFC to reach its target beneficiaries, namely small producers and exporters. Lines of credit should be well guaranteed: they could also be supported by technical assistance and accompanied by an impact assessment on the local financial sector.

7.5.3 Performance Related Loans. The terms of the loan might take into consideration a projects' risks and benefits. Specific targets for a project would be negotiated and, using a formula, returns would be calculated. Depending on the level of risk/benefit shared between the project beneficiary and lender, contributions would be (a) partially repaid (project performance below expectation), (b) entirely repaid (project meets expectations), or (c) repaid with additional dividends (project exceeds expectations).A similar scheme can be applied to grants, which could be made repayable if certain conditions are achieved through the project

7.6 Multi-Country Loans

7.6.1 Common Fund projects are normally executed in several countries, taking account of the general commodity focus of the Fund. In this case, the total loan would be divided into separate sub-loans in accordance with the number of borrowers. This would be based on the activities to be performed in each country, as detailed in the Appraisal Report.

7.7 Size of Loans

7.7.1 The Common Fund concentrates on small to medium sized projects with an indicative range of costs from USD 1 to 5 million (see Five-Year Action Plan, paragraph 5) of which the Fund normally finances around half of this amount in view of the Fund's catalytic role in attracting resources from other donors for its projects. The average amount of the Fund's contribution per project over the years 1991 to 2002 was USD 1.3 million. The highest loan was USD 5.7 million: the lowest USD 0.10 million. Loans are expected to stay near the average within this range.

7.8 Disbursements and Repayments

7.8.1 Disbursements of loans will relate to the projected cash flow of the project, as laid out in the disbursement schedule contained in the Loan Agreement. Loans will normally be denominated, disbursed and repaid in USD.

7.9 Risk Assessment and Loan Guarantees

7.9.1 In appraising each loan, the risks involved must be thoroughly assessed, taking mainly into account:

- the prospects of the project;
- the credit-worthiness of the borrower;
- the credit-worthiness of any guarantor;
- laws and regulations, particularly within the financial sector, in the jurisdiction of the borrower as well as of any guarantor; and,
- the repatriation risk.

7.9.2 Whenever the suitability of a formally eligible guarantor for a loan is evaluated, attention should be paid not only to its financial state, but also to whether local laws or regulations (such as currency restrictions or financial or corporate law) could possibly jeopardize or hamper the fulfillment of such guarantor's obligations under the guarantee or the Fund's access to enforcement thereof, if necessary.

7.10 Procedure and Documentation

7.10.1 Loan-financed projects or those with a loan/grant mix will be submitted to the Common Fund in the same way as grant-financed projects by, or through, an ICB.

7.10.2 After a project has been approved by the Executive Board, and prior to any disbursement from a loan, the following documents have to be signed:

- Project Agreement between the Fund, the ICB and the Project Executing Agency (PEA);
- Loan Agreement between the Fund and the borrower;
- Guarantee Agreement(s) between the Fund and the Guarantor, if any;
- Sub-loan Agreement(s) between the borrower and any sub-borrower(s) acceptable to the Fund;
- any Guarantee Agreements for such sub-loans with guarantors approved by the Fund; and,
- any Memorandum of Understanding (MOU), Project Implementation Agreement (PIA), Letter of Understanding (LOU) or other agreement between the PEA, the borrower and/or any other entities involved in the project or the loan, which may be required pursuant to the Project Agreement or the Loan Agreement (see Annex V for text of a model PIA).

7.10.3 Loan administration, monitoring including technical evaluation, financial management, loan/grant administration and disbursement, is normally the responsibility of the Fund, except where such roles have been delegated by the Fund to other international or regional institutions, as foreseen in Article 18.3 (f) of the Agreement.

8. STANDARD FORMAT FOR SUBMISSION OF PROJECT PROPOSALS

8.1 Logical Framework

8.1.1 The logical starting point in designing any project is the preparation of a logical framework. All project submissions to CFC, including project profiles, should include the project's logical framework. The logical framework has a hierarchy of four distinct levels of broader goal, objectives, outputs and inputs, all logically inter-related on one page which summarises the purpose, major components and overall framework of the project.

8.1.2 Inputs are resources used by the project in order to produce a combination of outputs required to achieve the project's objectives. The interrelated objectives aim to collectively achieve the project's broader goal or purpose, though the attainment of that goal may also require other projects or policies.

8.1.3 The logical framework also identifies the major assumptions made for inputs to achieve the outputs. This helps clarify risks associated with the project and facilitates identification of measures to minimise them.

8.1.4 The project design should define explicit performance indicators against which the success of the project would be measured. Indicators reflect significant benchmarks for measuring progress towards achieving each objective. They should be as specific as possible in terms of quantity (preferably numeric), quality and time. The means of verification reflect the source and method of ascertaining the (numeric) value of indicators. Clearly the costs and effort of obtaining such data, and the possible commensurate need for comparable base line data to be included in the original project design, have to be weighed in order to propose the most cost-effective means to track the project's substantial progress. Mere delivery of inputs and/or monitoring of expenditures are necessary but usually not sufficient.

8.1.5 An example of a project logical framework is given in Annex II. The example may be modified as necessary to reflect the specific characteristics of a project.

8.2 Project Summary

8.2.1 A project document submitted to the Fund (whether in the form of a profile or as a fully formulated proposal) should have a one page project logical framework and a summary providing a brief overview of the project proposal. The format for the logical framework is given in the previous section and Annex II, while that for a summary is provided below.

The ....(full name of submitting ICB designated by the Fund) declares that the project proposed is being supported by its members, hereby submits the following project proposal with its recommendation for financing by the Common Fund. The proposal was approved by..., on ... (indicate the body, i.e. Council, Standing Committee, Sub-Group or other competent body that made the decision).

1. Project Title:	*The title should be brief, but sufficiently precise to identify the project. It should include the name of the commodity and the nature of the project (productivity improvement, marketing, processing etc.) and, optionally, the region.*
2. Duration:	*Specify the estimated duration of the project from start to finish*

	in months. Note that the Fund will not normally make commitments to support activities lasting more than five years.
3. Location:	*Specify the project site(s), the geographical area(s) to be covered by the project activities and the countries involved.*
4. Nature of Project:	*State the broad aspects of commodity-focused development and its poverty alleviation that the project is about, e.g., village level processing to add value, productivity improvement, research and development, etc.*
5. Brief description:	*State the aims of the project; for example: "Expansion of market demand"; and the specific objectives, for example: "Development and marketing of new products made from ..".* *- State briefly how the project intends to achieve the stated objectives and the means to be employed by providing a concise description of project components, mode of implementation, costs and financing.* *- Identify the results expected and the beneficiaries.*
6. The estimated total cost:	*Total cost should take account of all quantifiable inputs for the project expressed in USD, including any counterpart contributions in cash or in kind.*
7. Financing sought from the Fund:	*The Fund's expected contribution should be expressed in USD.*
8. Mode of financing:	*State whether financing is expected in grant or loan or a combination of grant and loan.*
9. Co-financing:	*Co-financing means contributions in cash or kind by an entity or entities which will not directly derive benefits from the project. Co-financing should be clearly differentiated from counterpart contributions (see below), and it must be clearly stated whether each such contribution will be in cash or in kind. Indicate sources, amount and whether a final commitment has been made. Co-financing in cash is preferred by CFC.*
10. Mode of co-financing(in cash):	*Whether grant, loan, or a combination of loan and grant. If co-financing is by loan, please indicate terms and conditions..*
11. Counterpart contribution:	*Contribution from the ICB, the PEA and any other entity with a direct interest in the project should be regarded as a counterpart contribution. If the contribution is in kind, indicate source, estimated value and method of calculation. Counterpart contribution in cash is preferred by CFC.*
12. Project Executing Agency (PEA):	*Indicate the body proposed to manage the project and any implementing, collaborating or supporting agency.*
13. Supervisory Body:	*Indicate the body proposed to supervise the project (normally the ICB).*

14. Estimated starting date: *Indicate the proposed starting date.*

8.3 Overview of the Commodity

8.3.1 This section should explain the commodity context of the project and the relevance of the project to the countries/institutions involved. This should include, but not necessarily be confined to the following:

8.3.2 Overview of supply and demand and forecasts. An up-date of the relevant information given in the Commodity Strategy and Commodity Profile of the ICB can be used. If the project relates to particular sub-regions, the regional supply and demand situation should be included.

8.3.3 Problems, issues and opportunities of the commodity and measures to address them. The commodity strategy analysis and Commodity Profile of the ICB can be used here. The problems, issues or opportunity to be addressed by the project should preferably relate to poorer producers and other groups involved in the processing and marketing of the commodity. The more direct and the more visible the expected impact on them the better.

8.3.4 Relevance of the proposed project to the ICB's commodity strategy. A brief explanation should be given in this context.

8.4 Institutions Involved and Responsibilities

8.4.1 This section should describe the institutions involved, in particular the Supervisory Body, PEA, and implementing agency/ies. The following basic information should be provided:

- full name of the institution and contact points including physical, mail and e-mail addresses, telephone and fax numbers;
- the department of the institution and the title of the person(s) responsible;
- mandate and core activities of the institution; staff and their professional experience and background;
- support facilities to carry out the assigned responsibilities;
- need for staff training in conjunction with the implementation and post-operation of the project; and,
- the organisational charts of the institutions.

8.4.2 Since project implementation often involves more than one institution, it is important to specify arrangements for coordinating implementation activities and responsibilities of each institution. Project execution within a country should take into consideration relevant national policies and institutional requirements. Clearance of project execution arrangements by the relevant national authorities should be obtained. Tax exemption for project expenditure must be cleared with government tax authorities, as the Fund's financing does not cover identifiable taxes.

8.4.3 The financial responsibilities, through co-financing or counterpart contributions, either in cash or kind, of the institutions involved should be clearly spelled out and co-financing must be secured before project implementation can start.

8.5 Objectives and Rationale

8.5.1 This section should elaborate on:

- the project's rationale;
- the objectives of the project;
- the results to be achieved; and,
- the expected impact, most particularly on poorer commodity producers as well as overall impact on the commodity.

8.5.2 To the extent possible, objectives, results and impact should be expressed in measurable (preferably numeric) terms in order to facilitate monitoring and evaluation.

8.6 Related Projects and Previous Work

8.6.1 This section should summarise other development activities, past, ongoing and planned, which relate to the problems, issues or opportunities to be addressed by the proposed project. The intention here is to demonstrate complementarity, promote aid co-ordination and synergy and avoid duplication. The document should clearly explain what the proposed project would add to these other activities for poorer people dependent on the commodity concerned.

8.7 Components

8.7.1 A project usually consists of a number of distinct but related components. It is important to carefully define these components to facilitate their proper linkage, monitoring, and cost control during implementation and to facilitate clear assignment of responsibilities to implementing agencies. For example, a "pilot processing plant project" may have the following components: (a) establishment of the pilot plant; (b) pilot production and evaluation of the technical/economic feasibility; (c) training and dissemination of project results. Project co-ordination and management, work planning, and supervision are common to all projects and are described in the respective sections of this Manual.

8.7.2 Components need to be co-ordinated with each other and projects with many components may become complex and difficult to co-ordinate. As the typical multi-country coverage of CFC projects usually adds to their managerial complexity, it is important to limit the number of components to a manageable level. This might require eliminating less important components, dividing the project into phases and/or limiting the number of project sites. Even a simple project may become complex if implementing sites are many and diffused across the globe. Projects with many sites are also likely to have high overhead costs. The effect of reducing the number of sites may be offset by making adequate provision for dissemination of project findings and recommendations to producers, processors, and traders from other countries not directly participating in the project. Because CFC is concerned to maximise the impact of the projects financed across national borders, dissemination is usually a significant component in most projects.

8.7.3 A project component is intended to contribute to the achievement of one or more of the project's specific objectives. For this, each component will involve activities which result in outputs corresponding to the objective concerned. Each activity requires inputs for which budgetary provision has to be made. These aspects must be clearly stated and logically inter-related for each component of the project as well as between components. This again emphasises the usefulness of the logical framework in designing these core elements of the project. An example of a description of a project component is provided below.

Concise description of the component:

Component 1:

- Objective:
  - this should specify the immediate purpose of the component. Such a purpose must contribute to the overall project goal;

- Outputs:
  - the outputs which are required in order to achieve the stated objective. The output/s should be verifiable in terms of quantity/quality and time. In some cases, an objective may have more than one output;

- Activities:
  - activities to be undertaken in order to achieve the stated output(s). Usually more than one activity is required to achieve each output. It is important to detail carefully all activities, in sequence of undertaking them;

- Inputs:
  - the inputs required to carry out each activity should be specified in numeric terms, e.g., service in person-months, physical inputs in terms of unit and quantity etc and their costs should be included in the relevant budget tables;

- Timing:
  - indicate the time phasing and duration of each activity, in weeks, months and/or years as appropriate.

- Costs:
  - project costs must be estimated as accurately as possible by component and with a reasonably detailed listing of inputs, prices and cost by major item of expenditure envisaged. Annex III provides the format to be used for detailed cost estimates along with explanations on different items of expenditure and their estimation. The detailed cost estimates should be summarised by component with major items of expenditure being specified, as indicated in the format presented in Annex III.

8.8 Benefits and Beneficiaries

8.8.1 This section should define major intended beneficiaries and how and when they may be expected to gain from the project. The governing bodies of CFC have urged that commodity development projects aim and be seen to be having a relatively fast, visible and direct impact in alleviating poverty amongst commodity producers and others involved in commodities. For this, a project design directly targeting commodity dependent poor people may be more appropriate than a design based on the assumption that project benefits to the commodity as a whole will "trickle down" to poorer producers.

8.8.2 Quantifiable and non-quantifiable benefits of the project and most particularly those on poorer commodity producers should be described. Where possible, analyses should estimate the benefits of the project both in terms of poverty alleviation as well as in terms of the likely impact on the commodity concerned. These may include estimates of:

- the project's effects on livelihoods and incomes of poorer commodity producers/traders and its financial rate of return to them;

- employment generation and multiplier effects;
- physical product outputs and/or physical changes in commodity chains and/or physical commodity consumption changes;
- changes in the overall policy and enabling environment including, but not necessarily confined to, institution strengthening; and,
- macro-economic benefits, such as those relating to foreign exchange earnings and taxation may also be estimated.

8.8.3 It is important to refer under this section to the sustainability and replicability of operations after project completion.

8.8.4 The above analyses should clearly differentiate between commodity producers and others involved in commodities that will be direct beneficiaries and those that will benefit indirectly. Similarly, the analyses should differentiate between population groups that will directly benefit from the project from those that will gain more indirectly and those that might benefit from replication of project results. Mention should also be made of institutions that will be direct beneficiaries of the project.

8.8.5 If any negative impacts are expected in general, on the market, on sub-groups, etc., these should be mentioned. Where appropriate, measures to minimise such negative impacts should be included in the project.

8.9 Environmental Aspects

8.9.1 This section should comment on possible positive or negative environmental effects of the project. Again, where appropriate, actions to mitigate negative fallout from the project could be included in the proposal.

8.10 Intellectual Property Rights, Publications

8.10.1 Measures to protect technologies, processes, products, studies and copyrights developed under the project should be specified along with, where appropriate, measures to make them available to Member Countries of the Fund. The policy of the Fund with respect to intellectual property rights (IPR) is to ensure that the output (technology, know-how etc.) emanating from each project, for which it provides finance, benefits to the highest extent possible the intended beneficiaries for that project, who can span from generally all developing countries to clearly defined population groups. IPR policy of the Fund is intended to prevent such output from being “hi-jacked”, for instance through patenting, by third parties to the detriment of the intended beneficiaries. In most cases this is taken care of through placing such outputs in the public domain; thus making them available to everybody and at the same blocking third parties from acquiring exclusive, protected rights thereto. There might however be cases - depending on the nature of the actual output in question and the parties concerned – where placing the output in the public domain might not serve the protective purpose intended. In such cases, it could be considered necessary to establish so-called “defensive patents” in favour of the CFC so as to be in control of the use of the technology emanating from the project and thus ensure, for instance through licensing terms, access for the intended project beneficiaries to also subsequent, further developed stages of such technology. It is only in rare cases that the CFC would take out property rights protection of project outputs for the purpose of securing financial gain therefrom. If so be done, any net return thus gained would be “recirculated” into new projects. In line with the above principles it is the general policy of the CFC to reserve for itself from the outset ownership and title to technology, know-how etc. emanating from projects subject to CFC funding. What could, however, be shared *pro rata* with major cash co-financiers would be actual financial return gained by the CFC from project developed intellectual property, in combination with a corresponding sharing of related expenses. The PEA and other collaborating institutions and persons should be informed at the outset of this policy of the Fund with respect to intellectual property rights of the project. It is the responsibility of the ICB or any other institution or country submitting a project to ensure that existing intellectual property rights will not be violated. If intellectual property rights exist on a technology, process, product, study or information in written documents, which will be used in the project, the Fund must be informed accordingly at the time of project submission by the submitting entity. A written consent from the holder of the intellectual property rights must be appended to the project proposal/profile. No technology or development will be patented without the consent of the CFC.

8.10.2 The Fund usually maintains the rights to publish the project outputs and results, often as CFC Technical Papers. The Fund also expects all related publications and studies to fully acknowledge CFC funding and for CFC's name, address and logo to be appropriately displayed on cover and title pages. If such studies are not reviewed by CFC before distribution, a disclaimer should be included.

8.11 Costs and Financing

8.11.1 A financing plan by component and category line and item of expenditure should be provided, using the format provided in Annex III. The preparation of this plan is facilitated by referring to the detailed cost table where the sources of funding of different items of expenditure are specified. Both the financing and cost estimates should be summarised in the formats indicated in Annex III.

8.11.2 It should be noted that the Fund is keen to keep overhead costs low. Hence, the Fund will carefully scrutinise costs allocated to project management and control.

8.12 Work Plan

8.12.1 A detailed work plan for the project should be specified by component and activity, on a quarterly or bi-annual schedule. It should include proposed quantifiable milestones for monitoring project implementation. A bar chart should be provided along with the work plan to reflect the relationship of the various components. The format to be used is shown in Annex IV.

8.13 Monitoring, Supervision and Evaluation

8.13.1 The monitoring process during project implementation should be described with monitoring indicators and institutional responsibilities. The type and periodicity of reporting should be indicated. The mode of supervision by the Supervisory Body should be specified. Reference should also be made to the mid-term evaluation and the preparation of a Project Completion Report, financial reporting requirements and annual audits. Adequate provision should be made in the project budget for the costs of supervision, audit, monitoring and evaluation. Further details of how projects are supervised, monitored and evaluated are given in the next section of this Manual.

8.14 Risk Assessment

8.14.1 Any undertaking is likely to involve some underestimation of problems and unforeseen processes which may hinder the attainment of the set objectives. Such problems, which cannot be completely avoided, constitute risks. During formulation of a project, risks should be analysed and efforts made in the project design to minimise them. Risks may be analysed by category, e.g., technical, institutional, market access, prices, climatic and other environmental factors. An opinion should be provided as to what extent the achievement of the project results will be affected by the risks identified.

8.15 Additional Sections for Loan-Financed Projects

8.15.1 All the above sections of a project document relate to all projects, irrespective of whether they have grant- and/or loan-financed components. Additionally, the incoming document for all projects with a loan component should have the following additional sections related respectively to:

- borrowers and guarantors;
- cash flow, internal rate of return and sensitivity analysis; and,
- repayment schedule.

8.15.2 Each of these sections should describe the financial status of **each borrower and guarantor** and the nature of the guarantees. The descriptions should cover:

- audited financial statements and additional details which may be necessary for a full understanding of such statements. Liquidity, leverage and efficiency, including profitability in the case of industrial or commercial entities, must be analysed and indicated;
- access to borrowed and/or equity capital;
- reputation;
- prospects;
- legal ability to borrow (in the case of the guarantor to offer guarantees) and any requirements for execution of loan/guarantee contracts, especially with foreign creditors or beneficiaries, for example, authority from central banks etc.;
- any links between the borrower and the guarantor which may affect the guarantees; and
- rights of third parties which may influence the enforceability of loan and guarantee instruments.

8.15.3 For the activities proposed to be loan-financed, **the cash flow** should be projected and the financial **internal rate of return** (IRR) calculated. The cash flow projections, covering also the balance sheet and profit and loss statement, should range from the beginning of the project until such time as the cash flow becomes constant or cyclical. Examples of projections of Profit and Loss Statement, Balance Sheet and Cash Flow are given in Tables 9, 10 and 11 of Annex III of this Manual. All financial projections should reflect reasonable and mutually consistent assumptions and these should be explicitly stated. Sufficient qualitative and quantitative market information should support sales projections including quantities and prices of each product and the projected product mix. The qualitative information should indicate the identification of the channels through which produce is expected to reach consumers. This should include assessment of the capacity of such channels to absorb the kind and quantity of products expected from project implementation. Any measures to enable those channels to absorb project outputs should be indicated. The cash flow analyses will require assumptions to be made for the following:

- prices of capital expenditure items (e.g. scion material, equipment etc.);
- prices of raw materials;
- prices of other expenditure items (e.g. wages, energy, third party services etc.);
- quantities and mix of raw materials and other inputs bought;
- input/output ratio, wastes in the process and consequent quantities and mix of products for sale;
- duration of the production cycle, turnover of stocks of raw-material, stocks of goods being produced (including salaries and wages incorporated), and stocks of finished goods;
- quantities, product mix and prices of sales;
- length of terms for payment received from suppliers and discounts or interest rate applicable;
- length of terms for payment granted to customers and discounts or interest rate applicable;

- interest rates for borrowing funds other than from CFC. The interest rates to be considered for the CFC-proposed loan should also be indicated in accordance with the Table 2 given in section 7.2 of this Manual;
- interest rates for any surplus cash; and,
- foreign exchange rates, if applicable (e.g. to purchase of capital goods or to foreign loans).

8.15.4 The financial internal rate of return should be calculated from the projected cash flow, explicitly reflecting the above assumptions. The adequacy should be assessed of the cash projected to be generated by project activities and the requirements of paying interest and debt amortisation. If any discount rates are used (e.g. to calculate the present value of a particular series of payments which is then taken as one single entry in the cash flow projections), they should be explicitly stated. The sensitivity of the IRR and cash flows to critical assumptions should be assessed. This should be undertaken through **sensitivity analysis** making assumptions or scenarios reflecting varying levels of optimism, resulting in the preparation of alternative financial projections and IRRs.

9. SUPERVISION, MANAGEMENT, MONITORING AND EVALUATION OF PROJECTS

9.1 Supervisory Body (SB)

9.1.1 The Fund normally expects the submitting ICB (or an entity within the ICB) to assume the role of Supervisory Body for the project with clearly defined responsibilities. If, in exceptional cases, the ICB is considered inappropriate, full reasons should be given and an alternative proposed. If a separate institution is appointed by the ICB as Supervisory Body, such an institution should be an international institution active in the field of commodities, development or financing. It may also, in exceptional cases, be a body established for this sole purpose. The selected institution should be acceptable to the Fund. The ICB will provide such an institution with suitable terms of reference. Such appointment will not relieve the ICB of the responsibility of supervision, as reporting will be through the ICB and the ICB will meet the cost of such a contractor.

9.1.2 For adequate checks and balances, it is essential that the roles of the Supervisory Body and the PEA are carried out by separate and independent entities and that the dividing line between the two functions is clearly defined.

9.1.3 The Supervisory Body will supervise the project by examining all information submitted to it by the Project Executing Agency on implementation, including the financial management of the project. It will assess whether the actions undertaken, the expenditures made and the results achieved by the PEA conform to the project specifications as agreed. It will review the continued relevance of proposed project activities and the prospects for the project’s successful completion. The Supervisory Body shall submit to the Fund regular supervisory reports during the lifetime of the project in accordance with the Project Agreement.

9.1.4 The Supervisory Body will indicate the nature and timing of information it needs from the PEA in order to meet its responsibilities. The Supervisory Body will ensure that it receives this information. The Supervisory Body will keep the Secretariat of the Fund informed of the outcome of its assessments of the project. If the Fund requests information directly from the PEA, a copy of the information should also be sent by the PEA to the Supervisory Body. At the end of the project, the Supervisory Body is expected to provide a short assessment of the project, including comment on achievement of set objectives, the continuing relevance of those objectives, lessons of experience, and suggestions for improving future projects in the commodity concerned or more generally.

9.2 Project Executing Agency (PEA)

9.2.1 The ICB is responsible for selecting the PEA in consultation with the Fund. Selection of the PEA might well be the most important factor determining success or failure of a project. The PEA is the legal entity responsible for executing the project as approved by the Executive Board. Usually the PEA will be a suitably qualified and cost effective institution with a strong presence in the region in which the project will be executed with prior experience in the execution of development projects. It may be constituted nationally or internationally, be a public or private body or a Non-Governmental Organisation (NGO). The PEA shall be an organisation of a Member Country of the CFC or an international organisation.

9.2.2 The PEA is responsible for the execution and day-to-day management of the project in accordance with the Project Agreement and as required by the Fund and the ICB. There will be one PEA for each project irrespective of the number of project sites involved. A named individual within an institutional PEA should be designated as Project Manager. The PEA remains responsible for all project activities and accountable for project resources, even if some are delegated or sub-contracted. It is also responsible for the co-ordination and overall management of project activities and reports. The PEA will be required to report regularly to the ICB and to the Fund on the work done and progress made, as indicated in section 9.5 below.

9.2.3 Project funds may only be spent with the authorisation of the PEA for the purpose of the project. The PEA can cover project expenditure from project funds previously disbursed to it by the Common Fund or it may request the Fund to make payment directly to a sub-contractor or supplier providing goods and services for the project (see section 9.3 below).

9.2.4 The Fund will assess the suitability of a proposed PEA on the basis of the requirements of the individual project. It will verify the technical and administrative capacity and experience of the proposed body to carry out the functions specified in the Project Agreement and whether there are any conflicting interests in terms of carrying out the project in the most efficient and purposeful manner possible. It will verify the legal status of the PEA, in particular its rights to enter into international agreements, as well as its financial status and its track record in executing similar projects for the Common Fund and other funding agencies. An important point to be considered in appointing a PEA is the cost. Without sacrificing quality, the ICB must seek cost-effectiveness in selection of the PEA. If local expertise is available, it may be more cost-effective to make use of this experience than to hire an overseas agency.

9.2.5 It is usually helpful to identify the PEA early in the project's preparation so that the PEA can participate in the process of design. This will enable the PEA to fully understand the needs of the project during implementation. The PEA should have experience in the countries where the project is to be implemented and good working relations with other agencies that may be involved in project implementation. Where possible, the organisation that is going to do the actual work should be designated as the PEA, thus reducing costs and increasing efficiency.

9.3 Grant and Loan Disbursements and Loan Repayments

9.3.1 Disbursements can be made in three ways, namely through payment of an advance (Authorised Allocation) into the project account, reimbursement of eligible expenditures incurred by the PEA and direct payments to suppliers and contractors. Each disbursement requires a withdrawal application from the PEA to the Fund, accompanied by the appropriate documentation as specified in the Project Agreement.

9.3.2 The first payment (Authorised Allocation) to the project account would be made only after the project has been declared effective, that is when all conditions for disbursement are met. Disbursement conditions normally include signing of the Project Agreement between the Fund, Supervisory Body and the PEA, signing of the Grant Agreement between the Fund and Supervisory Body confirmation of co-financing, opening of the project account in freely convertible currency, designation of persons authorised to operate the project account, signed Memoranda of Understanding or Project Implementation Agreements (PIAs) between the PEA and participating institutions and agreement by the Fund and the ICB on the first annual work plan and budget. The Authorised Allocation is normally replenished during the final year of the project through the submission to the Fund of documented eligible expenditure.

9.3.3 All requests for disbursement must be signed by authorised persons whose signature has been provided to the Fund. Disbursements will be subject to satisfactory progress of the project. The details of disbursement procedures, along with forms for making applications for disbursements are contained in the **Financial Procedures Manual**, which is supplied to the PEA before project implementation starts. However, it is advisable that the PEA acquaints itself with the basic disbursement procedures at an early stage of project formulation.

9.4 Procurement

9.4.1 The Fund has specific guidelines for procurement of goods and services, and the appointment of consultants under a project. The objective of the procurement guidelines is to ensure the procurement of suitable goods and services, as well as consultants at the most competitive prices and in a transparent manner. A general condition is that procurement under Fund-financed projects should be made from the Member States of the Fund. In a co-financed project this rule applies to the parts of the project financed by the Fund. Details of the Fund's procurement rules are contained in: Regulations and Rules for Procurement of Goods and Services, General Conditions for Loan and Guarantee Agreements and the Financial Procedures Manual. These documents are provided to the ICB and PEA at the start of project implementation.

9.5 Reporting

9.5.1 Reporting requirements will be specified in the Project Agreement. The Fund normally requires a report on progress of each project every six months starting on the date of signature of the Project Agreement. The format for such reports is provided in Annex V.

9.6 Monitoring and Evaluation

9.6.1 Although the ICB submitting a project will normally act as the Supervisory Body which supervises the project and its progress, the Fund will continue to maintain an active interest in the project, in both its implementation and monitoring. The Managing Director of the Fund remains responsible to the Executive Board for the cost-effectiveness and impact of work carried out with CFC funding. The discharge of this responsibility requires active project monitoring by the Fund's Secretariat.

9.6.2 The Fund does not get involved in routine project management. This is the responsibility of the PEA under the general guidance of the Supervisory Body. But this does not mean that the Fund will not intervene when implementation or supervision of the project are found to be inadequate. Certain project-related decisions may require prior consent from the Fund as specified in the Project Agreement.

9.6.3 At the beginning of a project, a launching meeting is held, involving the Fund, the SB and the PEA, either at the Common Fund headquarters or at the location of the PEA. The Secretariat monitors projects during implementation, evaluates their progress, and administers the grant and/or loan. Day-to-day project management, however, is the responsibility of the PEA under the general guidance of the Supervisory Body.

9.6.4 The Secretariat carries out project monitoring and evaluation to ensure that the Fund's resources are being effectively used for commodity-focused poverty alleviation in accordance with its mandate and policies and in pursuit of the specific objectives of the project, that prudence is exercised in financial management, to keep abreast of the progress in implementation and to offer advice, if required, in these areas. The monitoring and evaluation activities of the Fund include, but are not necessarily confined to, the following:

- <u>Analysis of progress reports</u>:
  - Progress reports by the PEA and comments of the SB thereon are analysed in terms of progress in implementation towards achievement of project objectives, identifying and overcoming constraints and reviewing expenditures made. Deviations from the original project are to be followed up with the ICB and PEA to take timely corrective measures;

- <u>Cost monitoring:</u>
  - The project costs and budgets approved by CFC's Executive Board, detailed in the Appraisal Report and summarised in Schedule 2 of the Project Agreement, provide the basis for cost monitoring. Expenditures and requests for payment are checked against these approved costs and annual budgets subsequently approved before disbursements are authorised. If deviations are found, the underlying reasons need to be identified and corrective measures agreed. Overdrawing of categories is only permitted in exceptional cases and always requires *a priori* approval from the Fund. If the amount overdrawn is less than 10% of the category it will normally be covered from existing funds under the unallocated category. If a payment instruction will lead to an overdrawn amount of 10% or more of the category a formal budget reallocation request is required;

- <u>Financial monitoring</u>:
  - the PEA is required to maintain accounts and records in accordance with internationally accepted accounting practices in order to enable efficient management of project resources and to furnish to the Fund and the SB periodical reports and information on the project, including financial information. Financial and audit reports are scrutinised to ensure that appropriate financial management systems are put in place by the PEA and that the Fund's financial procedures are followed;

- <u>Monitoring visits:</u>
  - on a selective basis, the Secretariat undertakes monitoring missions to project sites. These may be either pre-arranged with the PEA and ICB or unannounced. Such monitoring visits would normally be carried out in collaboration with the ICB concerned. Their nature may vary widely from a comprehensive assessment of the project and provision of guidance on steps to improve project implementation to more selective trouble shooting;

- <u>Mid-term review:</u>
  - every project financed by the Fund should be reviewed within a year of the mid-point in its duration. The purpose is to consider progress of the project thus far relative to planned objectives, agreed work plans and any new developments and to decide whether any

adjustments or changes in implementation are required. Specific terms of reference for the review should be prepared by the Fund in collaboration with the ICB and PEA as the time for the review approaches. Mid-term review is particularly important for “process” projects in which detailed planning for the whole duration of the project cannot be made at the outset, as certain decisions can only be taken once the outcome of previous decisions has become clear. Since an important aspect of mid-term review concerns plans for the remaining project period, it is essential that all parties to the Project Agreement and if possible, beneficiaries or their representatives participate. The Secretariat of the Fund normally prepares a report on the mid-term review. The participation of the Fund and the ICB in the mid-term review mission should be costed in the budget of the project;

- Mid-term evaluation:
  - when indicated in the Appraisal Report, the Project Agreement, or if agreed by the Fund, the mid-term review takes the form of an independent evaluation of project management, supervision, and monitoring. In order to ensure independence and to obtain a second professional opinion on the project, independent consultants or institutions are usually employed to carry out such an evaluation and report on it;

- Completion review:
  - this review, sometimes requiring a mission comprising the ICB and the Fund, involves examination of the final outcome of the work completed by the project, compared to its stated objectives. The value, sustainability and replicability of project outputs may also be assessed. An important aspect of this review is to derive lessons from the experience acquired by the project to improve the design, implementation and monitoring of future projects. As for mid-term reviews, completion reviews may take the form of more comprehensive tasks for which specific terms of reference would be prepared by the Fund and/or ICB and independent consultants would be employed; and,

- Impact evaluation:
  - this may be undertaken for some projects a year or more after their completion. Such an evaluation exercise is aimed at assessing the impact of a project, and its sustainability and replicability amongst intended beneficiaries. The assessment tries to compare the “with project” situation, reflecting the effects of a project's outputs, and the “without project” situation, as it is projected to have been without the project. Impact assessment should indicate whether observed effects can be attributed to the project or to external factors. Costs and benefits are also considered and conclusions may be drawn on the overall cost effectiveness of the project. To carry out an impact assessment, relevant base-line data are extremely useful. These should normally be collected at the outset of the project if they have not already been collected during the preparation of the project or at its appraisal. Impact evaluations are subject to specific terms of reference prepared by the Fund. Independent consultants are recruited for these evaluations. Format of the evaluation report is at Annex VII.

9.7 Modifications during Execution and Amendments to Project Agreement

9.7.1 Notwithstanding the care and attention put into preparing projects, it is conceivable that modifications or other decisions affecting the project will have to be made in the course of its implementation. In this event it is the role of the ICB to act as a focal point for the necessary deliberations which it must be able to do without delay. Amendments may be called for in the Project Agreement, e.g., re-allocation of grant/loan proceeds among categories, utilisation of savings and interest earned on the project account, extension of closing date, and so on. In such cases, the PEA should provide appropriate justification through the ICB to the Fund in a timely fashion, so as to allow meaningful deliberations and to avoid a *fait accompli*. The ICB will forward such requests for amendment, along with the justifications as well as its own recommendation, to the Managing Director of the Fund. Some ICBs acting as Supervisory Bodies may wish to delegate the necessary authority to a project committee or similar subsidiary body which can meet more frequently and at shorter notice than the main body of the ICB.

9.7.2 Generally, stipulated project objectives should be achieved within the stated time period. However, if required and only in rare instances, extension to projects will be granted with the agreement of the ICB and on the condition that there is no increase in the budgetary allocation by the Common Fund.

ANNEX I

Project Profile Format

A project profile includes all essential elements of a project but without details. The project information contained in the profile should, however, be adequate for a decision to be made on the suitability of the project for support by the Fund. Most importantly, the profile should include a logical framework as described in section 8.1 and Annex II.

A. Project Background and Commodity Strategy

Project Background – The origin of the project, the main theme of the project, current status of the work on the issue and the names of the submitting institutions and countries, should be stated with the date of project identification, the date of submission to the ICB and the action taken by the ICB including the date of endorsement by the ICB. Pertinent comments of the ICB when endorsing the project should be included.

Commodity Strategy - State the role the proposed project will play in meeting the objective(s) of the commodity strategy of the ICB.

B. Project Objectives and Rationale

Project objectives should contribute to the achievement of the goal(s) of the ICB's commodity development strategy. Each objective should be specific and quantifiable so as to facilitate project monitoring and evaluation. For example, a goal of a commodity development strategy may be to improve the market competitiveness through enhancement of productivity. A project objective towards this goal could be to introduce new high yielding varieties through production and distribution of improved seeds/planting materials, and on-farm demonstration. The rationale should relate also to the negative consequences for production, market share, or prices of not taking action as proposed in the project; or the positive impact of the project proposal on the competitiveness of the commodity or benefits to producers and consumers.

C. Project Components

A component is a discrete measurable action contributing to the achievement of the project objective. The project components taken together should ensure the achievement of the project objective. The components should be defined in a logical sequence including the objective, activities, and outputs of each. The logical framework is a very useful tool in defining these logical relationships. For the project objective mentioned in 'B' above the following example is given:

Component 1 Production of improved seeds

Objective: To produce enough improved seed for carrying out on-farm demonstrations in two countries.

Output: Production of 10 tons of improved seeds.

Sample Activities:

Activity 1 Selection of suitable production site.

Activity 2 Obtaining 10 ha for improved seed production.

Activity 3 Land preparation.

Activity 4 Planting of seeds.

Activity 5 Plot maintenance.

Activity 6 Harvesting and processing.

Activity 7 Packaging and storage.

D. Tentative Costs and Financing

Indicate a rough cost estimate by component, without further specifying the cost items. If donors/financiers have been identified, indicate their names and amounts of contribution if known.

E. Implementation Arrangements and Management

Provide implementation arrangements, including a tentative organisational structure for the project, specifying institutions to be involved, in particular the Project Executing Agency and the collaborating institutions.

F. Beneficiaries and Benefits

Specify the intended beneficiary population groups in each country proposed for direct inclusion in the project. Expected benefits should be described and mention made of indirectly benefiting population groups and countries.

G. Issues and Follow-up Actions

- identify issues (technical, institutions, policy, etc.) that need to be addressed during project formulation;

- indicate follow-up actions along with responsibilities; and,

- estimate a time frame for project preparation and the sequence of related activities.

ANNEX II

Logical Framework

Project Title: Commodity "A" Marketing and Trade in Liberalising Commodity A-Producing Countries

Estimated Project Starting Date _______________
Estimated Completion Date __________________
Date of this Summary______________________

NARRATIVE SUMMARY	OVJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>Programme goal: The broader objective to which this project contributes</u> To improve the quality of commodity A and the efficiency and transparency of its marketing and trade within liberalised market contexts.	<u>Measures of goal achievement</u> An increase in (a) the percentage of exports obtaining price premiums; (b) the number of local commercial banks financing commodity A marketing and trade.	Export & Customs Statistics; (b) Trade and Financial Data; Central Bank statistics & Annual Reports of commercial banks.	<u>Concerning long term value of project</u> Continuing political commitment to market liberalisation and to provide the supportive policy, legal and regulatory framework.
<u>Project purpose</u> (a) To improve quality assurance and certification in participating countries; (b) to improve the policy, legal and regulatory framework for more efficient and transparent private sector operations; (c) to provide market information and increase the transparency in farmgate price formation; (d) to reduce the risks in commodity A trade finance; (e) to disseminate systems in other liberalising commodity A-producing countries.	<u>Conditions that will indicate purpose has been achieved: End of project status</u> (a) Quality certificates accepted by importers; (b) recommendations for policy, legal and regulatory reforms; (c) increase in the farmgate price as a percentage of (fob) price received by commodity A producers; (d) increased value of commercial banks commodity A trade finance; (e) other countries implement similar trade finance systems.	(a) Quality control and certification records; (b) draft parliamentary papers and statutes; (c) MoA and/or survey data on farmgate prices as % of export data on (fob) prices; (d) survey of commodity A traders, exporters, central and commercial banks; (e) monitor enquiries & follow up actions of neighbouring countries for similar trading systems.	<u>Affecting purpose to goal link</u> (a) Price premiums sufficient to remunerate additional efforts required to assure quality; (b) governments remain committed to private sector reforms; (c) commodity A traders willing to pass on benefits from reduced transaction costs and price risks in higher farmgate prices; (d) banks accept warehouse receipts as collateral for commodity A trade finance; (e) the system to be established proves to be economically sustainable.
<u>Outputs</u> (a) A lower cost and transparent system of trade finance using underlying commodity as collateral; (b) sustainable improvements in quality of commodity A exports; (c) higher percentage of (fob) prices paid to smallholder farmers.	<u>Magnitude of outputs necessary and sufficient to achieve purpose</u> (a) System piloted successfully in participating countries; (b) increased proportion of commodity A exports attract premium quality prices; (c) rising farmgate prices as percentage of (fob) export price.	(a) Detailed analysis of costs and benefits of tested system in project reports and appraisal by users at terminal workshop; (b) Export & Customs Statistics; (c) as in c) above.	<u>Affecting output to purpose link</u> (a) System is adaptable across commodities and countries; (b) the international commodity A industry is willing to pay a premium for quality; (c) farmers are not *cheated* by traders in price negotiations.
<u>Inputs: Activities and types of resources</u> (a) Technical and private sector support to establish framework and guidelines for warehouse receipts; (b) institutional training, logistics and technical support for political, legal and regulatory reforms and enhanced transparency; (c) quality control equipment, technical assistance and training for responsible institutions; (d) technical assistance and training to banks and participating institutions.	<u>Level of effort/expenditure for each activity</u> **Component 1** (USD 790,000) promotion of privately run warehousing system. **Component 2** (USD 821,000) development of market information system. **Component 3** (USD 1,106,000) development of a quality assurance system. **Component 4** (USD 12,258,000) development of a commodity trade finance system. **Component 5** (USD 1,115,000) implementation of project at national level. **Component 6** (USD 790,000)Project execution, training and dissemination.	PEA Project Progress Reports. Annual Audit Reports. Participation in Advisory Committee and terminal dissemination workshop. Trials of the pilot trade finance system. Periodic reports and on-site visits to assess progress in implementation.	(a) Financing from all sources is made on a timely basis in line with proposed activities and Annual Work Plan/Budget; (b) the PEA, national management units and collaborating institutions co-ordinate & execute the project efficiently and effectively; (c) governments remain committed to private sector reform and diminishing the role of the state in commodity marketing and trade.

ANNEX III

Cost and Financing Estimates

A. General

All project costs should be shown at the prices which prevail at the time when the proposal is made; so no allowance is made when calculating the base cost either for exchange rate changes or for inflation over the period of operation of the project. This is taken care of by price contingencies. Prices should exclude all identifiable taxes and duties as Member Countries of the Fund have agreed not to levy taxes on projects funded by CFC.

The project cost shall be detailed by component and category of expenditure. Sub-categories may be used where required. Items of expenditure with a unit value exceeding USD 500.00 shall be detailed by category line on an annex to the project budget. This annex, which must be prepared separately for each financier of the project, forms part of the Appraisal Report. The format for this annex is provided in Table 8.

Costs should be indicated on a yearly basis and be expressed in USD. In cases where some items of costs are originally estimated in other currencies, for example local staff salaries or locally procured materials, the exchange rate between the USD and that particular currency at the time of the estimate should be indicated.

The format for cost tables for all projects is given in Tables 3 to 8. Tables 9 to 11 are additional for loan-financed projects.

B. Cost Estimates Format

Cost tables should be prepared in a simple spreadsheet format. Ideally, these would be prepared in Microsoft Excel and transmitted to CFC by e-mail. The standard category line definitions as defined below should be used.

Category I: Vehicles, Machinery and Equipment

This covers the purchase of capital goods which at the end of the project are expected to have residual value (for example, vehicles, technical and office equipment). In a separate note, types and specifications should be provided. Justification for the list of items should be provided that may assist decision making with regard to the final selection of identified items including compatibility with existing facilities, availability of spares and servicing facilities etc.

Category II: Civil Works

This category covers works such as buildings, roads, irrigation works, green houses, stores etc.

Category III: Materials and Supplies

Covers materials and supplies which will be consumed during the lifetime of the project. Any such item to be purchased for use in the project should be grouped logically and listed. Where appropriate, details shall be provided in an annex. Items of expenditure can include chemicals, fertilisers by type, stationery, diskettes, films etc.

Category IV: Personnel

This line covers remuneration for local staff and local consultancies. The personnel to be employed on the project should be listed by title. The list will include only local personnel, either provided from an existing pool of staff or recruited especially for the project.

Category V: Technical Assistance and Consultancy

The items here should relate to internationally recruited Technical Assistance (TA) staff and consultants. Title and function should be specified. Any externally recruited personnel with tenure of nine months and above should be classified as TA staff while others will be listed as consultants.

Category VI: Duty Travel

This category covers travel costs of project staff and per diem subsistence allowance. When a person travels at the expense of the project, he/she shall receive the per diem subsistence allowance up to the prevailing United Nations schedule for per diem travel allowance. Who will be travelling and for which purpose should be indicated. Provisions for official travel should be limited to what is strictly necessary and only specified (destination and purpose) costs shall be considered. In the column sub-categories the following lines may be inserted: a) international travel and b) local travel. For all official travel by air, air travel cost shall not exceed economy class rates.

Category VII: Dissemination and Training

Where training is to be included in the project, course fees not included in personnel costs shall be shown here. This includes the costs of workshops, fellowship schemes, etc., to disseminate the results of the project. Sub-categories should be shown, e.g., a) training (indicate type of training), and b) workshops/seminars. Sub-category lines can be listed to include, *inter alia*, travel workshop participants, DSA workshop participants, books, training fees etc.

Category VIII: Operational Costs

Appropriate fees to be paid to the Project Executing Agency to cover costs such as overheads, use of facilities, administrative support such as costs for communication and report writing and bank charges incurred by the PEA in carrying out the project. Overheads charged to the project should be the same as normally used by the PEA or implementing agency and shall not exceed 8% of actual total project expenses. This category also includes the fees for annual auditing. These activities should be listed separately with the sub-categories specified. Sub-categories can include utilities, office space, maintenance and operating expenses for vehicles, machinery, equipment, and general operating expenses including reporting costs.

Category IX: Supervision, Monitoring and Evaulation

This category covers the costs of project review missions to be carried out by the Common Fund and the Supervisory Body as stipulated in the Project Agreement. It may include costs of a mid-term and/or completion evaluation or impact assessment and the cost of a final publication where appropriate. These activities should be listed separately with the sub-categories specified.

Category X: Contingencies

A maximum of 5% of the total budget may be allocated to contingencies. These are intended to cover price increases, exchange rate fluctuations and category over-runs to a maximum of 10% of the category amount.

Note: The budgets for Categories IX and X will be completed by the Fund and administered separately.

C. Summary Cost Tables and Financing Plan

The summary of the costs should be provided both by component and category of expenditure. The summary costs are derived directly from the detailed cost table. Similarly, the financing plan should also be provided.

Table 3 Summary Cost Table by Component (000 USD)
(Project Title)

Project Component	**Total Cost**	**CFC Contribution**
1.		
2.		
3.		
....		
....		
Total		

Table 4 Summary Project Cost by Component and Year
(Project Title)

Component	**PY1**	**PY2**	**PY3**	**Total Cost**
1				
2				
3				
Etc.				
Sub-Total				
Contingency				
Grand Total				

Table 5 Summary Project Cost by Category of Expenditure
(Project Title)

Category	Total Cost	CFC Contribution
I Vehicles, Machinery and Equipment		
II Civil Works		
III Materials and Supplies		
IV Personnel		
V Technical Assistance and Consultancy		
VI Duty Travel		
VII Dissemination and Training		
VIII Operational Costs		
PEA Sub-total		
IX Supervision, Monitoring and Evaluation		
X Contingencies		
Grand Total		

Table 6 Detailed Cost Table by Category and Item of Expenditure*
(Project Title)

1	2	3	4	5	6	7
Category of Expenditure	**Sub-category of Expenditure**	**USD PY1**	**USD PY2**	**USD PY3**	**Total Cost**	**Financier**
I						
II						
III						
…						
PEA Sub-total						
IX						
X						
Total						

*This format assumes a 3-year project implementation period PY1-PY3.

Table 7 Summary Financing Plan by Component and Source
(Project Title)

Component	CFC	Co-financier A	Co-financier B	Counterpart Contribution	Total Cost
1					
2					
3					
Etc.					
Total financed					
% financed					

Table 8 Detailed List of Inputs by Category of Expenditure and Financier
Name of Financier:

Cat. Code	Category Name	Sub-cat. code	Sub-cat. name	Item of Expenditure	Unit	Unit Price	Quantity	Total Costs
I	**Vehicles, Machinery & Equipment**	I.1	Vehicles	as applicable	item			
		I.2	Machinery	as applicable	item			
		I.3	Equipment	as applicable	item			
II	**Civil Works**		as applicable	as applicable	item			
III	**Materials & Supplies**		as applicable	as applicable	item			
IV	**Personnel**	IV.1	Local Staff	as applicable	month			
		IV.2	Local Consultancies	as applicable	month			
V	**TA & Consultancies**	V.1	Internat. TA	as applicable	month			
		V.2	Internat. Consultancies	as applicable	month			
VI	**Duty Travel**	VI.1	Internat. Travel Costs	as applicable	journey			
		VI.2	Local Travel Costs	as applicable	journey			
		VI.3	DSA	as applicable	nights			
VII	**Dissemination & Training**	VII.1	Workshop	Travel	journey			
				DSA	nights			

(Table 8 continued)

				Other				
		VII.2	Training	as applicable				
		VII.3	Other	as applicable				
VIII	**Operational Costs**	VIII.1	Utilities	as applicable				
		VIII.2	Office Rent	as applicable	months			
		VIII.3	Maintenance	as applicable	Lumpsum			
		VIII.4	Audits	as applicable	Reports			
		VIII.5	Overheads	as applicable	Lumpsum			
		VIII.6	Sundries	as applicable	Lumpsum			
		VIII.7	Reporting cost	as applicable	Reports			
	TOTAL PEA BUDGET							
IX	**Supervision , Monitoring and Evaluation**	IX.1	CFC Monitoring					
		IX.2	SB Supervision					
		IX.3	Evaluation					
		IX.4	Publication					
		IX.5	IRR					
X	**Contingencies**				%			
	TOTAL BUDGET							

Table 9 Example of Projected Profit and Loss Statement

Description	**During Financial Year**				
	1	2	3	…	PP
Sales revenue					
Cost of sales (including depreciation)					
Gross profit					
Administrative & marketing costs					
Profit before interest					
Interest – short term					
Interest – long term					
Net profit					
Dividends distribution					
Retained earnings					
Accumulated retained earnings					

PP: the year when the cash flow becomes constant or a group of years in which it became cyclical.

Table 10 Example of Projected Balance Sheet

Description	**At the End of Financial Year**				
	1	2	3	…	PP
Assets					
Fixed Assets					
Land					
Buildings					
Plant					
Less accumulated depreciation					
Net Fixed Assets					
Current Assets					
Inventories					
Receivables					
Securities					
Cash and bank					
Total Assets					
Equity and Liabilities					
Share capital					
Retained earnings					
Total Equity					
Long-term loans					
Current Liabilities					
Short-term loans					
Payables					
Total Current Liabilities					
Total Liabilities and Equity					

PP: the year when the cash flow becomes constant or a group of years in which it became cyclical.

Table 11 Example of Projected Cash Flow

Description	**Pre**	**Flows During Financial Year**				
	Start	1	2	3	…	PP
Operating Activities:						
Cash received from customers						
Interest and dividends received						
Cash payments to suppliers						
Cash paid to / on behalf of employees						
Interest paid						
Payments to Customs & Excise on operating activities						
Corporation tax paid						
Charitable donations						
Cash flow from operating activities						
Investing Activities:						
Purchase of shares in ABC Ltd. (trade investment)						
Purchase of fixed assets						
Sale of patent						
Sale of plant and machinery						
Received from Customs & Excise on investing activities						
Cash flow from investing activities						
Financing Activities:						
Increase in short-term borrowings						
Mortgage on property						
Payment of dividend						
Cash flow from financing activities						
Net fluctuation in cash and cash equivalents						
Cash and cash equivalents by the beginning of the period						
Cash and cash equivalents by the end of the period						

PP: the year when the cash flow becomes constant or a group of years in which it became cyclical.

ANNEX IV

Work Plan and Implementation Schedule

The preparation of the work plan and implementation schedule provides the initial basis for project planning and monitoring during implementation. The PEA and collaborating institutions should preferably be involved in this process. The work plan and implementation schedules reflect, in tabular form and in charts, the project's content, organisation and management. They should, therefore, be fully consistent in all respects with the overall logical framework of the project.

The work plan and implementation schedule may be prepared quarterly or bi-annually to reflect local fiscal or other considerations. The work plan should be prepared first by component and then aggregated into the project's overall work plan. The implementation schedule (usually a bar chart) shows the time sequence of implementing major activities in the work plan. For consistency, it is best prepared after the work plan.

Sample formats for the preparation of a work plan for a project component and an implementation schedule are given in Charts I and II, respectively. The samples assume a two-year implementation period and quarterly programming.

Chart I

Title: (Specify the title of the project)

Work Plan

Component 1: (Indicate the component)

PY	Quarter	Main Activities to be Implemented	Responsibilities	Output
1	1			
	2			
	3			
	4			
2	1			
	2			
	3			
	4			

Chart II

Project Title: (Specify)

Implementation Schedule

Component	Activity	PY1				PY2			
		QRT 1	QRT 2	QRT 3	QRT 4	QRT 1	QRT 2	QRT 3	QRT4
1	1.1	------							
	1.2	----------	------						
	1.3		---------	----------------	----------------	----------------	------		
	1.4						--------------	------------	------
2	2.1		----------------	----------------	--------				
	2.2				--------	----------------	--------------	------	
	2.3								------------

ANNEX V

Model Format for Project Implementation Agreement

The CFC Secretariat has developed a model format (given below in its form as of March 2002) for Project Implementation Agreements (PIA) to be concluded between the PEA and collaborating institutions in connection with projects financed by the Common Fund. Such agreements are required in order to clearly identify the tasks and obligations of each respective collaborating institution and the terms and conditions upon which these tasks are to be performed.

The purpose of the model format is to provide a tool for PEAs which will hopefully ease the drafting process in connection with such format agreements, as well as ensure concordance with the terms of the Project Agreement prevailing in each case.

As the conclusion of such agreements – or contractual relationships to a similar effect – in an appropriate form is normally a condition for any disbursements to be made by the Common Fund under a project, the present model will hopefully also lead to quicker compliance with such conditions and thus contribute to speeding up the process towards commencement of actual project implementation.

The model format addresses the issues that normally pertain to the participation of more central collaborating institutions. Modifications and/or supplemental provisions may apply in individual cases depending on the terms of the Project Agreement in question as well as other project specific matters. The PEA and collaborating institution may of course, at their discretion, also find additional, non-project related provisions appropriate.

The model format is subject to change, not least on the basis of feedback from users. Accordingly, it is strongly recommended that potential users consult the latest version of the model format as contained in the continuously updated Project Manual published on the Common Fund's website, from where an electronic version can be downloaded. Equally, users may wish to contact the Secretariat of the Fund for the latest edition of the model format.

<u>MODEL FORMAT</u>

(Version as of March 2002)

PROJECT IMPLEMENTATION AGREEMENT

entered into between

[**Full name of the PEA**]

and

[**AAA**]

WHEREAS the Common Fund for Commodities (hereinafter referred to as the "**CFC**"), the [..relevant ICB..] (hereinafter referred to as "the **SB**") and the …….(hereinafter referred to as "the **PEA**") have as of the …(date)… concluded an agreement, (hereinafter referred to as "the **Project Agreement**") on the project "………." (hereinafter referred to as "the **Project**");

WHEREAS the Project is to be implemented in accordance with the provisions set out in the Project Agreement as supplemented by the terms and specifications set out in the Appraisal Report of the CFC dated ……….. (hereinafter referred to as the "**Appraisal Report**");

WHEREAS the CFC has agreed to provide a grant (hereinafter referred to as the "**Grant**") in an amount up to USD ……(………. United States of America Dollars) for the Project pursuant to and upon terms and conditions set out in *inter alia* the Project Agreement;

WHEREAS the SB is the Supervisory Body (as defined in the Project Agreement) for the Project and is thereby responsible for supervising the implementation of the Project in accordance with the Project Agreement;

WHEREAS the PEA is the Project Executing Agency (as defined in the Project Agreement) appointed by the CFC and the SB and is thereby obligated to implement and manage the Project, supervise and control the application of the proceeds of the Grant and report to the CFC and the SB in accordance with the provisions of the Project Agreement;

WHEREAS the PEA and [AAA] have agreed that [AAA] shall, upon and subject to the terms and conditions of this Agreement, carry out the Project activities (such activities hereinafter referred to as the **"[AAA] Project Activities**") specified in Schedule 1 to this Agreement;

WHEREAS a portion (hereinafter referred to as the "[**AAA] Grant Allocation**" of the Grant, in the amount of USD……(………..United States of America Dollars) has, pursuant and subject to the terms of the Project Agreement, been allocated to coverage of Eligible Expenditures (as defined in the Project Agreement) to be incurred under the implementation of the [AAA] Project Activities;

[(***If applicable:)*** **WHEREAS** [AAA] has committed itself, which commitment is confirmed by [AAA]'s signature on this Agreement, to make available for the Project, free of charge, contributions (hereinafter referred to as the "[**AAA] Counterpart Contribution**") in kind [in cash] corresponding in aggregate value to the equivalent of USD […..], as specified [in the Appraisal

Report];

WHEREAS photocopies of the Project Agreement and the Appraisal Report have been made available to [AAA];

NOW THEREFORE the Parties hereby agree as follows:

ARTICLE I

Allocation and Application of Proceeds of the [AAA] Grant Allocation. Reimbursement of Expenditures

Section 1.01: Upon and subject to the terms and conditions of this Agreement and the Project Agreement, the PEA will advance funds received by itself from the [AAA] Grant Allocation, to [AAA] for the financing of Eligible Expenditures (as defined in the Project Agreement) incurred by [AAA] in the implementation of the [AAA] Project Activities in accordance with [the Project Agreement/Appraisal Report/agreed periodical work plans and budgets…***to be "tailored" for each Project***].

Section 1.02: Pursuant to Article 48 of the Agreement Establishing the Common Fund for Commodities, and as set out in the Project Agreement, all operational activities undertaken in Member States of CFC shall be exempt from taxation and from all customs duties on goods imported and exported. Taxes and duties incurred are therefore not eligible for financing through funds received by [AAA] from the PEA under this Agreement.

[Section 1.0..: [AAA] shall receive no reimbursement, compensation or other benefit from the Grant in respect of the [AAA] Counterpart Contribution ***(if applicable)***.]

[**(*If applicable*:)** Section 1.0..: [AAA] shall open with a bank [of at least AA rating and] acceptable to the PEA, a designated, interest bearing bank account (hereinafter referred to as the "**Project Account"**) in convertible currency and separate from [AAA]'s other bank accounts, to receive payments from the PEA for implementation of the [AAA] Project Activities.] All interest accrued on funds deposited in the Project Account shall be the property of the CFC and shall remain in the Project Account unless and until otherwise instructed or approved by the CFC.]

Section 1.0…: The aggregate amount receivable by [AAA] under this Agreement shall under no circumstances exceed the [AAA] Grant Allocation.

ARTICLE II

Obligations and Responsibilities of [AAA]

Section 2.01: [AAA] shall, upon and subject to the terms and conditions of this Agreement, carry out all [activities] comprised by the [AAA] Project Activities, in accordance with the provisions of the Project Agreement and the Appraisal Report.

[***(If applicable:)*** Section 2.0..: [AAA] shall duly provide the [AAA] Counterpart Contribution in accordance with the Appraisal Report.]

Section 2.0…: [AAA] shall procure that the proceeds of all disbursements received by itself from [the PEA] under this Agreement are applied exclusively to the financing of Eligible Expenditures incurred under the [AAA] Project Activities in accordance with the provisions of this Agreement, the Project Agreement and the Appraisal Report.

[***(Unless obviously unreasonable:)*** Section 2.0..: [AAA] shall take the necessary measures to ensure that tax and duty exemptions in accordance with Section 1.02 are obtained for all operational activities comprised by the [AAA] Project Activities.]

Section 2.0..: [AAA] shall procure that the goods and facilities to be financed with funds received from [the PEA] under this Agreement, are insured against such risks and in such amounts as shall be consistent with sound commercial practice.

Section 2.0..: [AAA] shall acquire, maintain and review all rights, properties, powers and privileges which are necessary in the carrying out of the activities comprised by the [AAA] Project Activities.

Section 2...: [AAA] shall procure that the activities comprised by the [AAA] Project Activities are carried out with due regard for environmental factors. To this effect, [AAA] shall ensure that all fuels, chemicals and processes financed from proceeds of the Grant meet the applicable environmental regulations.

Section 2....: [AAA] shall facilitate, to the extent that may be required, the monitoring, supervision and evaluation missions undertaken by the CFC, the SB and the PEA] under the Project Agreement, and shall provide any data, particularly but not restricted to financial transactions under the Project, requested to facilitate the work of such monitoring, supervision, and evaluation missions.

Section 2....: In each publication, documentation, information statement, release or any other hand-out copy or software programme published or otherwise disseminated by [AAA] and relating to the Project, [AAA] shall procure that the following is prominently displayed:

"This project is being financed by the Common Fund for Commodities, an intergovernmental financial institution established within the framework of the United Nations, headquartered in Amsterdam, the Netherlands."

Section 2...: All machinery, equipment, vehicles and other facilities financed through funds received by [AAA] from the PEA under this Agreement shall carry CFC stickers, to be provided by the PEA.

Section 2…: The activities to be carried out by [AAA] under this Agreement are to be completed within the ……………..

Note: It could, from a PEA's point of view seem recommendable to reflect somewhat more specifically some of the PEA's own responsibilities under the Project Agreement; for instance in terms of periodical work plans and reporting under Article VII, by introducing corresponding provisions on the part of [AAA], with reference to the [AAA] Project Activities, in the present Agreement. This is, however, entirely at the joint discretion of the PEA and [AAA], and of course dependent upon the specifics of [AAA] role in the project in question.

ARTICLE III

Conditions for Disbursement from the [AAA] Grant Allocation

Section 3.01: Any disbursement from the [AAA] Grant Allocation is conditional upon:

(i) this Agreement having been duly signed on behalf of the parties hereto,

(ii) the PEA has approved the relevant [periodical] work plan [and budget] in respect of the [AAA] Project Activities,

[(iii) ***if applicable***: the Project Account having been opened in accordance with the provisions of Section 1.[…], and [AAA] having provided to the PEA the signatures, names and titles of the authorized signatories for the [AAA] Project Activities and for the operation of the Project Account, and]

[(iv) ***if applicable:*** the financial reports to be submitted pursuant to Section 2[….], having been received in due time and in form and content satisfactory to the PEA.]

Section 3:02: In the event that

(a) any amount received by [AAA] from the [AAA] Grant Allocation shall have been applied in discordance with the terms and conditions of this Agreement, [or]

[(b) ***if applicable:*** the [AAA] Counterpart Contribution, or any part thereof, is not provided in accordance with the terms and conditions of this Agreement,]

then all disbursements from the [AAA] Grant Allocation shall be suspended with effect from such date.

Note: As the PEA is accountable towards the Fund for all disbursements made, it might seem desirable from the PEA's point of view, to include, for the PEA's own protection, additional disbursement conditions along the lines of the basic ones contained in Schedule 4 of the Project Agreement. This is, however, entirely at the joint discretion of the PEA and [AAA].

ARTICLE IV

Procurement, Ownership

Section 4.01: Procurement of goods, works and services to be financed from the Grant shall be carried out in accordance with the procedures laid down in the CFC's Regulations and Rules for the Procurement of Goods and Services of the Second Account (attached as Schedule 2 to this Agreement). Except as the CFC shall have agreed otherwise, all such goods, works and services shall be procured and contracted from Member States of the CFC.

Section 4.02: Technical and other equipment, materials, supplies and other property financed through funds received by [AAA] from the PEA under this Agreement or otherwise financed or provided by the CFC, shall belong to the CFC. Upon completion or cancellation of the Project, the CFC may transfer ownership of any such property to the PEA and/or such other institution or institutions as the

CFC may deem appropriate.

ARTICLE V

Intellectual Property Rights, Confidentiality, Publications and Dissemination

Section 5.01: Technology and know-how acquired as a result of the Project or otherwise emanating from the activities undertaken thereunder shall be the property of the CFC. The CFC may take out and maintain any intellectual property right protection to the results obtained and for the processes elaborated under the Project.

Section 5.02: [AAA] acknowledges and confirms that it has no rights of whatever nature to the technology and know-how acquired as a result of the Project or otherwise emanating from the activities undertaken thereunder, and that it shall keep all such technology and know-how confidential.

Section 5.03: The CFC shall have the exclusive right to the publication, in whatever form, of the results and technical outputs of the Project. The CFC shall own the copyright to and the revenues accruing from the sale of any publication issued by itself. The CFC may delegate fully or partly the right to publication to other parties involved in the Project.

Section 5.04: In the event of [AAA] wishing to take out a property right on technology or know-how acquired as a result of the Project or otherwise emanating from the activities undertaken thereunder, this shall be negotiated with the CFC in consultation with the PEA. The taking out of any such property right as referred to above, as well as the nature and extent of such right, shall be subject to the prior written approval of the CFC.

Section 5.05: [AAA] shall procure that no subsidiary, affiliate, employee, agent or contractor of [AAA] or of any legal entity owned or controlled by [AAA], will act in contravention with the terms of Sections 5.01 through 5.04.

Section 5.06: All rights as referred to in Sections 5.01 through 5.04, as well as all obligations contemplated thereby or by Section 5.05, shall survive the term of this Agreement.

ARTICLE VI

Suspension or Cancellation of the Project

If the Project, [or, as the case may be, the [AAA] Project Activities…***in the case of "phased implementation"…]***, is suspended or cancelled, or if the CFC has withdrawn from the Project, the PEA shall give immediate notice to [AAA]. Upon the receipt of such notice [AAA] shall immediately procure that notice is given to all subcontractors and staff hired for the purpose of implementation of the AAA Project Activities, to cease or suspend all activities relating to the Project with the shortest possible delay, and no further expenditures may be incurred under the AAA Project Activities except with the prior written approval of the PEA. Pending further instructions to be provided by the PEA, [AAA] shall be obliged to keep all assets and values pertaining to the Project which are in its possession in safe custody.

ARTICLE(S) [………]

<u>Provisions on:</u>

- **Indemnity/liability of [AAA] towards the PEA; for damages, etc.**

- **Governing law and jurisdiction, or if the Parties should so prefer, alternative dispute resolution mechanism;**

- **Entry into force/Amendments of the Agreement;**

- **Any further provisions which the Parties may find appropriate;**

to be inserted/formulated at the joint discretion of the PEA and [AAA].

Schedules: 1: The AAA Project Activities *(to be identified and elaborated by the PEA)*
2: The CFC Procurement Regulations *(attached)*

Exhibits: I: Photocopy of the Project Agreement *(to be added by the PEA)*
II. Photocopy of the Appraisal Report *(to be added by the PEA*)

SCHEDULE 2

The CFC Procurement Regulations

A. General

1. Except as the Common Fund for Commodities, in consultation with the ICO and the PEA, shall otherwise agree, the procedures set forth in the following paragraphs of this Schedule shall apply to procurement of goods and services to be financed out of the proceeds of the Grant.

2. Procurement of goods and services to be financed from the proceeds of the Grant shall be undertaken in accordance with the provisions, *mutatis mutandis*, of

(i) the Regulations and Rules for the Procurement of Goods and Services for Second Account Operations of the Common Fund for Commodities dated October 1990 (hereinafter referred to as the "**Procurement Regulations"**), as these may be amended from time to time by the Fund, and

(ii) the Fund's Financial Procedures Manual (hereinafter referred to as the "**Financial Procedures Manual"**), except to the extent otherwise authorized by the Fund.

In the case of any discrepancy between a provision of the Procurement Regulations, or of the Financial Procedures Manual, and a provision of the Project Agreement, then the latter shall prevail.

3. Pursuant to Article 48 of the Agreement Establishing the Common Fund for Commodities operational activities undertaken in Member States of the Fund shall be exempt from all direct taxation and from all customs duties on goods imported and exported. Such taxes and duties incurred are therefore not eligible for financing under the Grant. Accordingly, costs reported in statements of expenditure to be delivered pursuant to this Agreement shall be stated net of taxes and duties.

B. Procurement Provisions

4. International Competitive Bidding: Each contract the contract price of which being the equivalent of or exceeding USD 100,000 shall be subject to International Competitive Bidding.

5. Limited Competitive Bidding: Contracts for the supply of goods and services with a price equal to or exceeding the equivalent of USD 50,000 but less than the equivalent of USD 100,000 shall be awarded following Limited Competitive Bidding procedures.

6. International Shopping: Contracts for the supply of goods and services with a price equal to or exceeding the equivalent of USD 5,000 but less than the equivalent of USD 50,000 shall be awarded following International Shopping procedures.

7. Local Shopping: Contracts for the supply of goods and services with a price equal to or exceeding the equivalent of USD 500 but less than the equivalent of USD 5,000 shall be awarded following Local Shopping procedures.

8. Consultancy contracts shall be awarded following internationally accepted guidelines, to consultants, consultancy firms or consultancy organizations with experience and qualifications

satisfactory to the Fund and upon terms and conditions approved by the Fund.

9. The PEA shall furnish certified copies of all contracts as referred to in paragraphs 4 through 8 of this Schedule 3 to the Fund with copy to the ICO, before implementation of such contract is commenced and prior to the submission to the Fund of the first application for withdrawal of funds from the Grant in respect of such contract.

10. In respect of any contract as referred to in this Schedule 2, no material modification or waiver of the terms and conditions thereof, nor granting of an extension of the stipulated time for performance of such contract, nor amendment or series of amendments by which the contract price would be increased by more than USD 500, shall be made without the Fund's prior written consent.

ANNEX VI

Reporting Formats for Progress and Completion Reports

This annex presents the formats to be used by PEAs for reporting progress, every six months, in projects which have been approved. The annex also contains the format for a project completion report, to be completed by the PEA at the end of a project.

PROJECT PROGRESS REPORT
Project Title
Report No. ...

I. Project Summary:

1. Title:
2. Number:
3. Project Executing Agency (PEA):
4. Location:
5. Starting Date:
6. Completion Date:
7. Financing:
   - Total Project Cost:

   of which:
   - CFC Financing (Loan/Grant):
   - Co-financing:
   - Counterpart Contribution:

II. Period Covered by this Report:

From: To:

Periods Covered by Previous Reports:

Report No. Period

From: To:

III. Status of Project Implementation

Give a concise description of actual achievements (Present Status) against planned activities (Targets Set). Envisaged activities refer to activities as described in the Annual Workplan submitted at the beginning of the year. The description of targets versus actual achievements should include, where appropriate, estimates of absolute measurements, percentage completion as well as completion times. The remarks should include brief explanations of significant variations from set targets (for illustration purposes, information has been provided for one activity each of three components of an ongoing project).

Planned Activities		Targets Set	Present Status	Remarks
Component I: Acquisition and duplication of arachis germplasm:				
Activity 1.1:	Assembly of a computerised catalogue of germplasm accessions.	100 of the 200 accessions would be catalogued.	80 accessions have been catalogued.	Target not fully realised due to late recruitment of expert.
Component II: Conservation of additional germplasm:				
Activity 2.1:	Collect additional new germplasm.	Undertake a prospection and 2 collection missions.	Prospection and 2 collection missions in country A completed.	
Component III: Characterisation, identification of particular varieties and multiplication for distribution				
Activity 3.1:	Ensure the availability of germplasm for wide distribution.	Increase the supply of germplasm by seed for wide distribution.	Germplasm supplies by seed have been increased at ICRISAT.	Further increases will be subject to availability of funds.

IV. Resource Utilisation:

Component	Budget for the Year		Actual First Six-Months		Actual Second Six-Months		Balance	
	CFC	Co-Financing	CFC	Co-Financing	CFC	Co-Financing	CFC	Co-Financing
I								
II								
III								
IV								
Total								

Provide a brief report on the use of CFC resources of the project by completing Table IV for each Project Component disaggregated by individual Project Activities. Actual expenditure refers to management estimates and not necessarily final accounting figures.

V. PEA's Assessment of Project Progress and Prospects:

Using the headings listed below, provide an objective assessment of the current status of the project and identify prospects for development over the next reporting period:

1. Assessment of Technical Progress:
   - Include comments on any advance or delays in implementing the project activities, noting causes and possible corrective action where applicable, relating to the indicators of the Logical Framework.

2. Assessment of Resource Utilisation:
   - Comment on the use of resources to achieve the reported outputs providing explanations for any significant cost over-runs or under-runs of the reporting period. A brief report on the use of co-financing and counterpart resources during the reporting period is expected.

3. Assessment of Project Co-ordination and Management:
   - Comment on any special features of the co-ordination and management of the project that had a noted impact on the achievement of outputs over the reporting period.

4. Social and Environmental Effects of Project Implementation:
   - Comment on any social and or environmental issues associated with the project implementation process and outputs and make recommendations for improvement where appropriate. This should include any preliminary effects which are noticed by the PEA and which are considered actionable.

5. Forward Planning of Project Implementation:
   - Comment on the implementation plan over the next reporting period noting any significant changes to the original Workplan arising from the current implementation status.

VI. Conclusions and Recommendations:

Report on the conclusions drawn on project implementation based on the assessment of project progress and where appropriate, provide recommendations for improvement including any special assistance needed. Report on any deviations or divergence of implementation from the schedule of inputs, activities, budgets, etc., reflected in the Project Agreement.

Any other information relevant to project implementation may be annexed to this report as deemed appropriate.

PROJECT COMPLETION REPORT
(Project Title)

I. Project Summary:

1. Title:
2. Number:
3. Project Executing Agency (PEA):
4. Location:
5. Starting Date:
6. Completion Date:
7. Financing:
    - Total Project Cost: of which:
    - CFC Financing (Loan/Grant):
    - Co-financing by other donors:
    - Counterpart Contribution from participating countries/institutions:

II. Background and Context in which the Project was Conceived:

A brief description of the context in which the project was approved for financing by the CFC is required. This part of the report should describe the objectives, targets and envisaged outputs of the project, following its "logical framework" used when the project was designed. It should summarise implementation and financing arrangements. It should thus cover the following:

- the key commodity issues it was intended to address and relevance to the strategy of the sponsoring ICB;
- the specific objective(s) and expected outputs;
- the targeted beneficiaries and extent of benefits;
- project cost and financing plan;
- the management and implementation arrangements; and,
- borrower(s) and summary loan terms as approved.

III. Project Implementation and Results Achieved:

1. Project Implementation:
    - The project content including its rationale, project initiation, preparation and the efficiency and effectiveness of its implementation including project management, resource utilisation as well as project supervision should be described.

2. Project Results Achieved:
    - Results achieved by the project as compared to the targets set at the beginning of the project should be precisely presented with qualitative and quantitative analysis relating to the individual components of the project. Particular attention should be given to assessing whether the project outputs have reached target beneficiaries and on reviewing the extent of impact amongst them. The impact of the project on the physical and social environment should also be assessed.

3. Dissemination of Project Results:

- A description should be provided on how the project results have been, and would be, disseminated.

IV. **Lessons Learned:**

Lessons learnt from the design, project planning, financing, implementation, management, monitoring and supervision provide important inputs for future project design. Hence, lessons learnt could be provided under the following separate headings:

1. Development Lessons:
    - Lessons drawn from the project design for success or failure in achieving the project objectives should be specified. Factors which need to be taken into account in future project designs should be indicated.

2. Operational Lessons:
    - Lessons emanating from implementation arrangements and project management including definition of roles and responsibilities of collaborating institutions, financial administration and supervision, external factors that influenced project implementation, as well as project monitoring and evaluation, should be identified and corrective measures proffered.

V. **Conclusions and Recommendations:**

The conclusions drawn and recommendations made should be provided.

ANNEX VII

STRUCTURE OF THE EVALUATION REPORT

I. Executive Summary

- Main findings
- Major recommendations

II. Introduction

- Period and place(s) of evaluation
- Composition of the evaluation team

III. Description of the Main Elements of the Project

- Brief description of the commodity covered (1 to 2 pages maximum)
- Problem(s) to be addressed by the project
- The means applied to solve the problem(s)
- Stated beneficiaries
- Results to be achieved
- The main players involved
- SB
- PEA
- Collaborating Institutions
- Others
- Country coverage
- Relation to other projects financed by the CFC

IV. Analysis of Project Objectives

- Importance of the problem(s) addressed for the commodity and the beneficiaries
- Relevance to poverty alleviation
- Suitability of the means to address the problem(s)

V. Implementation Analysis

- Management of the project and its activities, including annual work plans
- Timeliness of implementation, achieving milestones
- Factors favourable and/or detrimental to project implementation
- Appropriateness of adjustments made during implementation
- Availability of co-financing and counterpart contributions
- Adherence to budgets

VI. Impact Analysis

- Project results against objectives and targets
- Economic (and social) importance of project results
- Impact on other factors (if any), such as environment
- Reaching the direct and indirect beneficiaries, including effectiveness of dissemination of project results
- Sustainability and replicability of project results

VII. Lessons Learnt

- Project design
- Project appraisal
- Implementation/operational aspects
- Sustainability

VIII. Recommendations

- For follow-up of the project

IX. Annexes

1. Methods applied for the evaluation
2. Work schedule
3. Places visited and persons contacted
4. Other sources of information

ANNEX VIII

Main Elements of a Commodity Strategy [2]

I. Introduction:

Commodities play a vital role in the economies of many developing countries, particularly the Least Developed and Low Income Countries; the Common Fund, therefore, pays special attention to this group of countries. The rationale for a commodity strategy is to identify suitable measures (action plan) to enhance the structural conditions in markets and the long-term competitiveness and prospects of commodities.

The commodity strategy by an International Commodity Body (ICB) should address the issues of the commodity from an overall point of view. The strategy should be reasonably brief (not more than five pages in total including Annexes). There should be an indication of which problems and/or measures would be given priority. The strategy paper should be reviewed every four years and updated if required by changing circumstances.

II. Elements of a Commodity Strategy:

A commodity strategy paper shall encompass the following elements:

1. Brief Profile of the Commodity:
   - A brief description, not exceeding one page, shall be given of the main structural aspects of the supply and demand situation of the commodity, covering the structure of production (large or small producers, geographical distribution, seasonal factors, etc), structure of consumption (industrial use or end consumer, principal uses, geographical distribution, etc.) trade flows, stocks and prices. Reference should be made to other intergovernmental organisations active in the same commodity or commodities.

2. Identification of Prospects and Potential of the Commodity:
   - The ICB should evaluate where it sees the greatest strength of the commodity taking into account advances in production technology and the main characteristics and properties of the commodity, and elaborate which markets, applications and uses would have the highest growth potential.

3. Identification of Problems Encountered by the Commodity:
   - The commodity may face difficulties in maintaining its present position or with regard to its future prospects, for instance, as a consequence of structural adjustment affecting conditions of supply and demand and the efficiency of the marketing process. Such difficulties could comprise adjustment to major policy regime changes (e.g., liberalisation of marketing regimes, privatisation, trade policy regime changes, etc), supply or demand shifts, substitution, rising input costs, appropriate technology, lack of skills, environmental concerns, import or export impediments, etc.

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[2] Excerpt from document CFC/EB/20/3/Rev.2 of 21 June 1996.

4. Identification of Suitable Measures (Action Programme with Priorities) to Develop the Potential of the Commodity and/or Address any Problems:

- The measures shall contribute to improving the structural conditions in markets and enhancing the long-term competitiveness and prospects of a particular commodity. Examples of possible measures are:

  (a) research on, and development of, new end-uses, development of new plant varieties for higher yield and resistance to disease and climatic adversities, increase in mineral recovery, etc.;

  (b) improvement of the international competitiveness of the commodity through higher productivity or reduction of post-harvest losses; improved processing methods; improvements in the quality and technical composition of products; development, adaptation and transfer of technology etc.;

  (c) promoting consumption of commodities, their products, by-products and derivatives through stimulation of demand as well as the development and commercialisation of new products and opening of new markets;

  (d) horizontal and vertical diversification;

  (e) improvement of marketing, quality assurance, trading and transport; and,

  (f) sustainability of production and use, environmental concerns.

5. Identification of Beneficiaries:

- The measures shall clearly identify the target groups and beneficiaries.

6. Statistical Annex:

- To provide, in one or two tables, the key statistical indicators of production, consumption, trade, stocks and prices and their development over time, as well as of the importance of the commodity/commodities covered by the ICB for the economies of producing countries.

ANNEX IX

Excerpt from UNCTAD Resolution 93 (IV) on the Integrated Programme for Commodities

I. *Objectives*

With a view to improving the terms of trade of developing countries and in order to eliminate the economic imbalance between developed and developing countries, concerted efforts should be made in favour of the developing countries towards expanding and diversifying their trade, improving and diversifying their productive capacity, improving their productivity and increasing their export earnings, with a view to counteracting the adverse effects of inflation, thereby sustaining real incomes. Accordingly the following objectives are agreed:

1. To achieve stable conditions in commodity trade, including avoidance of excessive price fluctuations, at levels which would:

    (a) be remunerative and just to producers and equitable to consumers;
    (b) take account of world inflation and changes in the world economic and monetary situations; and,
    (c) promote equilibrium between supply and demand within expanding world commodity trade.

2. To improve and sustain the real income of individual developing countries through increased export earnings, and to protect them from fluctuations in export earnings, especially from commodities;

3. To seek to improve market access and reliability of supply for primary products and the processed products thereof, bearing in mind the needs and interests of developing countries;

4. To diversify production in developing countries, including food production, and to expand processing of primary products in developing countries with a view to promoting their industrialisation and increasing their export earnings;

5. To improve the competitiveness of, and to encourage research and development on the problems of, natural products competing with synthetics and substitutes, and to consider the harmonisation, where appropriate, of the production of synthetics and substitutes in developed countries with the supply of natural products produced in developing countries;

6. To improve market structures in the field of raw materials and commodities of export interest to developing countries;

7. To improve marketing, distribution and transport systems for commodity exports of developing countries, including an increase in their participation in these activities and their earnings from them.

II. *Commodity coverage*

The commodity coverage of the Integrated Programme should take into account the interests of developing countries in bananas, bauxite, cocoa, coffee, copper, cotton and cotton yarns, hard fibres and products, iron ore, jute and products, manganese, meat, phosphates, rubber, sugar, tea, tropical timber, tin, and vegetable oils, including olive oil, and oil seeds, among others, it being understood that other products could be included, in accordance with the procedure as set out in Section IV (of this Resolution)."

ANNEX X

Member Countries of the Common Fund for Commodities

1. Afghanistan
2. Algeria
3. Angola
4. Argentina
5. Austria
6. Bangladesh
7. Belgium
8. Benin
9. Bhutan
10. Botswana
11. Brazil
12. Bulgaria
13. Burkina Faso
14. Burundi
15. Cameroon
16. Cape Verde
17. Central African Republic
18. Chad
19. China
20. Colombia
21. Comoros
22. Congo (Brazzaville)
23. Congo, Democratic Republic of
24. Costa Rica
25. Côte d'Ivoire
26. Cuba
27. Denmark
28. Djibouti
29. Ecuador
30. Egypt
31. Equatorial Guinea
32. Ethiopia
33. Finland
34. Gabon
35. Gambia
36. Germany
37. Ghana
38. Greece
39. Guatemala
40. Guinea
41. Guinea-Bissau
42. Haiti
43. Honduras
44. India
45. Indonesia
46. Iraq
47. Ireland
48. Italy
49. Jamaica
50. Japan
51. Kenya
52. Korea, Democratic People's Republic of
53. Korea, Republic of
54. Kuwait
55. Laos
56. Lesotho
57. Luxembourg
58. Madagascar
59. Malawi
60. Malaysia
61. Maldives
62. Mali
63. Mauritania
64. Mexico
65. Morocco
66. Mozambique
67. Myanmar
68. Nepal
69. Netherlands
70. Nicaragua
71. Niger
72. Nigeria
73. Norway
74. Pakistan
75. Papua New Guinea
76. Peru
77. Philippines
78. Portugal
79. Russian Federation
80. Rwanda
81. Samoa
82. Sao Tome and Principe
83. Saudi Arabia
84. Senegal
85. Sierra Leone
86. Singapore
87. Somalia
88. Spain
89. Sri Lanka
90. Sudan
91. Swaziland
92. Sweden
93. Syrian Arab Republic
94. Tanzania
95. Thailand
96. Togo
97. Trinidad and Tobago
98. Tunisia
99. Uganda
100. United Arab Emirates
101. United Kingdom of Great Britain and Northern Ireland
102. Venezuela, Bolivian Republic of
103. Yemen
104. Yugoslavia
105. Zambia
106. Zimbabwe
107. Common Market for Eastern and Southern Africa (COMESA)
108. European Community
109. African Union

ANNEX XI

Least Developed Countries (LDCs)

Country	Region
I. LDC Members of the Common Fund	
Afghanistan	Asia
Angola	Africa
Bangladesh	Asia
Benin	Africa
Bhutan	Asia
Burkina Faso	Africa
Burundi	Africa
Cape Verde	Africa
Central African Republic	Africa
Chad	Africa
Comoros	Africa
Congo, Democratic Republic of	Africa
Djibouti	Africa
Equatorial Guinea	Africa
Ethiopia	Africa
Gambia	Africa
Guinea	Africa
Guinea Bissau	Africa
Haiti	America
Laos	Asia
Lesotho	Africa
Madagascar	Africa
Malawi	Africa
Maldives	Asia
Mali	Africa
Mauritania	Africa
Mozambique	Africa
Myanmar	Asia
Nepal	Asia
Niger	Africa
Rwanda	Africa
Samoa	Oceania
Sao Tome and Principe	Africa
Senegal	Africa
Sierra Leone	Africa
Somalia	Africa
Sudan	Africa
Tanzania	Africa
Togo	Africa
Uganda	Africa
Yemen	Asia
Zambia	Africa

II. Other LDCs

Cambodia	Asia
Eritrea	Africa
Kiribati	Oceania
Liberia	Africa
Solomon Islands	Oceania
Tuvalu	Oceania
Vanuatu	Oceania

ANNEX XII

Eligibility Criteria for ICBs *

1. An ICB shall be established on an intergovernmental basis, with membership open to all States Members of the United Nations or of any of its specialised agencies or of the International Atomic Energy Agency.

2. It shall be concerned on a continuing basis with the trade, production and consumption aspects of the commodity in question.

3. Its membership shall comprise producers and consumers which shall represent an adequate share of exports and of imports of the commodity concerned.

4. It shall have an effective decision-making process that reflects the interests of its participants.

5. It shall be in a position to adopt a suitable method for ensuring the proper discharge of any technical or other responsibilities arising from its association with the activities of the Second Account.

* Schedule C of the Agreement Establishing the Common Fund for Commodities.

ANNEX XIII

Project Preparation Facility (PPF)

Objectives

To assist International Commodity Bodies (ICBs), which might lack the necessary resources, in preparing and formulating projects in conformity with the requirements of the Common Fund. The facility would economise the combined resources of ICBs which would not need, each of them, to develop the full capacity for project preparation.

Eligibility

Projects which are in line with the criteria set out in the Project Manual and supported in principle by the Consultative Committee and which are of benefit to:

(a) Least developed countries and small producers-exporters, having a clear poverty focus;
(b) Other developing countries and Countries in Transition, if such projects are loan-financed.

Finances

(1) Allocation of USD 1 million from the Accumulated Net Earnings of the First Account. The resources of the PPF shall be held in a separate account.
(2) Member Countries can make Voluntary Contributions to the PPF. Voluntary Contributions can be subject to special conditions by the donor.
(3) The PPF will function as a revolving fund with the cost for preparation to be recovered from the projects approved except for Voluntary Contributions.

Modus Operandi

(1) Requests for the use of the PPF shall be directed to the Managing Director of the Common Fund, who will be responsible for the administration of the PPF.
(2) Before granting assistance from the PPF, the Managing Director shall be satisfied that no other resources are available for the formulation and preparation of the project in question and that the project is likely to substantially contribute to enhancing the structural conditions of the commodity and its long term competitiveness and prospects.
(3) ICBs as well as developing countries, possibly in conjunction with Regional Organisations, and Countries in Transition can submit requests for support from the PPF for project formulation and preparation. Such requests shall be submitted by, or respectively, through ICBs. Such requests shall be accompanied by a Project Profile and other data and information on the project as the Managing Director may request.
(4) Support for project formulation and preparation from the PPF can be for part of, or all of, the costs involved.

Reporting

The Managing Director will report annually to the Executive Board on the operations of the PPF.

Review

The Executive Board will review the functioning and financial requirements of the PPF two years after it has become operational, or earlier with regard to orphan commodities.

ANNEX XIV

Designated International Commodity Bodies (ICBs)

International Cocoa Organization (ICCO)
22 Berners Street, London W1P 3 DB, United Kingdom
Tel: +44 207 637 3211, Fax: +44 207 630 114, E-mail: info@icco.org
Commodity covered: Cocoa

International Coffee Organization (ICO)
22 Berners Street, London W1T 3DD, United Kingdom
Tel: +44 207 580 8591, Fax: +44 207 580 6129, E-mail: info@ico.org
Commodity covered: Coffee

International Copper Study Group (ICSG)
Rua Almirante Barroso, 38-6.º andar, 1000 Lisbon, Portugal
Tel: +351 21 351 3870, Fax: +351 21 352 4035, E-mail: hurens@icsg.org
Commodity covered: Copper

International Cotton Advisory Committee (ICAC)
1629 K Street N.W., Suite 702, Washington D.C., 20006, USA
Tel: +1 202 463 6660, Fax: +1 202 463 6950, E-mail: secretariat@icac.org
Commodity covered: Cotton

International Grains Council (IGC)
1 Canada Square, Canary Wharf, London E14 5AE, United Kingdom
Tel: +44 207 513 1122, Fax: +44 207 513 0630, E-mail: igc-fac@igc.org.uk
Commodities covered: Wheat, Coarse Grains

International Jute Study Group (IJSG)
145 Monipuripara, P.O.Box No. 6073, Gulshan, Dhaka 1212, Bangladesh
Tel: +880 2 9124883/7, Fax: +880 2 9125248 or 9125249, E-mail: ijodir@bdmail.net
Commodities covered: Jute, Kenaf

International Lead and Zinc Study Group (LZSG)
2 King Street, London SW1Y 6QP, United Kingdom
Tel: +44 207 484 3300, Fax: +44 207 930 4635, E-mail: root@ilzsg.org
Commodities covered: Lead, Zinc

International Network for Bamboo and Rattan (INBAR)
Branch Box 155, P O Box 9799, Beijing, Peoples Republic of China 100101
Tel: +86 10 6495 6961 / 82, Fax: +86 10 6495 6983, E-mail: info@inbar.org.ch
Commodities covered: Bamboo, Rattan

International Nickel Study Group (INSG)
Scheveningseweg 62, 2517 KX The Hague, The Netherlands
Tel: +31 70 354 3326, Fax: +31 70 358 4612, E-mail: insg@insg.org
Commodity covered: Nickel

International Olive Oil Council (IOOC)
Principe de Vergara 154, 28002 Madrid, Spain
Tel: +34 91 563 0071, Fax: +34 91 563 1263, E-mail: iooc@mad.servicom.es
Commodity covered: Olive

International Rubber Study Group (IRSG)
Heron House, 109/115 Wembley Hill Road, Wembley HA9 8DA, United Kingdom
Tel: +44 208 903 7727, Fax: +44 208 903 2848,
E-mail: secretary_general@rubberstudy.com
Commodity covered: Rubber, natural and synthetic

International Sugar Organization (ISO)
1 Canada Square, Canary Wharf, London E14 5AA, United Kingdom
Tel: +44 207 513 1144, Fax: +44 207 513 1146, E-mail: exdir@isosugar.org
Commodity covered: Sugar

International Tropical Timber Organisation (ITTO)
International Organisations Center, 5th Floor, Pacifico-Yokohama, 1-1, Minato-Mirai,Nishi-Ku, Yokohama, 220, Japan
Tel: +81 45 223 1110, Fax: +81 45 223 1111, itto@mail.itto-unet.ocn.ne.jp
Commodities covered: Tropical Timber and Non-Timber Forest Products from Natural and Planted Tropical Forests

Food and Agriculture Organisation of the United Nations (FAO)
Commodities and Trade Division, Viale delle Terme di Caracalla, 00100 Rome, Italy
Tel: +39 06 5705 4201, Fax: +39 06 5705 4495,
Commodities covered by the Intergovernmental Groups (IGGs) of FAO:

FAO - Intergovernmental Group on Bananas and Tropical Fruits

Intergovernmental Sub-Group on Bananas
Cooking Banana, Dessert Banana, Plantain

Intergovernmental Sub-Group on Tropical Fruits
Avocado, *Durian, Guava, Litchi, Mango, Mangosteen, Papaya, Passion Fruit, Pineapple, Star Fruit, other non-temperate fruits*

<u>Other Commodities</u>
Cashew Nuts and Fruits, Cut Flowers, Essential Oils, Medicinal Herbs and Spices

FAO - Intergovernmental Group on Citrus Fruit
Grapefruit, Lemon, Lime, Orange, Tangerine, all other Citrus Fruits, Citrus Juices

FAO -COFI - Sub-Committee on Fish Trade
All aquatic animals and plants, whether from capture fisheries or aquaculture

FAO - Intergovernmental Group on Grains
<u>Grains</u>: Wheat, Barley, Maize, Millet, Oat, Rye, Sorghum, Fonio, other minor grains
<u>Roots and Tubers</u>: Cassava, Potato, Sweet Potato, Taro, Yam, Yautia, other minor roots and tubers

FAO - Intergovernmental Group on Hard Fibres
Abaca, Coir, Henequen, Ramie, Sisal, other similar fibres

FAO - Intergovernmental Group on Meat
Meat: Cattle, Dairy Products, Pig, Poultry, Sheep and Goat, other meats and livestock
- Intergovernmental Sub-Group on Hides and Skins
Cattle hide, Goat skin, Sheep skin

FAO - Intergovernmental Group on Oilseeds, Oils and Fats
Butter, Castorseed, Coconut, Coconut Palm, Copra, Coconut Oil, Copra Meal, Cottonseed, Fish oil, Groundnut, Karité butter, Lard, Linseed, Oil palm, Palm kernal oil and meat, Rapeseed, Soybeans, Sunflowerseed, Tallow, Oil cakes, other minor oilseeds and oil cakes

FAO - Intergovernmental Group on Rice
Rice

FAO - Intergovernmental Group on Tea
Tea