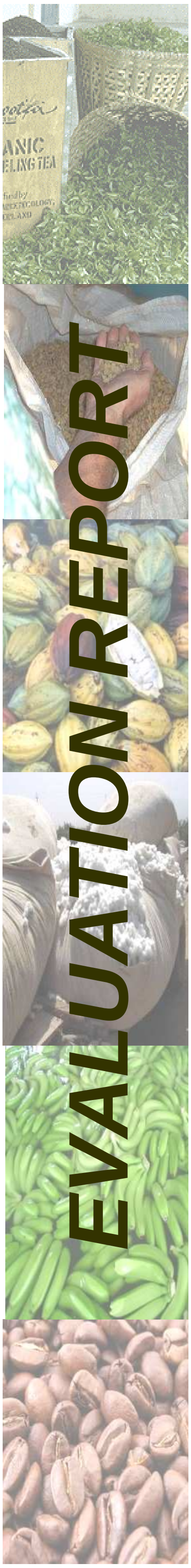

Evaluation

of the

Five-Year Action Plan 2003-2007

of the

Common Fund for Commodities

June 2007

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In partnership with: Wageningen University & Research Centre

CONTENTS

PREFACE

This evaluation report presents the findings of the evaluation of the Five Year Action Plan (FYAP) of the Common Fund for Commodities (CFC) covering the period 2003-2007. The report was prepared by an evaluation team led by Advance Consulting BV in cooperation with Wageningen University & Research Centre in the Netherlands.

Several interviews were conducted with CFC management and staff in Amsterdam, International Commodity Bodies in London and in Rome, and with stakeholders of CFC-supported projects in the Philippines. Hereby the evaluators want to express their gratitude to the interviewees in contributing to the underlying report. It is emphasised that the conclusions and recommendations presented in this evaluation report reflect the opinions of the evaluation team, and do not necessarily concur with those of the Fund or any other third party.

EXECUTIVE SUMMARY

Introduction

The Common Fund for Commodities (CFC) as intergovernmental institution acts as financier of pilot projects that assist developing countries in strengthening and diversifying their commodity sector with a view to alleviate poverty. In realising this central objective, the CFC uses the Five Year Action Plan (FYAP) as a strategic document to direct its financing operations. The FYAP 2003-2007 emphasises a number of priorities, including the assistance in making commodity chains efficient, the diversification of commodity production and the improvement of product quality and productivity in a sustainable way. The FYAP also stresses the inclusion of the supply chain development approach as a tool to analyse and overcome commodity specific bottlenecks and to promote sustainable poverty reduction strategies with chain partners. Over the 5-year period CFC was targeting to spend USD 76 million on regular and Fast Track pilot projects under the Second Account.

Conclusions

Main conclusions drawn from the evaluation of the FYAP are summarised as follows:

Projects

During the five-year implementation period of the FYAP, 41 regular projects and 59 Fast Tracks have been approved, involving a total commitment of close to USD 65 million[1]. Another 6 regular projects and 7 Fast Tracks are expected to be approved in October 2007, which will result in a total financial commitment of around USD 80 million by the end of the five-year period. Against a target of USD 97 million, it is noted that the FYAP is somewhat underperforming in terms of its financial targets for this five-year period. This is due to under-expenditure of the First Account. The Second Account funded projects account for a total of USD 79.5 million, which is slightly more than the projected USD 76 million. A broad range of traditional commodities and orphan commodities are covered – coffee, fish and grains have been the most commonly funded commodities in the past five years. Some 46% of the CFC-supported projects are categorised as post-harvest processing, marketing and quality improvement interventions. Out of the total project portfolio, 22 projects (or 54%) are targeted at Least Developed Countries. In financial terms, this amounted to 59% of the total financial commitments. Hence, it can be concluded that the FYAP is clearly emphasising LDCs.

The Fund continued to have difficulties in meeting its objective to increase the ratio of loan financed projects. However, several measures have been taken during the five-year period to reduce the risks and complexities related to the CFC loan funded operations, which are expected to facilitate the credit allocations and disbursements in the coming years. The Fund will have to monitor the implications of applying credit mechanisms under the proposed set-up.

Project selection and start-up

The Common Fund and some of the ICBs seem to interpret the FYAP objectives and priorities differently, which becomes apparent when discussions on project selection and appraisal are discussed. There does not seem to be a common view between ICBs, the CC and the Secretariat (on the application) of intervention strategies, most notably the supply chain approach. Nor is there a common understanding on the way this should be incorporated in project design and actual implementation. This may lead to a variety of (possibly conflicting) interests and views by different actors like CFC Secretariat, ICBs, national governments and producers.

[1] Please note that this does not include the last semester of 2007.

The start-up phase of projects has considerably been reduced in time compared to the previous five-year action plan. However, it seems possible to reduce this start up time further by giving more specific attention to the division of roles and responsibilities between the implementation partners and supervising organisations due the project formulation stage. The start up phase of a project requires better coordination and negotiation between the CFC, the relevant International Commodity Board (ICB), the Project Executive Agency (PEA) and the Project Implementation Agencies (PIA).

Project management

The evaluation team noted different views and ambitions put forward by different ICBs on the manner projects should be managed by CFC and the respective ICB and PEA, along with the level of responsibility taken by the different parties. Although the tripartite agreement in management and implementation between CFC, ICB and PEA is felt by all parties to work reasonably effective, contradictory views between the Fund and the designated ICB exist on the division of responsibilities in technical and financial management.

Impact and outreach

On a project level, it should be noted that direct impacts are very difficult to measure as in the majority of cases there is hardly any quantitative output to measure against. Looking at the logical frameworks of the various projects, it can be seen that outputs are often not defined in a measurable and verifiable manner, leaving the actual project results subject to interpretation. Hence, the evaluation team was not in a position to firmly conclude whether projects have achieved their objectives, nor whether projects have contributed to the realisation of the overall CFC goals. The Fund, however, made the availability of base-line data as one of the criteria for project selection, which may result in better monitoring and evaluation of the project impact in the near future. Still, there is room for further improvement in this area.

Apart from the fact that the lack of a common understanding on the supply chain concept may lead to limited effects in terms of project impact and/or outreach, it is noted that in the majority of CFC funded projects the private sector is not directly participating. The inclusion of (organised groups of) beneficiaries, or the intention of the project to target the private sector through means of dissemination of project results, seems often to be characterised by CFC as private sector participation.

Several concrete actions have been undertaken with respect to advocacy and dissemination of project results. The effect of these activities in terms of maximising impacts of interventions, however, is difficult to measure at this stage. There is potential for the Fund to actively collaborate with ICBs in the field of advocacy and generic dissemination of project results and lessons learned. The Fund has not yet clearly formulated a policy or formulated concrete objectives on this.

Relevance

The mandate of CFC in terms of poverty alleviation and socio economic development of commodity producers is still highly relevant. All projects are in compliance with the overall objectives of the CFC and propose concrete intervention strategies to achieve / contribute to realisation of these overall goals.

However, in terms of intervention strategies it appears that CFC has predominantly funded projects related to firm level upgrading in the smallholder and SME sectors of a specific commodity. In addition, there are a number of projects aimed at developing end-market opportunities. Other important intervention areas are, however, hardly addressed by projects in the current CFC portfolio. The problems encountered by commodity producers are usually multi-dimensional in nature, and include also issues related to chain governance, cooperation between chain players, the development of specific support services, etc. Sustainable development of commodity sectors and poverty reduction requires a broader range of interventions and due attention has to be paid also other aspects of chain development and management. Most notably chain governance issues, horizontal and vertical cooperation and the development of appropriate supporting services are additional aspects of value chain development strategies to be considered. The CFC operating framework, however, does not appear to stress these elements.

Hence, it is concluded that the CFC projects have a rather narrow focus and do not cover adequately other important interventions that lead to poverty reduction and sustainable development in a commodity sector.

- **Recommendations**

Main recommendations include:

- The roles and responsibilities of CFC staff and ICB staff in project management should be further discussed; tasks related to technical management should be spelled out more clearly.

- The concept and practical interventions related to supply chain management, along with the (interpretation of the) FYAP's objectives and other intervention strategies should be discussed with ICBs and CFC as to avoid contradictive interpretation on the modalities of FYAP between the organisations.

- Projects should be appraised with an emphasis also on whether a project has potential to develop from a pilot project to self-sustaining activities supported by local structures and actors. Institutional, judicial, financial frameworks, availability and potential of commitment of private stakeholders, etc. should be looked at to assess whether these are supportive or contra productive to the proposed intervention. Special attention should be given to the inclusion of the private sector in the design and implementation phase.

- The two different methods identified by the Fund for employing a loan arrangement, should be carefully worked out in detail. Both options should be assessed thoroughly to determine whether employment of the schemes might potentially be conflicting with the Fund's mandate.

- The Fund should apply more result-oriented impact definitions, both on project level (through use of description of measurable and quantified outputs) and on programme level (through inclusion of financial / economical performance criteria in the FYAP).

- The Fund could develop a common communication strategy with the various ICBs to extend its information dissemination and advocacy function. The strategy should clearly formulate concrete steps to take for achieving specific goals.

- A change in perception of the Fund should be considered in terms of addressing commodity specific problems in the light of actual and relevant socio-economic developments. The main goal of this process would be to come to a definition of priorities on intervention strategies applied to different commodity sectors and groups of stakeholders. This could serve as a starting point for the development of commodity specific programme approaches that to adequately cover a range of important interventions that together lead to poverty reduction and sustainable development in the respective commodity sector.

ABBREVIATIONS

AfDB	African Development Bank
ADB	Asian Development Bank
AU	African Union
CBR	Cost-Benefit Ratio
CC	Consultative Committee
CFC	Common Fund for Commodities
COMESA	Common Market for Eastern and Southern Africa
DDE	Directie Duurzame Economische Ontwikkeling of DGIS (Sustainable Economic Development Department)
DGIS	Directoraat Generaal Internationale Samenwerking (Netherlands Directorate General for International Cooperation)
EB	Executive Board
EC	European Community
ECOSOC	Economic Social Council of the United Nations
FAO	Food and Agriculture Organisation of the United Nations
FT	Fast Track
FYAP	Five Year Action plan
GC	Governing Council
IADB	Inter-American Development Bank
IAEA	International Atomic Energy Agency
ICB	International Commodity Board
ICO	International Coffee Organisation
ICCO	International Cocoa Organisation
IGG	Inter-Governmental (Sub) Group
IRR	Internal Rate of Return
ISO	International Sugar Organisation
LDC	Least Developed Country
MFI	Microfinance Institution
PEA	Project Executive Agency
PIA	Project Implementing Agency
PPF	Project Preparation Facility
RoI	Return on Investment
SME	Small & Medium-sized Enterprise
ToR	Terms of Reference
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
USD	United States of America Dollars
WTO	World Trade Organisation

1 INTRODUCTION

1.1 CFC and the Five Year Action Plan

The Common Fund for Commodities (CFC) was formally established in 1989 under the aegis of the United Nations Conference on Trade and Development (UNCTAD). Many developing economies in the South are still highly dependent on the production and export trade of one or a limited number of commodities. Out of the total 141 developing countries, 95 depend on commodity trade for at least 50% of their export earnings. Overall 73% of the poor live in rural areas, where the production of agricultural commodities is the main source of their livelihood. The CFC is an intergovernmental financial institution that supports pilot projects and other development initiatives that aim to strengthen and diversify the developing countries' commodity sectors with a particular focus on the poorer strata of the population. The CFC is a partnership of 107 Member States. In addition the European Community (EC), the African Union (AU), and the Common Market for Eastern and Southern Africa (COMESA) are member of the CFC. The Fund's main objective is to enhance the socio economic development of commodity producers and to contribute to poverty alleviation of the developing societies concerned, with special emphasis on the Least Developed Countries (LDCs).

In realising this central objective, the current Five Year Action Plan (FYAP) aims to assist in making commodity chains efficient, to diversify commodity production and to improve quality and productivity in a sustainable way. The CFC has a unique commodity focus which allows it to address problems and constraints of a particular commodity in a region, rather than a single country. In the context of the CFC-supported projects commodity development initiatives are aimed at enhancing the long-term competitiveness and prospects of particular commodities, and at improving the structural conditions within the chain that favour the position and value addition for small scale producers. Measures may include R&D, productivity improvements, increasing market access, and vertical diversification.

The FYAP for the period 2003 – 2007 was approved by the Governing Council of the Fund in December 2002. The FYAP provides strategic direction to the operations of the Fund in the five-year period and comprises a number of operational ad financial targets for the size and number of projects during that period. Furthermore, the FYAP emphasised amongst others the following:

- The supply chain concept will be an essential element in project design, implementation and monitoring
- Attention will have to be paid to diversification in commodity sectors
- Project design and monitoring will have to be more impact-oriented
- The dissemination component of the projects will have to be strengthened
- The Fund's Secretariat will become more involved in the design of projects in close cooperation with the beneficiaries and country representatives
- The Fund's advocacy role on commodity-related concerns in international forums and debates is to be strengthened
- The projects' structure is to be simplified in order to facilitate the design, start-up and implementation
- Gradual increase in the number of loan-financed projects, depending on the appropriateness for the beneficiaries concerned.

CFC's Secretariat concentrates mainly on the preparation, financial management, and monitoring of projects. In addition the Secretariat is also engaged with information dissemination and advocacy related to commodity issues in the context of sustainable development and poverty reduction. Project proposals are submitted to the CFC by International Commodity Bodies (ICBs), representing the interest of producers, traders and/or consumers of a specific commodity. Screening and final selection approval of the projects is the responsibility of the Consultative Committee (CC), respectively the Executive Board (EB).

1.2 Evaluation assignment and methodology

The underlying evaluation was carried out by a team of Advance Consulting BV in cooperation with two researchers from Wageningen University & Research Centre who developed the more conceptual framework for looking at intervention strategies in the context of commodity development incorporated into this report. The assignment was to evaluate the FYAP 2003-2007 in terms of overall assessment and performance of the FYAP in the context of the programme objectives formulated. More specifically, the team evaluated:

- the effectiveness and efficiency of the FYAP implementation arrangements;
- the design and formulation process of approved projects under the current FYAP;
- the inter-institutional cooperation between CFC and other relevant stakeholders;
- the extend to which the FYAP contributes to realising its objectives;
- the utilisation of the Netherlands Trust Fund financing a selected number of pilot projects.

The Terms of Reference (ToR) for this assignment is attached to this report as Annex 1.

The team's evaluation methodology is based on the assessment of five main elements– relevance, effectiveness, efficiency, sustainability and impact. On each of these five elements the FYAP 2003-07 will be reviewed and commented upon as summarized in the table below:

EVALUATION QUESTION	RELATED ASPECTS AND QUESTIONS TO BE ADDRESSED
Relevance	Did the relevance of the FYAP's objectives and targets change over the past few years? Which contextual or internal aspects have influenced the relevance of (some of the aspects of) the FYAP in a positive or negative way? How did the CFC respond to these changes and what are the implications for the next FYAP?
Effectiveness	To what extent has the Fund managed to achieve the FYAP's objectives and targets? Which factors and approaches used by the CFC and its partners were critical in determining the effectiveness of the Fund in this respect? Attention will be paid also to the Secretariats capacities and systems used as well as the cooperation of the CFC with other partners.
Efficiency	How much resources and time did it take to achieve the various FYAP objectives and targets? Which capacities or resources appeared limiting and may have reduced the efficiency of the CFC?
Sustainability	What are the chances that the results and effects of the current FYAP will be continued beyond the implementation period ending in 2007? Which measures has the CFC taking to ensure the continuation? What has been CFC's contribution to up scaling project initiatives and to incorporate the project activities in a viable institutional environment? Are additional measures required during the next FYAP to ensure a greater degree of sustainability of the projects supported by the Fund?
Impact	What will be the longer term effect of the FYAP's achievements vis-à-vis the mandate of the CFC to promote commodity development in the context of poverty reduction and sustainable development? Which (additional) measures should be taken to enhance CFC's impact?

The evaluation team carried out desk research to study relevant documents by the Managing Director (MD) and decisions of the Executive Board (EB) and/or Governing Council (GC) pertaining to the procedures and performance of the Fund. In addition, interviews were carried out with CFC staff and with ICB staff in London and Rome to gain insight in design and implementation procedures, management and communication aspects, and current trends and developments in the international context of commodity issues. Post-evaluated projects and their Project Executive Agencies (PEAs) and Project Implementing Agencies (PIAs) were visited in The Philippines to assess the role of FYAP in contributing to specific development issues through its projects, and to assess the efficiency of the operational tools the FYAP has at its disposal. For a full list of all organizations and stakeholders interviewed, see Annex 2.

2 ANALYSIS OF PROJECT PORTFOLIO

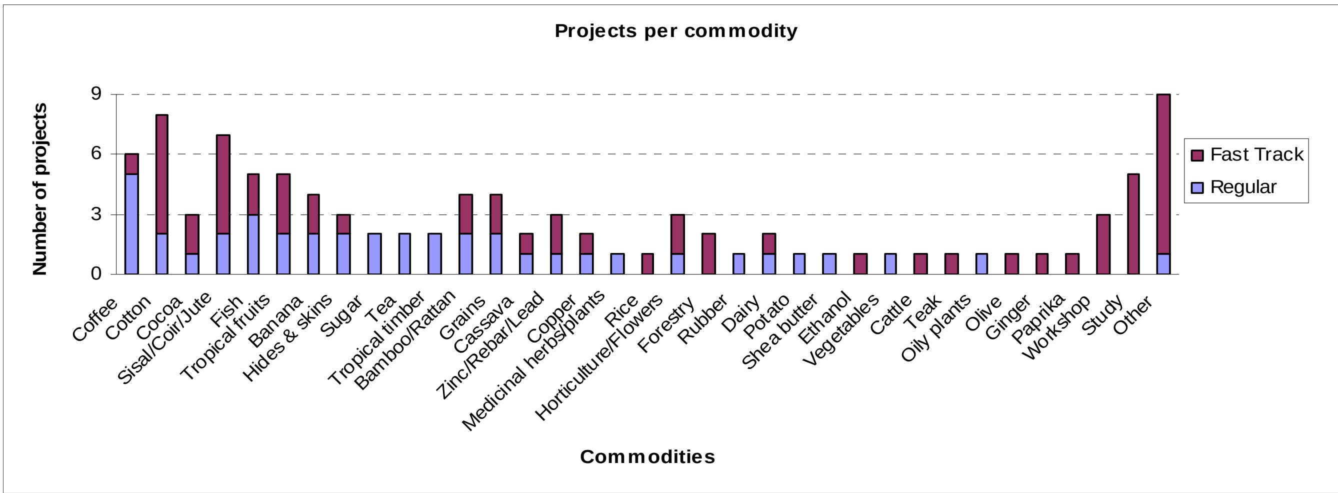
2.1 CFC funded projects

Projects per commodity

In addition to the more traditional commodities, the FYAP stipulates that the Common Fund should also pay attention to non-traditional commodities. ICBs were encouraged to further incorporate so-called orphan commodities into their mandate.

Over the past 5-year period a wide range of commodities was covered by the projects financed by the Fund. Figure 1 shows the projects approved so far during the current FYAP divided per commodity. The commodities coffee, followed by fish and grains, are most commonly supported with regard to regular projects. Among the Fast Track projects cotton was the most common commodity. The category “others” includes conferences and forums, including a number of projects of which it can be disputed whether to place them within the category of their commodity or within the category workshop, study or other.

Figure 1: Projects per commodity



*Grains: maize, sorghum
*Other: conferences, forums, etc

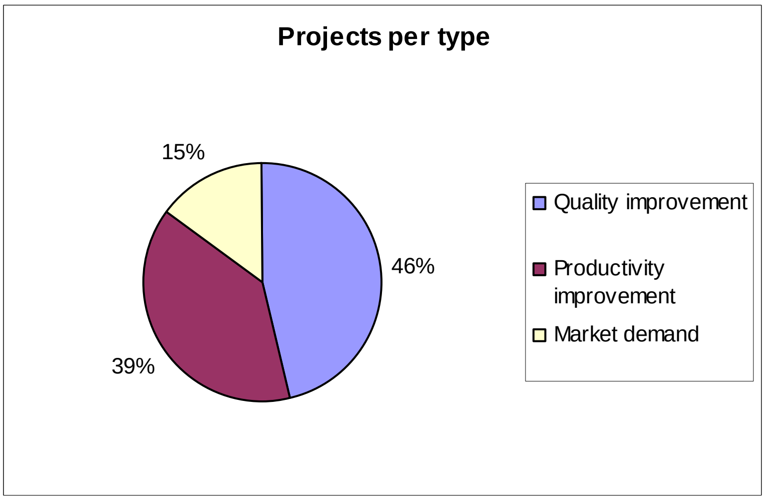
Projects per type

The CFC distinguishes four broad categories of commodity development projects:

1. pre-harvest productivity improvement (including research)
2. post-harvest processing, marketing and quality improvement
3. price risk management
4. expansion of market demand

The project categories indicate the dominant theme; however, almost all projects include also more elements from another category as well.

Figure 2: Projects per type



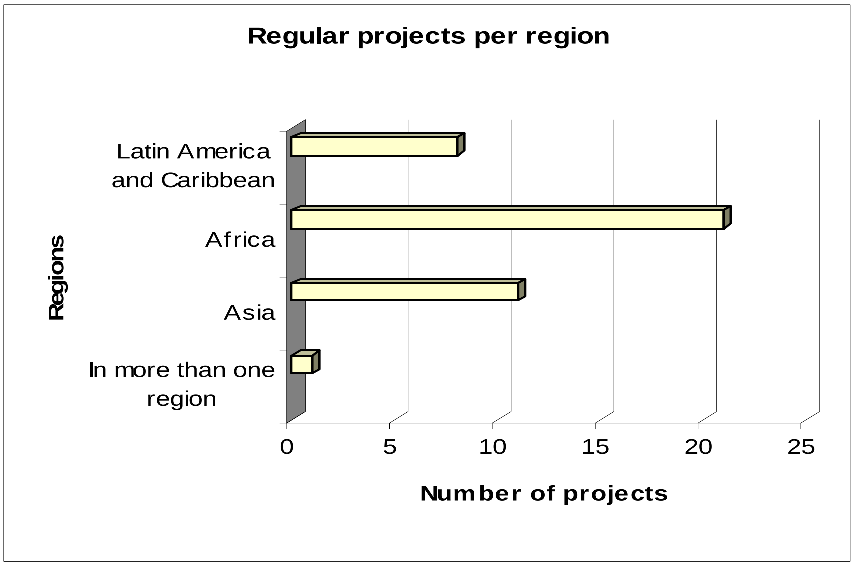
As can be seen from figure 2, almost half of the projects mainly target the second category: post-harvest processing, marketing and quality improvement. Also pre-harvest productivity improvements are very often the main area of attention among the CFC-sponsored projects. Under the current FYAP no regular projects have been approved that address price risk management issues.

Projects per region

In line with the priorities stated in the FYAP, continuing emphasis is given to focus on projects which are of particular relevance to LDCs and to the poorer strata of the population in other Developing Countries. In terms of approved regular projects up to date, 22 out of a total of 41 projects (representing 54% of the total), are situated in LDCs. In financial commitments, 59% of the total committed budget is allocated to projects implemented in LDCs.

Whereas a small percentage of the Fast Tracks might be situated in industrialized countries - due to their research and transfer of know-how subjects - it is noted that all of the regular projects are being implemented in Developing Countries. A substantial number of the projects is situated in Africa (21 out of a total of 41– a mere 51%). Projects in Asia (11 projects) and Latin America and the Caribbean (8 projects) are less frequently supported by the CFC. One of the projects (ICCO/26) is situated within more than one region. These figures are depicted in figure 3.

Figure 3: Regular projects per region



Project selection

Normally a (draft) project proposal is submitted by the respective ICB to the CFC Secretariat for a first screening. However, occasionally proposals may also be submitted directly to the CFC Secretariat by the project proponents for initial comments and suggestions; when considered sufficiently relevant, the proposal is thereupon send to the respective ICB for recommendation and endorsement. In case the Secretariat forwards a proposal to the Consultative Committee (CC), the CC can reject a proposal, return a proposal for reformulation to the ICB concerned, or recommend a project to the Executive Board for approval. To give an idea of how many proposals pass the CC, the following table is included. During the current FYAP, 35% of the proposed projects have been approved by the CC. The table excludes the results of the 40th meeting ("CC/40") of the CC, which is due to take place in July 2007.

Table 1: Proposed projects screened by the Consultative Committee

	CC/31	CC/32	CC/33	CC/34	CC/35	CC/36	CC/37	CC/38	CC/39	FYAP[2]
Proposed	12	14	7	18	17	16	17	5	12	118
Approved	8	3	3	5	5	5	4	3	5	41
Returned for reformulation	3	9	3	10	6	6	6	1	5	49
Rejected	1	1	1	2	3	4	4	1	2	19
Converted into FT	1	1	0	0	3	1	2	0	0	8

Earlier it was not an uncommon practice that project proposals were resubmitted to the CC more than once. To shorten the project assessment phase somewhat, it has recently been decided that a project proposal will not be reviewed by the CC more than twice. Hence, if a project proposal is not approved during the first CC screening, but the general project idea is nevertheless considered relevant, the project proponents will have one more chance to improve the proposal along the lines suggested by the CC. This is considered a useful decision, taking into account that a faster appraisal procedure might contribute to sustaining project momentum and commitment of the project stakeholders concerned.

Project contracting phase

Upon the formal approval by the Executive Board the PEA and implementation agencies will have to negotiate the official Project Agreement with the CFC. The duration of this phase will take at least a few months, but in some cases considerably longer. In practice many possible problems may be encountered during the contracting phase.

Table 2: Months between Project Approval and signing of Project Agreement

	2003	2004	2005	2006	2007	FYAPI[3]	FYAPII[4]
0-6 months	2	2	0	0	0	5	4
7-12 months	3	4	6	2	0	5	15
13-18 months	3	0	2	0	0	6	5
19-24 months	0	0	1	0	0	3	1
25-30 months	2	0	0	0	0	2	2
PA not signed yet	1	2	1	5	5	22	14

Table 2 shows the time between project approval and signing of the Project Agreement for the various projects approved under the current FYAP.

[2] Excluding the results from CC/40
[3] As at the completion of the FYAP 1998-2002 period
[4] Status as at May 2007

The high number of projects still lacking a Project Agreement (i.e. 14 in number) is partly due to the fact that 5 of these projects have just recently (i.e. April 2007) been approved by the Executive Board. However, when these figures are compared with those under the previous FYAP, a noticeable reduction in the number of months up to signing of the agreement can be observed. Whilst this is a commendable achievement, there seems to be still further room for improvement. The major recurring problems underlying the delayed start-ups are discussed in paragraph 3.1.

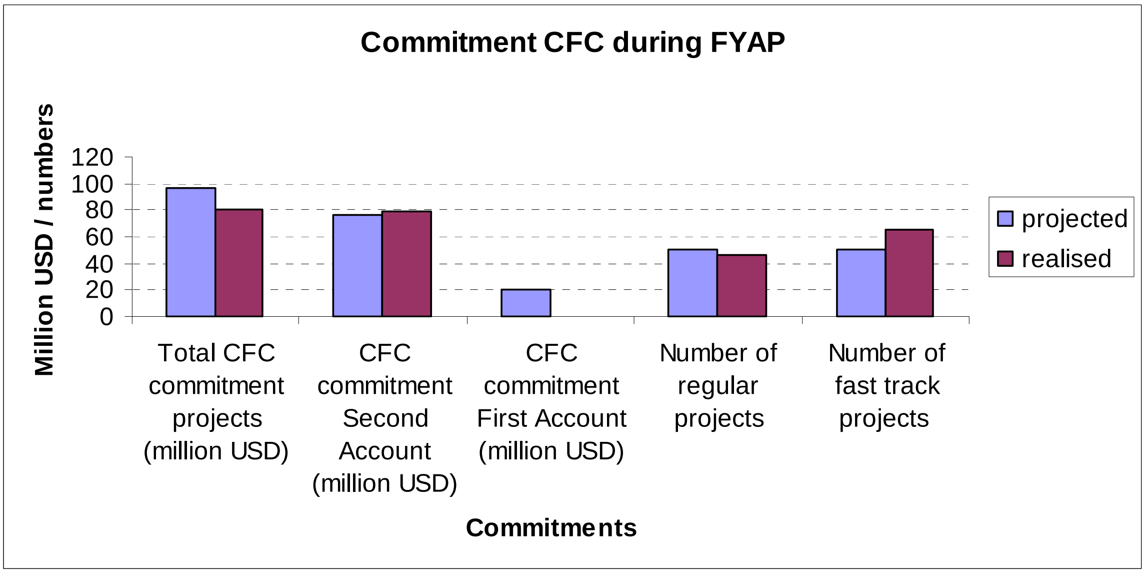
2.2 Financial analysis

As stated in the FYAP, the Fund would need to process and approve eight to twelve new (second account) projects per year plus about ten Fast Tracks per year with a total average volume of about 38 million USD, of which the Fund will finance roughly half. Thus, over a five-year period an amount of 76 million USD will be required from the Fund for projects under the Second Account, both covering regular projects and Fast Tracks.

The financial overviews show that so far, as at May 2007, 41 regular projects have been approved. Projected is that at the end of the FYAP period this number will be around 47. With regard to the approved Fast Tracks, at the moment of writing 59 Fast Tracks have been approved and the projected number is 66 for the end of the FYAP period.

In monetary terms the Common Fund was expected to financially commit itself to the tune of USD 75 million for the total of 47 regular projects. Of this amount, roughly USD 67 million is used for grants and almost USD 8 million for loans. As for Fast Tracks, the Fund was expected to allocate around USD 5.5 million for the 66 Fast Tracks. Figure 4 presents an overview of the financial commitments of the FYAP (both actually realised and projected for the end of the FYAP implementation period).

Figure 4: Commitment CFC during FYAP



The Fund's projected ultimate commitment of nearly USD 80 million includes both Fast Track and regular projects under both the First and Second Account. Comparing this projected commitment with the initial target to finance USD 97 million (i.e. USD 76 million under the Second Account plus USD 21 million under the First Account), it is noted that the Fund was able to achieve almost 82% of the FYAP target. This underperformance is caused by the underperformance of expenditure from the First Account – this will be further discussed in the last paragraph of this section 2.2. When we look at the Second Account only, we see that the Fund was able to finance 106% of its' original target: USD 79.5 million compared to 76 million.

In terms of numbers of projects financed under the Second Account, it can be noted that the Fund is performing within the target range set for regular projects. This target range was defined as 8 to 12 regular projects per year, whilst a total of 47 regular projects are expected to be approved during the FYAP implementation period. As for the number of Fast Tracks approved, the Fund is exceeding its targets. In total, 66 Fast Tracks are expected to be approved during the FYAP, against a target of 10 Fast Tracks per year.

Average project size

The FYAP states that the Common Fund continues to fund small and medium-sized projects with an indicative total project budget ranging from USD 1.0 to 5.0 million. Table 3 below demonstrates that most of the approved projects fall within the recommended budget range. The average budget size varied from USD 2.6 - 3.8 million. The comparatively high averages in the years 2006 and 2007 were caused by the projects CFC/ICAC/33 and CFC/FIGB/13 respectively, which were both well above the targeted budget range.

Table 3: Project size

	2003	**2004**	**2005**	**2006**	**2007[5]**
Average project costs (in million USD)	2.6	2.8	2.4	3.8	3.7
Number of projects	11	8	10	7	5
Number of projects with costs less than targeted budget range	4	1	1	0	0
Number of projects with costs more than targeted budget range	0	1	0	1	2
Percentage of projects deviating from the targeted budget range (in %)	36	25	10	14	40

Commitments vs. disbursements

A commitment to disbursement ratio of 1 to 1 is considered ideal by the Fund. Table 4 shows the total of commitments and disbursements under the FYAP. Quite some fluctuations can be seen throughout the various years. The average commitment to disbursement ratio comes down to 1:1.1.

Table 4: commitment vs. disbursement

	2003	**2004**	**2005**	**2006**	**2007[6]**	**FYAP II**
Total commitments	11.71	17.34	15.14	13.13	22.65	79.98
Total disbursements	13.76	14.52	11.6	15.61	16.5	71.99
% disbursement	117.50%	83.70%	76.60%	118.90%	72.80%	90.00%

[5] Up to May 2007
[6] Including estimations for the period May-Dec 2007

Loans vs. grants

In the FYAP it is mentioned that loan financed projects should gradually be added to the grant financed project portfolio, in order to recycle the financial recourses of the Fund. In order to recycle the financial resources of the Fund, loan-financed projects should gradually be added to the grant-financed portfolio. Loans are to be given in the framework of the loans policy approved by the Governing Council, having regard for their security and supported by appropriate guarantees. Projects for commodities of importance to LDCs or the poorer strata of the population in other developing countries are to be financed mainly by grants. Grants may also be used to support specific components of loan-financed projects.

From 1998 to 2002, a total of around 10 projects with a loan component were approved. The total loan sum approved in that period amounted to USD 13.6 million. However, no loan disbursement could take place. Under the current FYAP, 5 projects with a credit component had been approved, amounting to a total loan amount of USD 7.8 million. Of this amount, up to now USD 500,000 has been disbursed (part of the loan agreement of the FIGT/04 project on Organic Tea Production, phase II).

One of the recommendations from the mid term review was that the Common Fund should reconsider loans, given the difficulties in disbursing loans and the administrative complexities related to guarantees and securities and transaction costs associated with loans. These difficulties were made visible to the evaluation team while assessing the progress of the ICO/32 project. The project's progress has been seriously hampered as a result of delay in the loan disbursements. In accordance with the above mentioned recommendation, the Fund reviewed its current loan arrangements to ensure best use of its resources. It has been recognized that multi-country loans are difficult to arrange and to administer, and that where it concerns loan funding the focus should be on single country projects with a demonstrative and replicable pilot character. The Fund will furthermore aim to approve portfolios of loans rather than individual loans, for which framework agreements may be concluded with well established financial intermediaries, who would administer and disburse the loans.

The steps taken by the Fund may lead to an increase in the loan-funded commodity development projects in the next FYAP-period. In relation to the current five-year period the objective of increasing the number and volume of loan-funded projects has not yet been achieved.

Division of funding

The FYAP 2003-07 included the objective that the Common Fund would aim to finance roughly half of the total project budget; through co-financing and counterpart contributions the other 50% of the project budget were to be mobilised. Looking at the approved CFC allocations to the budgets of the regular projects during the current FYAP period, we see that the Fund's contributions have amounted on average to 54% of the total project costs.

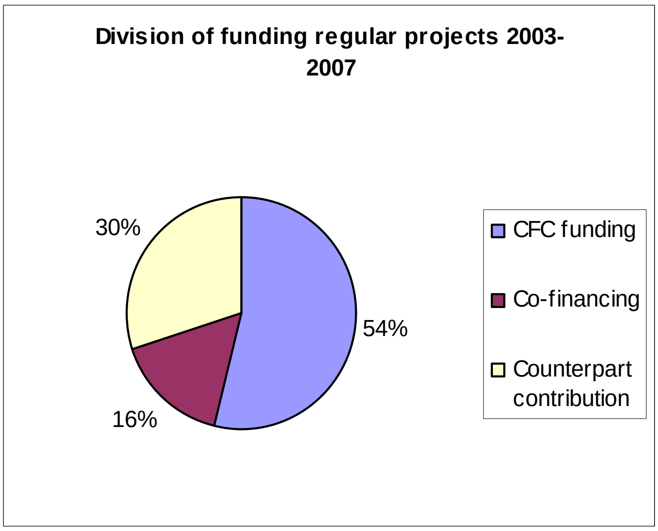


Figure 5: Division of funding regular projects 2003-2007

First Account vs. Second Account

As regards projects under the First Account Net Earnings Program (FANEP), it was foreseen in the FYAP that First Account projects would be funded with a total of 21 million USD. This target has not been met, due to various reasons. The earlier approved FANEP projects had not progressed well, so the Executive Board wished to review he performance of the ongoing projects first, before approving new projects. Furthermore, the interest rate has dropped considerably, resulting in a reduction of the earnings from the interest on the cash resources in the First Account.

Up to May 2007, four Fast Tracks have been financed under the First Account, for which the Fund committed itself to pay USD 451,464. This represents 2.2% of the original target. The total costs of the four financed projects amount to USD 1.2 million. The financed projects do comply with the focus for FANEP projects set in chapter 6 of the FYAP. The Fund expects another project to be approved for financing from the First Account before the end of 2007.

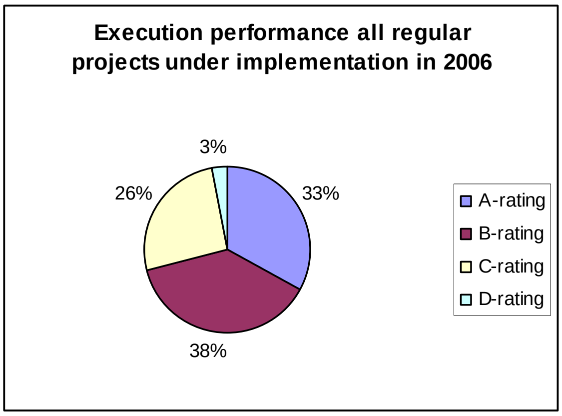
2.3 Execution performance

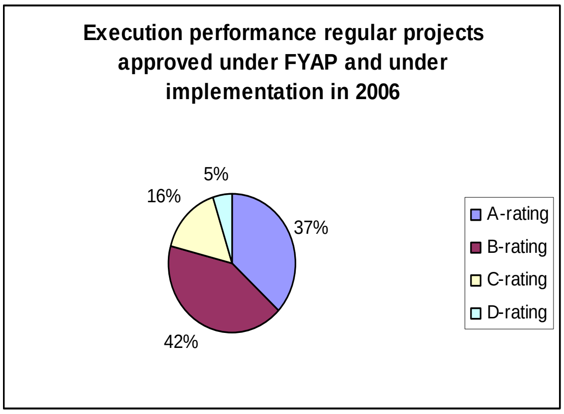
In order to evaluate the effectiveness of project execution of projects approved under the FYAP, the evaluation team chose to do this in relation to all approved projects under implementation. The performance ratings used in “Item 13.1, Report on progress of projects under implementation” is used for this. A number of factors had been selected as monitoring indicators here; including the timely start-up of project execution, progress in meeting the set targets of the project, disbursement rate, financial management and progress reporting. A performance rating of has been used with four different rates:

- A – very good; no significant improvements in project execution required
- B – good; minor improvements required in project management and implementation arrangements
- C – not good; considerable improvements required in project management and implementation arrangements
- D – bad; serious delays and faults observed in project management and implementation arrangements.

For three projects no rating could be given; these have not been included in this comparison. The following figures show the outcomes. It can be seen that a slightly bigger percentage of the projects approved under the FYAP falls within the first two categories, but no major differences are present.

Figure 6.1: Execution performance all regular projects under implementation in 2006
Figure 6.2: Execution performance regular projects approved under FYAP and under implementation in 2006





2.4 Dutch Trust Fund financed projects

Monies allocated to Trust Funds can be earmarked for particular generic purposes, as stated in chapter 15.3.2 of the FYAP. The Dutch Trust Fund has been established for the duration of the FYAP 2003-07 and may be used as part of the co-financing of CFC-approved projects. For the Fund the Trust Fund is a useful tool to speed up the mobilisation of co-financing particularly for projects to be executed in LDCs. In the agreement signed in June 2003, between the Common Fund and the Dutch Minister of Development Cooperation, the following focal areas were mentioned:

- the importance of pro-poor supply chain developments
- the specific objectives of the FYAP
- low income countries
- not in an overly complicated institutional project setting
- sufficient counterpart funding and less than 50% of the project costs
- in line with the commodity focus concept of the Fund.

The Dutch Trust Fund (DTF), however, did not have an active steering role in selecting the projects to be co-financed. Projects screened and selected through on the basis of the normal CFC procedures are proposed to the DTF for co-financing purposes. The Dutch Government has up to now never rejected a project for funding.

The DTF contained a total of USD 4.7 million which was to be used during the period 2003-07. In total 11 projects had received a co-funding contribution through the DTF. Three of these projects are so-called Fast Track projects. The total sum committed from the DTF up to mid-2007 amounts to USD 4.3 million. In addition a total amount of USD 0.42 million has been used for overhead costs. Hence a total of 10% of the available funds were used for CFC overhead, which is a significant amount given the fact that the allocation of the DTF-contributions do not require new project assessment and approval procedures.

The list of DTF co-financed projects includes a variety of different commodities, of which coffee is the most common. However, this is to be considered a mere coincidence given the fact that according to the DTF it is not part of an explicit policy of the Dutch Government to pursue coffee-related projects. A variety of the DTF supported projects are implemented in partner countries (part of the government agreement to give development aid to a number of 36 so-called partner countries), whilst others are implemented in non-partner countries (i.e. Sudan and Niger). Ten projects that are co-funded by the DTF are targeting commodity sectors in LDCs, mainly in Africa. This is in line with the priority focus of the Dutch Government. From the discussions with DTF, it became clear that DTF fully relies on the selection procedure for inclusion of projects forwarded for DTF financing, as applied by the Fund.

Table 5: Utilization of the Dutch Trust Fund

	2003	**2004**	**2005**	**2006**	**2007**[7]	**FYAP**[7]
Number of projects	3	4	2	1	2	12
Total contribution CFC+DTF	4.24	2.30	4.38	1.73	3.60	16.25
Dutch contribution to DTF financed projects (USD million)	1.16	0.64	0.49	0.87	1.13	4.28
Percentage of total contribution (%)	27%	28%	11%	50%	31%	26%

This year, the agreement between the Common Fund and the Dutch Government will come to an end. For a renewal of the agreement it will be important for the Dutch Ministry of Foreign Affairs and the Common Fund to establish priorities and strategies for those aspects of commodity development initiatives that fall within their common mandates and areas of interest. Thereupon the Dutch Ministry of Foreign Affairs may determine (a) whether it wishes to continue to co-finance particular commodity development initiatives, (b) under which conditions and (c) towards which specific objectives.

[7] Including projections until the end of 2007

3 MANAGEMENT AND COMMUNICATION

3.1 Projects and procedures: design and start-up

The project manual indicates several options for submission of a project proposal to CFC. Either proposals are submitted to the MD by a designated ICB, or proposals are submitted directly to the MD who will arrange the coordination with the ICB concerned. Whereas regular projects need the approval of the EB, Fast Track projects – supported by an ICB and recommended for approval by the CC – can be directly approved by the MD. The CFC emphasises to address, through financing of projects, the needs of the target beneficiaries – projects should clearly be demand-driven. At the same time, projects should be well-defined in terms of objectives, activities and outcome with measurable targets.

Formulation

It was noted by the evaluation team that ICBs, submitting project ideas or complete proposals to the Fund, differ to a great extent in the level of active involvement in the design phase of proposals. Where some ICBs frequently consult with member countries and/or national institutions on problem identification related to specific commodities or commodity sectors, others act in a more responsive or even passive way by merely acting as facilitator for member countries seeking CFC funding.

FAO ICBs include Inter-Governmental (Sub) Group (IGG) Committees during the project identification process. These IGG Committees are established for the purpose of developing strategy documents stipulating priorities, and identifying and screening new projects for the ICBs concerned. IGG Committees play an active role in the design process of a project proposal before submission to the Fund. The active involvement of the IGG Committees seems to facilitate the formulation of commodity development proposals that are in compliance with the FYAP selection criteria and guidelines. In addition, the screening by the IGG Committees covers also the future responsibility and identification of PEAs. This reduces the risk of PEAs wanting to renegotiate Project Agreements. An example of a project developed with active involvement of such an IGG Committee, is the FIGOOF/26 project on “Commercialisation of Vegetable Oil as Diesel Fuel”, submitted by the IGG on Oilseeds, Oils and Fats (granted EB approval on 10 October 2007, and Project Agreements signed on 16 April 2007).

Similar to the IGG Committees, the International Coffee Organisation (ICO) has established a Virtual Screening Committee (VSC). The VSC represents a limited number of major producing (Brazil, Guatemala, Indonesia and Côte d’Ivoire) and consuming countries (Germany, Italy and the USA). The VSC assists coffee producing countries in developing projects more effectively while facilitating the approval of projects by the Coffee Council. In that sense, the VSC receives summary of proposals submitted by ICO member countries seeking CFC support, where VSC members are provided the opportunity to give feedback on the proposals concerned. The Committee mainly communicates via email.

It is concluded that both the IGG Committees and the VSC seem to contribute effectively in streamlining the process of formulating project proposals. Within other ICBs no such project identification and development procedure has been identified.

Whenever the Fund’s Secretariat receives a funding request for a project that has sufficient relevance, but is not yet up to standard as far as project design and implementation arrangements are concerned, the CFC may assist the proponents with support through the Project Preparation Facility (PPF). The PPF has been used more frequently in recent years, as can be seen in table 6. This seems to have lead to improvements in the quality of the project proposals submitted to the CC. The PPF is primarily used for funding an independent expert to undertake a project appraisal mission.

Table 6: Use of the Project Preparation Facility

Year	**2003**	**2004**	**2005**	**2006**	**2007**
Number of projects receiving PPF support	1	0	1	2	5

Screening procedure of CC

The CC meets twice a year (January and July). This is regarded by some ICBs as a factor hindering an efficient approval procedure. In this respect it should be mentioned that this was also noted by the consultants carrying out the FYAP mid-term review. The suggestion in the mid-term review report was made to have the CC make more use of virtual communication means as opposed to physically meeting each other.

On the basis of proposals prepared by the Secretariat and the CC, the EB decided in 2006 that in relation to the CC performance the following measures would be implemented:

- strengthening of the role of the Secretariat and the ICBs in screening more rigorously project proposals before submitting the proposals to the CC
- intensification of so-called pre-Consultative Committee consultations between the Secretariat and the ICB.
- furthermore it has been decided that a project proposal will not be reviewed by the CC more than twice.; hence, if a project proposal is not approved during the first CC screening, but the general project idea is nevertheless considered relevant, the project proponents will have one more chance to improve the proposal along the lines suggested by the CC.

The Secretariat is to return projects to their proponents if they do not meet established criteria developed by the CC. The current composition and frequency of the meetings of the CC were considered adequate by the Executive Board.

Whilst it is too early to assess whether the measures listed above will lead indeed to a higher efficiency and quality in the project proposal assessment and approval procedures, the evaluation team concludes that these are steps in the right direction.

Ranking and prioritising

Recommendations made by the CC are not always understood and appreciated by some of the ICBs. Views and opinions on the importance, relevance and feasibility of certain project proposals sometimes differ between the CC and the respective ICB. There are two underlying problems to this:

- *Firstly*, there seems to be differences in how to interpret the FYAP overall objectives and intervention strategies from the side of ICBs and the Fund.

In reviewing, commenting and selecting project proposals by the Consultative Committee, a number of ICBs indicated that the CC demonstrates a “lack of knowledge”. Furthermore it was mentioned that the CC membership composition changed too often. This would result in a lack of institutional knowledge on certain commodity-specific aspects.

The perceived “lack of knowledge” is, in the opinion of the evaluation team, related to the fact that there does not seem to be a common view between ICBs, the CC and the Secretariat (on the practical understanding) of intervention strategies, most notably the supply chain approach. Nor is there a common understanding on the way this should be incorporated in project design and actual implementation. For example, the inclusion of a brief market analysis in a project proposal was in a number of cases said to be sufficient to address the marketing aspect of the supply chain. In addition, in the majority of projects the financial sector and legislative framework (e.g. existing tax incentives or counterproductive legislation) had not been taken into consideration.

Also, direct and active private sector involvement in the design and implementation of projects is in the majority of cases absent. These factors influence the way the project is incorporated in the local conditions of the countries or commodity sector concerned, and have an effect on the eventual success of a project in contributing to incomes, poverty alleviation and commodity development.

- *Secondly*, ICBs feel that the FYAP has no clear indicators to base a ranking of proposals on.

The evaluation team felt that the use of a logical framework is by and large well understood, although for the majority of projects it is noted that the outputs are not formulated in a specific and measurable way. Often outputs are defined in a qualitative way, where the base situation (in case of an increase or improvement) is not given. As such it is often very difficult to objectively assess whether a proposed project may lead to sufficient impact and sustainable outcomes in terms of poverty reduction and commodity development.

The Fund did, however, recently place availability of base-line data as criteria for project selection. Still, in aiming to design and implement projects for the creation of (access to) sustainable markets and contributing to a sustainable supply chain concept, the inclusion of financial / economical quantitative indicators at project output level seems imperative. These indicators may include a Cost-Benefit Ratio (CBR) or Internal Rate of Return (IRR). The evaluation team concludes that these criteria may be especially helpful in assessing market oriented pilot projects.

Start-up

The time the Fund is spending between formal project approval by the Executive Board and signing of the Project Agreements has been reduced as compared to the previous FYAP (see also section 2.1 above). Still, the time needed to actually start-up the project is considerable. The Project Agreements are comprehensive documents, including amongst others a project implementing agreement, an approved work plan, a Final Appraisal Report by the MD, and in case of a loan component also a (sub) loan and guarantee agreement. Loan guarantees to be issued by national governments or authorities, in all cases, require formal approvals by the relevant authorities in the countries concerned and thus take additional time and efforts before these are realised.

The collection of additional information and the provision of data required for the Project Agreement may lead to delays in project signing. This information may be of an institutional, organisational or financial kind which is not anticipated during the project formulation and approval phase. The consent of all public and private sector stakeholders is required for the formalisation of the Project Agreement. During the project preparation phase the involvement of these stakeholders is not always adequately secured, which can lead to delays during the finalisation of the agreement. This is particularly the case where certain organisations are to provide part of the contributions (in cash or kind) towards the project implementation process.

In a number of cases, appraisal missions prior to EB approval are carried out by independent consultants. Based on the interviews conducted with CFC staff, it is concluded that these appraisal missions are very useful in collecting data, thus forming a basis for a comprehensive assessment of the project proposal. An appraisal mission should result in conclusions on the overall feasibility and (commercial) sustainability of the project and an assessment of the local demand and stakeholders' interests.

3.2 Programme management and implementation

Project management of CFC funded project is based on a tripartite agreement between the Fund, the ICB and the PEA. The CFC is mainly responsible for progress monitoring and financial management. The respective ICB undertakes the (mainly technical) supervisory tasks and the PEA is responsible for the day-to-day management of the project including the coordination and monitoring of the project with the stakeholders in the different countries.

Both CFC and ICBs indicate they have a clear understanding on the distinction between the management tasks to be carried out by CFC and the supervision to be carried out by the ICBs. Most of the problems appearing during the implementation phase seem to be related with some PEAs (sometimes suffering from limited organisational / technical capacity) or with counterparts (e.g. local private sector, if involved).

The FAO ICBs, on the other hand, indicated that they would like to be more closely involved in technical monitoring and progress activities by CFC, i.e. when planning a fieldtrip CFC was said too often not to take fully account of the FAO ICB in considering its availability. FAO ICBs also clearly indicated the wish to, wherever possible, have their unit act as PEA rather than to contract a third party. Although at the corporate level discussions with FAO and CFC still continue on how to resolve the differences between the two organisations in the audit arrangements, a first pilot on this is being executed.

Also on the level of financial management, most ICBs expressed their willingness to carry out financial management of CFC funded projects supervised by their ICB - a task normally devoted to the Fund. Here as well, a pilot is carried out – the cacao organisation ICCO has been involved in the financial management of one of its projects. The pilot is not yet completed and is thus subject to future evaluation.

Apart from the above mentioned differences in ambitions between the CFC and ICBs in management related issues, the difference in view between CFC and FAO ICBs on the ongoing collaboration in management was remarkable. For example, the majority of the CFC staff involved in project management interviewed revealed that they frequently felt taking up a workload supposedly to be done by FAO ICBs. On the other hand, the FAO ICBs with no exception recognised the fact that in the past there had been some irregularities and discussions on the matter, but all agreed that things had changed to the positive. The FAO ICBs indicated this had to do with raising the upper limit of the financial resources provided for project supervision with USD 5,000 to a maximum total of USD 20,000, as well as with the agreement reached with CFC to compensate staff time spent on supervising field trips.

It can be concluded that by and large the tripartite agreement in management and implementation between CFC, ICB and PEA is working reasonably effective. There are, however, areas for improvement as there are still some contrasting interpretations of CFC staff and ICB staff on the division of tasks.

3.3 Communication with other institutions

The establishment of strategic partnerships with, amongst others, relevant institutions is important for the Fund for purposes of maintaining its character as a financing institution, as indicated in the FYAP. In terms of management and implementation of Fund supported pilot projects, a number of institutions are of direct relevance to CFC. These are the ICBs and the executive and implementing agencies, PEAs and PIAs, respectively.

- *ICBs*

The role of the ICBs in the project cycle comprises the initiation, endorsement and submission of project proposals and the technical supervision of approved projects. The Fund is to encourage the ICBs to incorporate the chain management concept and poverty reduction in their Commodity Strategies.

During the implementation of the FYAP, the Fund has been active in seeking the discussion with ICBs on relevant priorities in the respective commodity sectors. ICBs indicated they often have a well-established relationship with the CFC officer in charge for the projects concerned – making communication between CFC and the ICB easier and often smoothing project design and approval procedures. On a strategic level, there is an ongoing discussion between CFC and ICBs on issues such as priority setting and fund allocations. Although perceptions do not always concur, the discussion is actively sought by both parties.

Still, some ICBs requested for increased transparency on CFC related issues and for an increased exchange of information between CFC and ICBs: e.g. through making available minutes of EB meetings to the ICBs.

It is concluded by the evaluation team that it is vital for the common understanding of perceived commodity problems and on CFC and FYAP related matters that a continued dialogue between the ICBs and CFC.

- *PEAs*

Project Executing Agencies are responsible for the management of projects and are usually nominated by the ICB concerned. For each project one PEA is appointed, which will act as an intermediary between the Fund and the PIAs. The PEA will enter into a contract with the PIAs concerned. The PEA will report to the Fund about the project progress.

The choice for a PEA is crucial to the project performance and impact. A project's success factor often depends on the eagerness of the PEA to accomplish; it is often the driving force behind the project. This is why this decision should be given sufficient thought. To this end, the Fund has recently developed "Guidelines for Project Executing Agency". These guidelines are intended to assist prospective PEAs, ICBs and the Secretariat to be aware of the minimum requirements in the selection of PEAs and their responsibilities in the implementation of projects. The evaluation team considers the development of the guidelines as a positive step towards streamlining the responsibilities of the various stakeholders in terms of project implementation.

- *PIAs*

Project Implementing Agencies are responsible for the implementation of the project activities in one of the participating countries. The PIA enters into contract with the PEA, and reports to the PEA about the progress made in its respective country. Whereas every project has just one PEA being responsible for the overall project management, it has one PIA *per country* involved. In case the PEA is situated in one of the participating countries, it will preferably be appointed PIA for that country as well. Careful selection and supervision of the PIA remains an area of attention to ensure project progress and impact in the respective countries.

3.4 Advocacy and dissemination

The FYAP 2003-2007 recommends that CFC was to play a greater role in advocacy and information dissemination activities. The objective of CFC's advocacy and information dissemination role was to maximise the full impact of its interventions. Furthermore, information dissemination would contribute towards enhanced access to reliable information and forecasts of trends to stakeholders in the commodity chain. To this effect the CFC Secretariat created a new position for a Communication Officer; this position has been filled since 2005. Remarkably, the majority of the ICBs were up to date not aware of the communication officer being recruited by CFC. This was noted despite the fact that the communication officer has been introduced to the ICBs on several occasions such as annual meetings with ICBs.

The main activities of the Communication Officer, which fall within his mandate of information dissemination, have included:

- the building of a computer-based system (including a website and database)
- the facilitation of public access to information on commodities
- the dissemination of project related information to stakeholders.

For these activities, a total budget of € 1 million was available, of which it around € 890,000 would be spent by the end of 2007. First expenditures under the FYAP on information dissemination activities started in 2003; while advocacy received attention in terms of financial expenditures as of 2005 only.

Finally, all ICBs stressed the importance of increased awareness raising and dissemination of project results. Sharing lessons learned amongst ICBs and other relevant parties concerned is seen as crucial in further enhancing the project impact. Furthermore, awareness raising activities should specifically address potential financing institutions for mobilisation of additional financing for the Fund. In this way the CFC-sponsored projects may be given some leverage to create spin-off in the respective commodity sectors. All ICBs emphasise they would be open for suggestions on cooperation with CFC in this field.

It is concluded that the Fund has undertaken a number of advocacy and dissemination activities. As for advocacy, it organised / co-sponsored several workshops and seminars. Amongst these are:

- the African Ministerial Conference on Commodities, which was held in November 2005 in Arusha, Tanzania;
- the Global Initiative on Commodities conference, which was held in May 2007 in Brasilia, Brazil.

Furthermore, the Common Fund conducted a Round Table meeting in Yaoundé, Cameroon in 2006 and will hold a Regional Round Table Meeting on commodity development for Latin America and the Caribbean Basin in September 2007 in Lima, Peru.

The fund has also been involved in undertaking and/or sponsoring strategic studies and publications such as conference proceedings, technical papers and strategy documents.

On a more passive level, it is noted that project results and commodity relevant issues are posted on the website of CFC. In that sense, there is a concrete output in terms of dissemination of project results and thematic areas.

Although it can be concluded that CFC has been quite active in undertaking several activities related to raising awareness and dissemination of project results, at this stage it is too early to measure the effect of this on stakeholders in the commodity chain. The CFC may monitor the number of visitors to their various web-pages, but this may not be indicative for the actual uptake and use of the information by different stakeholders in the commodity sectors. In relation to this particular FYAP objective, little can therefore be said about the effect of the advocacy and information dissemination activities in terms of maximising impacts of interventions.

The evaluation team underlines the importance of advocacy and dissemination as this may contribute to the quality of projects implemented, and may attract financial resources. As there is willingness on the side of the ICBs to actively cooperate with CFC in the field of advocacy and dissemination, there is a need to develop a common communication strategy. At the moment, a clearly formulated policy nor concrete objectives on advocacy and project dissemination exists within the Fund.

4 THE FYAP IN AN INTERNATIONAL COMMODITY CONTEXT

4.1 CFC and poverty alleviation

The CFC is supposed to finance projects targeting developing countries – with special emphasis to the poorer strata of the population and LDCs – through a market-based and commodity-focused approach. To that end, the Fund can have the largest impact when it serves as facilitator and catalyst in development, stimulating broader development by means of seed money injected into projects with a pilot nature. Poverty alleviation, reducing the existing imbalances between different players in the globalising world economy, and opening up sustainable ways of economic and social progress are fields that CFC with its commodity focus is mandated to contribute to.

The FYAP makes mention of specific actions designed in such a way that they reach the target beneficiaries and make an identifiable contribution to sustainable development and incomes poverty reduction. In this, due respect has to be paid to the role of the private sector and civil society. Indeed the CFC pays ample attention to a limited number of interventions targeting to alleviate poverty of commodity producers through its focus on improving market access, increasing export potentials through adding value to production and/or processing, and increasing competitiveness of commodity production.

It should be noted, however, that these interventions often take place in an environment heavily influenced by externalities. For example, interventions may be dependent on institutional, economic, political, legal and financial frameworks in which they take place. These same externalities are very influential to the *degree of sustainability* of projects targeting incomes poverty alleviation. As such, incomes poverty alleviation should always be considered in a local perspective, linking specific elements of the local environment (both on micro, meso and macro level) to the particular action concerned.

It is of importance for the Fund to realise that the nature of the pilot projects characterises them as limited in financial size and impact potential. This does not mean the pilots do not bear the potential for replication or sustainability. To ensure, however, that small pilot projects maximise their contribution to poverty alleviation, be it on a modest scale but in a sustainable manner, one should be aware of the local structure the projects will be incorporated in. In this regard, it is important to look at existing structures like prevailing market conditions, supporting institutional frameworks, financial infrastructures, etc. To a certain extent, the project will be influential to these elements, as well as these elements will have the potential to influence the project parameters.

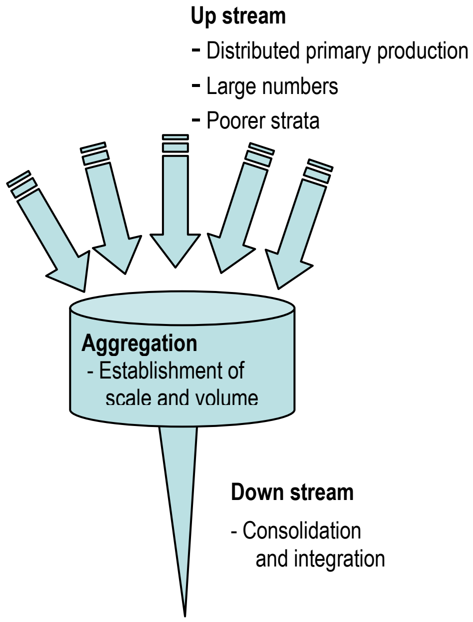
Being aware of the fact that projects are not implemented in an isolated environment is important in recognising that we have to understand the context in which they operate. In that regard, it is vital to bring the assessment of the FYAP to a higher level and place its functioning in an international context of dynamic commodity development and trends. The FYAP and its interventions being able to respond to these dynamics will increase its relevance and potential in terms of contributing to poverty alleviation and enhancing the situation of poor commodity-dependant producers.

4.2 Current trends and market-economic developments

Since the 1980's, a tendency towards global market liberalization has taken place, resulting in structural adjustments of commodity (trade) markets. On a massive scale, developing countries have been active in privatising parastatal industries in different sectors, while stimulating deregulation towards a more open market-oriented economy. Commodity price stabilising measures have been abolished, along with the supply management mechanisms operated through the International Commodity Agreements and national marketing boards. As a result commodity sectors nowadays are becoming increasingly open and integrated along international lines, but at the same time also more volatile.

As a result of state withdrawal, market liberalisation and globalisation of supply chain arrangements, commodity producers are now more directly confronted with international competition. Although producers' organisations on a macro level have been consolidating and integrating their activities in commodity chains, the new market economies leave institutional and organisational vacuums, e.g. with respect to protection (property rights, grades and standards) and imperfections (public goods, externalities) for which regulation and/or corrective measures are necessary. In this, voluntary regulation is increasingly considered instrumental for realising sustainability. These forms of voluntary regulation, i.e. not sanctioned by legislation, are complementary to public regulation in the field of, for example, product safety. They are accompanied by contracts, monitoring and testing, certification schemes, unified standards.

The rise of private-led regulation induces new forms of cooperation and, likewise, affects the nature of the relationship between commercial relationship and developmental endeavours.



Thus, commodity-producing countries are faced with new challenges. For one, there is structural over-supply of many agricultural commodities (i.e. undifferentiated, primary products), which are aggregated in trade. The aggregation of commodities, realizing a certain scale and volume in trade, is an activity cared for by a variety of actors, such as middlemen, cooperatives, traders / exporters, or semi-public institutes. Usually processing and value adding takes place at facilities downstream the chain. Commodity systems are affected by downstream processes of concentration. Up stream, however, commodity systems still include large numbers of dispersed primary producers, which are frequently not strongly integrated into organizationally coherent frameworks.

A number of market-led initiatives in commodity markets seek opportunities to differentiate products, e.g. through labelling, which induces a process of 'de-commodification'.

Other main challenges faced by commodity producers in developing countries include the fact that import quota from exporting countries to markets like the EU and US are abolished, leaving exporters a non-secured market in which they have to compete in quality and price. In addition, there is a wide proliferation of private and public sector standards for commodity producers to comply with (i.e. EurepGAP, MPS, CCCC, etc) in order to access relevant export markets. In terms of supply side issues highly important aspects to address include adequate infrastructure, increasing productivity, achieving economies of scale, and providing supporting services to commodity producers.

4.3 Commodity-specific issues in relation with poverty alleviation

The different problems described related to commodity development in the context of sustainable development and poverty alleviation, are generic problems requiring specific intervention strategies. Whilst it is not possible to provide a recipe for the selection and implementation of pro-poor value chain interventions, it is possible to list a number of broadly defined intervention areas that are often applied by various international and national support organisations involved in private sector development and poverty reduction. The overall goal of these chain interventions is to *'increase industry growth while assuring meaningful poverty reduction'*.

- *End market opportunities*: the characteristics of the final product or service generated (quality, standards, quantity, etc.) are determined by the demands of the end market. They are important because of demand information, learning and benefit flows from the final buyer. Analysis of the end markets needs to demonstrate the potential for competitiveness. Promoting transparency in the chain on the requirements and conditions at the end market is therefore to be considered a basic requirement for creating a more level playing field. To this effect information on trends and developments at the end markets – including on prices, quality, quantity and timing – will need to be collected and disseminated to SMEs and primary producers further upstream in the chain. Furthermore specific product promotional activities can contribute towards the opening up or expansion of markets for existing products.

- *Enabling environment (international and national):* international trade agreements and standards can considerably affect the constraints and opportunities for industries' growth. At the national level the policy and regulatory environment is very critical. The term 'chain governance' is often used in this context. Related to the different functions in this respect a distinction can be made between legislative governance, executive governance and judicial governance (see table below). The incentives and negative sanctions that may be used to enforce rules, the legitimacy and the reach of the power of (public or private) 'rule-makers' are also often stressed when the business or chain environment is discussed. Particularly in highly integrated supply chain arrangements, the influence of these 'rule-makers' (e.g. large supermarket chains, large scale processing companies) can be very high. Table 7 provides some examples of different governance systems; development of these systems can have an enormous impact (both positive and negative) and used as a lever to influence the production and marketing opportunities for different players in the chain.

Table 7: examples of different types of value chain governance.

	Exercised by parties internal to the chain	Exercised by parties external to the chain
Legislative governance	Standards for suppliers related to on-time deliveries, quality, etc.	Environmental production standards Labour laws
Judicial governance	Monitoring and inspection of the performance of suppliers in meeting these standards	Specialised inspection and certification firms checking compliance with ISO standards
Executive governance	Producer associations assisting members to meet these standards	Development NGO or Govt. service assisting farmers to comply

Many international trade agreements and quality standards present opportunities for market expansion, but can be extremely expensive for firms, especially smallholders and SMEs, and easily preclude a developing country from being competitive. The national policy and regulatory environment is critical to the functioning of markets and enterprises. Poor local government operations and weak enforcement of legal and regulatory regimes increase transaction costs and risks, limit investments in relationships and production improvements. Industry competitiveness can be improved through changes in the policy framework, regulations and other institutional arrangements.

- *Inter-firm cooperation: vertical linkages*; these vertical linkages are critical for getting a product from inception to the market, and for transferring learning and incorporated financial and business services from firms up the chain to firms down the chain or vice versa. More efficient transactions among firms that are vertically related may increase the competitiveness of the entire industry. Vertical linkages can be improved by one leading or innovative company taking the initiative to mobilise the other chain players. Alternatively an external service provider can facilitate the process of streamlining operations between chain partners. More efficient transactions among firms that are vertically related in a value chain increase the competitiveness of the entire industry. In addition, vertical linkages facilitate the delivery of benefits and support services and the transference of skills and information between firms up and down the chain. Small-scale producers can benefit from entering into contractual relationships with processors, exporters and end-market buyers.

- *Inter-firm cooperation: horizontal linkages*; it is argued that horizontal linkages among primary producers, processors, etc. are needed to reduce the transaction costs; by promoting for example the buying in bulk or meeting large orders, horizontal linkages can generate economies of scale, thereby enhancing competitiveness and bargaining power of linked firms. Horizontal linkages among primary producers or small processing enterprises can take the form of informal or formal groupings as well as networks that are managed through a broker, trader, lead firm, etc. Lately promoting the formation and improving the performance of export producer associations, farmer associations, cooperative enterprises, etc. is receiving increasing attention, primarily as a strategy towards improving horizontal linkages between producers. These organisations can be effective in reducing transaction costs for their members when entering into contracts with both suppliers and buyers. Industry associations can enable the creation of industry standards and the implementation of marketing strategies. Key in gaining value from horizontal cooperation is recognizing joint constraints that require collective action.

- *Firm-level upgrading*; individual enterprises may improve their competitiveness in several ways. First, they may produce more efficiently through improved techniques or processes. Second, enterprises can improve the product's quality so that it is differentiated from competitors' products. Third, changing functional positions in the chain may be another type of upgrading; by adjusting activities undertaken within a particular link or moving to activities taking place in other links value may be added or low value added activities are outsourced. Fourth, moving out of a value chain into a new value chain may be an option for upgrading in case it leads to higher profitability. Firm-level upgrading is often pursued through research and development initiatives, experimentation, training, extension, etc. Access to information on innovations and having the ability to run pilots and experiment with improved production techniques aides the adoption.

- *Supporting markets*; these are key to firm-level upgrading and include sector-specific markets (e.g. equipment providers), financial services, business management services and information technology providers. These markets can include services provided by actors in the chain (the so-called 'incorporated services') or they can be provided by stand-alone service providers. They include financial services; cross-cutting services such as business consulting, legal advice and telecommunication; and sector-specific services, for example, equipment suppliers, quality managers and certifiers, etc.

Different value chain configurations require different sets of intervention strategies. The development needs and potentials for example in the cotton sector cannot be compared with the situation in the international supply chains of fresh fruits and vegetables. In the cotton sector the issue of tariff barriers and market protection remains an important factor which is mainly a matter of inter-governmental negotiations. Gaining broader market access is here a key factor for producing countries in the South to enhance their development opportunities.

The international sourcing and trade of fresh horticultural produce on the other hand are to a considerable extent governed by private sector organisations. International market access for small producers in the South is here largely determined by their ability to meet the private sector quality and safety standards. Furthermore consistent and reliable supplies are key to enter into a contract with an international buyer. In addition to firm-level upgrading, inter-firm cooperation (both vertically and horizontally) and development of support markets are often required intervention strategies to support small farmers in their endeavour to become successful in this sector. In addition attention to chain governance arrangements is important to provide a countervailing power for powerful importers and supermarket chains.

Whilst these two examples are far from complete in their description, they demonstrate that there are very big differences between various commodity sectors and that different stakeholder groups require different support interventions. The elements of the respective value chain all play a role in determining the value chain performance, which is to be measured in terms of two critical outcomes: (a) overall value chain competitiveness and (b) benefits to smallholders and SMEs.

In relation to sustainable commodity development and poverty reduction it is important to realise that value chain benefits are not restricted to higher returns only. Also important are dependable and timely returns, reduced risks, increased value of assets and opportunities for learning and innovation. Firms in a value chain that have more power typically receive the greatest benefits from business transactions. Understanding the power dynamics in value chains can point to interventions that improve the benefits of smallholders and SMEs in competitive value chains.

4.4 Operating framework of the FYAP

In order to assess the relevance of the FYAP in the international playing field of commodities and related actors, a description of the framework in which the FYAP is operating is necessary. The FYAP operates in the context of CFC's mandate to assist developing countries in strengthening and diversifying their commodity sector as a major contributor to economic growth and the development of society as a whole. There are a number of specified objectives stated in the FYAP, amongst which:

- improve market access and reliability of supply for primary and processed products;
- expand processing of, and add value to primary products in order to increase export earnings;
- improve competitiveness of commodities;
- improve on supply chain elements and enhance incorporation of commodities in the chain;
- improve market structures and broaden the range of exportable commodities.

As stated in chapter 12 of the FYAP, the outcomes and impact of projects should contribute mainly to the following:

- sustainable improvements in the welfare and livelihoods of commodity-dependent people through increased income, reduced vulnerability to shocks and strengthened 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.

Projects focus on LDCs (or poorer strata of the population in developing countries) and their commodities of interest. The supply chain concept is an essential element in project design and monitoring, where projects also may address particular elements of the chain. It is essential that projects should be demand-driven. The operating framework of the FYAP directs the Fund to respond to the new trends in the international commodity sector with a focus on issues related to:

- sustainable development;
- supply-chain management;
- impact orientation;
- dissemination of project results;
- CFCs direct involvement in project formulation;
- beneficiaries' involvement in project identification, development and ownership;
- enhanced advocacy role of CFC on commodities in international;
- greater role of CFC in commodity diversification;
- establishment of Trust Funds and Partnership Agreements.

Financing for projects under the Second Account come from Voluntary Contributions. Financing can be through grants, loans, or a combination of the both. It is the intention of the Fund to gradually increase the portion of loan-financed projects. Projects are considered for loan financing in case they generate sufficient financial returns to pay back the principal plus interest.

Last but not least, the Fund will adopt a so-called *programme approach*. The programme approach will be an essential part of the third FYAP, and is designed as a framework of a coherent set of priorities and sharply focused activities. The programme approach was introduced to achieve specific, time bound development objectives within the operational niche of the CFC, namely supply chain management, diversification, market access and market development.

4.5 Relevance of FYAP against an international background

The nature of the problems encountered by primary producers of commodities, the key target group of the Fund's interventions, are usually multi-dimensional in nature and also include issues related to chain governance, cooperation between chain players, the development of specific support services, etc. In terms of intervention strategies it appears that CFC has predominantly funded projects related to firm level upgrading in the smallholder and SME sectors of a specific commodity. This is mainly pursued through development of technologies and approaches for smallholders and SMEs to improve their production processes and efficiency. In addition there are a number of projects aimed at developing end-market opportunities. Projects – particularly Second Account funded projects – that are related to other important intervention areas are virtually not found in the current CFC project portfolio. As such the impression arises from the CFC-supported projects that technological change and development is still the major driver of commodity development processes. From the descriptions in section 4.2 and 4.3, however, we have seen that sustainable development of commodity sectors and poverty reduction requires a broader range of interventions and due attention also to other aspects of chain development and management. Most notably chain governance issues, horizontal and vertical cooperation and the development of appropriate supporting services are additional aspects of value chain development strategies to be considered. The CFC operating framework, however, does not appear to stress these elements.

To design projects that comprehensively assess and pursue commodity development in the context of development requires deliberate choices if they are to favour the development potentials of small producers and developing economies. The range of issues and intervention areas summarised in sections 4.2 and 4.3 are to be considered by the CFC and ICBs when developing project ideas. In the current constellation of organisations involved in project identification and formulation such projects are not likely to be developed:

- the EB of the CFC has not provided any direction on this matter; the programme approach is to be developed for the various commodities, but no clear direction has been provide what the future programme approaches should entail in terms of value chain development strategies
- ICBs and intergovernmental organisations and will have to serve the interests of both producing and consuming countries and as such have difficulty with coming up with interventions that affect the chain configuration and/or governance structure
- the CFC and the CC do not have the mandate to develop project ideas, but merely have to assess the project proposals that are submitted by others

As such the projects supported under the recent FYAP, and as mandated by the Executive Board, continued to have a rather narrow focus and do not cover adequately other important interventions that lead to poverty reduction and sustainable development in a commodity sector. For the next FYAP it is advised to broaden the funding focus in this respect and to pay attention also to amongst others chain governance issues, horizontal and vertical cooperation and the development of appropriate supporting services as part of the CFC-funding priorities in addition to aspects of firm-level upgrading and end-market development.

5 PERFORMANCE OF THE FYAP

5.1 Performance of projects

The performance of the projects is measured in the context of the strategic and operational objectives of the FYAP by addressing the earlier identified five main aspects in the evaluation methodology:

1 – *Relevance*:	an assessment of the relevance of the FYAP against the background of international key commodity issues.
2 – *Effectiveness*:	an assessment of the extent to which CFC has been able to achieve the FYAP's objectives and targets.
3 – *Efficiency*:	an assessment of the efficiency in use of resources and time to achieve the various FYAP objectives and targets.
4 – *Sustainability*:	an assessment of the measures CFC undertook to ensure the continuation.
5 – *Impact*:	an assessment of the impact of the FYAP in its operating context and CFCs mandate to promote commodity development in the context of poverty reduction and sustainable development.

The evaluation team selected a number of 11 projects covering a variety of commodities, which were discussed with CFC staff and of which the team went through the relevant project documentations. These projects were assessed on their contribution to the five aspects mentioned above. In addition, interviews were conducted with PEAs and PIAs involved in 5 ex-post evaluated projects in the Philippines, as to assess the role of FYAP in contributing to specific development issues through its projects, as well as to assess the efficiency of the operational tools the FYAP has at its disposal. For the remainder of the project portfolio, the evaluation team relies on the conclusions drawn by the mid term reviewers.

The 11 projects studied include the following:

CFC nr.	Title	Year approved	Type	Status
FIGOOF/23	Shea Butter Quality & Marketing Access	2003	Regular	Ongoing
FIGT/02	Organic Tea Production, Phase I	2003	Regular	Completed
FSCFT/23	Artisanal Fisherman, Central America	2004	Regular	Ongoing
FIGT/04	Organic Tea Production, Phase II	2004	Regular	Yet to start
ICO/22	Coffee Quality Improvement, Africa	2004	Regular	Ongoing
FIGTF/16	Development of Medicinal Plants & Herbs	2005	Regular	Ongoing
FSCFT/24	Organic Aquaculture	2005	Regular	Yet to start
ICAC/30FT	Instrument Testing of Cotton	2005	Fast Track	Completed
ICO/32	Marginal Coffee Production, Veracruz Mexico	2005	Regular	Ongoing
ICO/29FT	Sustainable Coffee Development, East Africa	2005	Fast Track	Completed
ICAC/33	Instrument testing of Cotton, Africa	2006	Regular	Yet to start

The 5 ex-post evaluated projects included:

CFC nr.	**Title**	**PEA**	**PIA**
FIGHF/09	Abaca: improvement of fibre extraction and identification of higher yielding varieties	UNIDO	FIDA
FIGHF/11	Coir-based building and packaging materials	ITC	FPRDI
FIGM/08G	Meat commodity diversification and upgrading of meat processing technologies in Asia-Pacific	UNOPS	APDC
ISO/20	Sugarcane variety improvement in South East Asia and the Pacific for enhanced and sustainable productivity	PSRF	PHILSURIN
ITTO/01	Technology transfer & commercialisation of selected cocowood utilisation technologies	FPRDI	FPRDI

Review of the above-mentioned projects learned the following.

Relevance:
The mandate of CFC in terms of incomes poverty alleviation and socio economic development of commodity producers continues to be relevant. All projects specifically target the overall objectives of the CFC and propose concrete intervention strategies to achieve or contribute to realisation of these overall goals. The problems identified as underlying rationale for the pilot projects assessed, are perceived as actual and real problems in need of a solution in order to enhance, in time, the situation of the specific groups of commodity producers.

Effectiveness:
In assessing projects on their effectiveness, the key question is whether the projects have met their objectives. This is only fully assessable in case projects have been completed. To be able to assess whether ongoing projects are on schedule, it might be better to set more milestones to be achieved during project periods, instead of just setting final objectives. In some projects this would have been useful, to be able to determine whether an adjustment to the original plan would be necessary. This was the case in the ITTO/01 project, regarding the pyrolyzer technology. In general, however, the Fund makes sure it is well-informed on the progress of projects, on the basis of which it for example gives projects a performance rating.

In general, the projects assessed all met their objectives to a certain extent. In every project some objectives are fully met, while other targets have only partially been met or not at all. Looking closer to two of the assessed projects, we can see this conclusion reflected. In the FIGHF/09 project, the objectives of developing an efficient tuxying machine and improving the existing decorticating machine have not quit been achieved as planned. Nevertheless, the identifying of virus disease-tolerant and high-yielding varieties of abaca and conducting dissemination seminars has succeeded. With regard to the FIGHF/11 project, the same conclusion is valid. On the one hand, the technology of processing coconut husks into panel boards has been well developed and the technology transfer mechanism is in place. On the other hand, the objective to provide additional income for coconut farmers by making use of the so far invaluable coconut husks, has not been achieved yet.

Furthermore, it is felt that the quality of implementation of a project is heavily dependant on the competence and commitment of the PEA involved. In a few cases, the PEA proved to be incompetent or not committed, hence negatively impacting project progress. For example, the selection of UNOPS as PEA caused some inefficiency in the implementation of the FIGM/08 project. This was due to its lack of technical expertise and to the fact that UNOPS had no representatives in the four countries where the project operated. The ISO/20 project shows an example of a suitable PEA, and the importance of appointing a PEA that is fully committed.

Efficiency:
The extent to which a project can be regarded as efficient comes down to measuring whether it has been efficient in its use of its resources and time available to achieve its goals. It is quite common for CFC-funded projects to be extended beyond the original project cycle. From the five post-evaluated projects, two could not be completed within the projected time. One project, ITTO/01, was completed within the projected time, but was not able to implement the impact evaluation component of the commercialized technologies due to time constraint, because of delays in other project activities. It is a favourable development to see that factors causing delays are looked into and worked on. For example, the signing of the loan agreement that causes delay in the ICO/32 project is one of the subjects that are being dealt with at the moment.

The legal department of the Secretariat, especially when loans are involved, showed to be a contributing factor in delay before actual start of the project. It is important for the legal department to ensure that CFCs tasks and responsibilities, both financial and judicial, are clear, non-ambivalent, and operational.

In assessing the efficiency of projects, it should be taken into consideration that the Fund finances *multi country* projects, which obviously are administratively more complex than single country projects. To be able to keep this administrative burden limited, the Fund has restricted itself to financing projects not covering large numbers of countries, as stated in chapter 8.2 of the FYAP.

Regarding the resources component, the following can be said. The adherence to the project budgets is generally satisfactory. Almost every project stays within its budget. Nevertheless, a project structure that does make use of its entire budget, but does not achieve all of its objectives, can not be regarded as being efficient.

As a detail, the problem of possible depreciation of local currency was noted. This fact can have impact on the implementation of the projects, creating budget constraints, as was the case within the FIGM/08 project.

Sustainability:
The majority of the projects addressing commodity related problems, are to an important part categorised as technically oriented projects (i.e. projects targeting production processes and efficiencies) and to a lesser extent as market oriented projects (i.e. projects assessing the conditions for up scaling to a commercially larger scale operation). In the majority of the cases, the projects seem to be implemented in an isolated environment, not taking into account externalities having the potential of influencing sustainability parameters of the interventions and the project itself. For example, the sustainability of the results of the FIGHF/11 (coir) project in the Philippines was made dependant on the level of (non commercial) financing available. In concrete terms, the framework in which the projects are implemented (i.e. financial, judicial, institutional, etc.) is insufficiently taken into account. This includes the absence of the private sector in many cases. This is expectedly to have its effect on the impact and sustainability of the outcome of the projects. Taking a closer look at CFC's project portfolio, it can be noted that private sector participation for CFC entails inclusion of smallholders, as well as associations and farmer cooperations. Although these groups may play an important role in serving the interest of the target group, the project will not be accepted by "the market" unless (amongst others) processing companies, traders, buying agents, export companies, etc., see the commercial benefits and hence actively participate. For example, cooperatives participate in the FSCFT/23 (Artisanal Fisherman) project, while private companies (e.g. in processing or marketing further down the chain) are absent. Projects like FIGOOF/23 (Shea Butter) and FIGTF/16 (Medicinal Plants) do not have any private sector participation at all. In addition, project documents often make note of the fact that the results "are targeted towards processors" or "will benefit the private sector". Whilst by CFC this is interpreted as "private sector involvement", these projects, on the contrary, clearly indicate a lack of private sector participation in design and implementation. This makes achievement of the long-term results with respect to sustainability highly uncertain.

The continuation of project results is also tackled by organising dissemination activities. These can be regarded reasonably effective, but attention should be paid to the "level" of those invited.

The target beneficiaries should be kept in mind. Apart from that, in every case it should be given consideration whether a dissemination workshop is the best way to reach the target beneficiaries, like the FIGHF/09 project revealed. In this project it would have been more effective to disseminate the information to farmers through a participatory approach, so that they get involved in the process of learning by being involved in the implementation of the project.

On a more programmatic level, these issues should be worked out specifically in order to ensure a sustainable level of continuation of the FYAP programme itself. To ensure a greater level of sustainability both in terms of project results and FYAP as programme, the Fund needs to create a new vision on commodity specific developments given actual and relevant socio-economic developments. On the level of financial sustainability of the FYAP, the evaluation team felt that measures indeed are taken to ensure continuation of the Voluntary Contributions, albeit that these specific fund raising activities are targeted to take place only at the end of the FYAP implementing period.

<u>Impact:</u>
Impact is related to sustainability. As concluded earlier, individual project impacts are very difficult to measure as there are little measurable outputs to monitor and evaluate the projects against. In that sense, the logical framework should specifically address concrete and quantifiable changes in socio-economic situation of the target beneficiaries, productivity, market accessibility, etc. In the FSCFT/24 (organic aquaculture) project for example, no measurable outputs are stated, only a *considerable* increase in volume, a *critical mass* of personnel to be trained, etc. As the mandate of CFC in the context of poverty alleviation through commodity development is regarded still relevant as of today, to ensure it will continue to be relevant while achieving maximum impact, it is important for the Fund to gain maximum leverage as financier of pilot projects seeking to establish relevant multi-disciplinary linkages with the structure it is incorporated in.

5.2 Addressing relevant commodity issues

As stated earlier, the Fund's projects seem to be related to firm level upgrading in the smallholder and SME sectors of a specific commodity. Interventions mainly are targeted at improvement of production processes and efficiencies, and at developing end-market opportunities. Primary producers of commodities, however, are best supported to make their efforts effective and sustainable by a mix of intervention strategies specifically targeting their multi-dimensional problems. These problems may range from lack of access to a market, to lack of working capital or supportive legislative regulations. Although on a programme level the FYAP is tailored to address a number of intervention strategies, in practise these translate to the FYAP's continued support to narrowly focussed pilot projects. The absence of certain and commodity-dependent intervention areas implies that FYAP is not adequately addressing its overall objectives in terms of contributing to incomes poverty reduction and sustainable development in a commodity sector.

The challenge for the Fund for the coming years lies in the inclusion of intervention strategies to effectively address a number of commodity specific problems. This would enable the Fund to increase its impact and leverage effect on project level as well as in the international commodity context of poverty alleviation. The inclusion of the programme approach into the FYAP 2008-2012 can be a first step to address this issue.

5.3 Funding and financial resources

<u>Voluntary contributions and co-financing</u>
Current sources of financing for the Fund include, amongst others, Voluntary Contributions to the Second Account, and so-called targeted (or co-financing/counterpart) contributions. The FYAP makes mention of the Fund to attract additional resources for the purpose of co-financing projects, while the combined cash and –in kind co-financing ratio of 50% should be maintained, leveraging the resources of the Fund.

During the course of the FYAP implementation period, the Fund undertook action with a view of mobilisation of outstanding contributions to the Fund, amongst which is an agreement with the OPEC Fund for International Development. This Agreement includes payment of up to USD 5 million starting in 2005 towards fulfilment of its Voluntary Contribution of USD 46.4 million dollars spread over nine years. Also, the conclusion of the Partnership Agreement with the Dutch Government (Dutch Trust Fund) was part of this action.

Outstanding pledges for Voluntary Contributions as at the end of 2007 were in the FYAP anticipated to be some USD 41.6 million. At the beginning of the FYAP, the total amount of capital subscriptions outstanding amounted to EUR 14.6 million. As of January 2007, this amounted to USD 10.5 million (or EUR 8.1 million). Thus, the efforts by the Secretariat and the Governing Bodies of the Fund to mobilise the outstanding contributions has so far led to a further reduction in outstanding payments – yet a number of countries should continue to be urged to fulfil their financial obligations. Actual receipt of payments against pledges for Voluntary Contributions by member countries seem to be pose the Fund with a structural problem, as this is problem is visible during the current FYAP as well as it was during the first FYAP.

<u>Credit</u>
In terms of the Fund's credit components, it recently selected two methods as appropriate for serving as credit mechanism with outreach to smallholders:

- *Credit guarantee instrument*
  Applying a portfolio approach, loans are administered by a selected financial institution offering credit support to end borrowers. An agreed percentage (of up to 50%) of a defined part of the institution's portfolio of loans will be guaranteed by the Fund.

- *Credit instrument*
  Also here, the portfolio of loans is administered by a financial institution. This institution would effectively be borrowing from the Fund, presumably at the current preferential terms. The loans will be on-lend to the end-borrowers on the basis of a credit line specified by the Fund.

Under the FYAP, a total of 5 projects included a loan component, none of which had applied the above mentioned newly proposed mechanisms. Including the possibility of disbursing loans for those parts of the project activities which have the potential to be income generating, is a means of making more effectively use of the financial resources available under the Second Account. In that regard, the Fund will theoretically be able to partly revolve its resources.

However, caution should be observed in assessing the criteria on basis of which commercial finance is made available to commodity producers. Multilateral development banks like the AfDB, ADB and IADB, due to the nature of their loans portfolio, are often confronted with high financial risks in terms of loan repayments. As such, they see themselves confronted with relatively high default rates. In addition, in most cases on-lending is applied to local national banks (possibly further on-lending to micro financial institutions, MFIs) which are confronted with high management costs and equally high default rates. As such, multilateral banks and national banks apply high interest rates on the loans disbursed. In addition, they tend to apply innovative selection criteria on basis of which a lender may stepwise enter into a loan agreement with the bank.

As CFC projects currently to an insufficient level include financial and economic criteria, the current design of CFC funded projects would make it rather impossible for an external financial institution to identify income generating activities from it – let alone to assess its financial viability and suitability to attract lending.

The question arises whether such an approach complies with the procedures applied by CFC. The Fund may consider, of course, covering these financial risks by guaranteeing part of the loan issued, and/or by lending to development banks at favourable interest rates. However, reasoning that loan financing in the alternative case would be grant money - and thus whatever is being repaid is at least a positive cash flow to the Fund – should never be the motivation to start issuing loans. Moreover, not carefully applying financial, economical and/or managerial criteria for disbursements and repayments could result in ever increasing outstanding credits.

Furthermore, the development of issuing credits through financial institutions implies that the Fund has to be selective to type of commodity, nature of the project and even geographic location (i.e. legal and judicial frameworks in which these institutions regionally or locally operate). Assuming project activities having the potential of being income generating, the different activities will probably be subject to a variety in financial guarantee. In addition, the extent to which a local bank may accept a certain type of collateral of financial guarantee is - in addition to the local bank's policy - often subject to local legislation. This makes this type of credit mechanism also subject to a number of "externalities" which strictly speaking should be non-influential to the Funds loan policy – in practise, however, these will partly determine to which (type of) projects loans will be disbursed.

It is important for the Fund to be aware of the possible implications applying credit mechanisms under the proposed set-up will have in terms of the Fund's mandate and financial risks involved.

5.4 Inter-institutional cooperation

Inter-institutional cooperation is an aspect to which the Fund is adhering importance to, as indicated in the FYAP. This cooperation, in the form of strategic partnerships, is sought with other organisations (amongst which the ICBs – their communication with CFC is discussed in section 3.4) providing financial and technical cooperation in the field of commodities.

The aim of the Fund is to continue to seek close collaboration with other multilateral, regional and national institutions engaged in development, including joint, parallel or co-financing of projects. Complementary cooperation with these institutions is also supposed to be sought in the field of loan-financed projects. In practice, the Fund is regarded as offering a unique financing instrument targeting commodity producers. The uniqueness is laid down in the fact that CFC is commodity focussed, combined with a multi-country approach in implementing pilot projects. This uniqueness, at the other hand, proves it difficult to seek cooperation with other potential co-financiers as these institutions tend to focus on geography / national problems, and not exclusively on commodities. Still, CFC has managed to establish a number of strategic partnerships through entering cooperation agreements with institutions like FAO, USAID, UNCTAD, IAEA and UNIDO. The Fund has observer status at the UN General Assembly.

It was beyond the scope of this evaluation assignment to assess institutional cooperation with all organisations involved. However, it can be said that the cooperation with FAO and UNCTAD has resulted in several initiatives and joint commodity support activities in the field of co-funding of projects and jointly organising of relevant workshops and seminars. Furthermore, the Fund has sought cooperation with ECOSOC in which it has an observer status, and with WTO with which it has an *ad hoc* observer status – the two organisations partly touched upon by the mid term reviewers.

6 CONCLUSIONS

The main conclusions drawn from the evaluation assignment are presented below:

- As part of the FYAP 2003-07 the CFC was committed to fund 41 regular projects and 55 Fast Tracks. In terms of financial commitments, figures amount to USD 63 million and USD 4.6 million respectively. Another 6 regular projects and 7 Fast Tracks are expected to be approved in October 2007, projected to result in a total financial commitment of USD 80 million. Against a target of USD 97 million, it is noted that the FYAP is underperforming in terms of its financial commitments. This is due to under-expenditure of the First Account, where the Second Account only will be responsible for a total of USD 79.5 million – slightly more than the projected USD 76 million.

- Some 46% of the pilot projects are categorised as post-harvest processing, marketing and quality improvement interventions.

- A broad range of traditional commodities and orphan commodities are covered. The most popular commodities, measured by the number of regular projects approved under the FYAP, include coffee and fish. Cotton is leading in terms of number of Fast Tracks approved. LDCs are well-represented as geographic location of CFC funded projects: 54% out of the total projects are implemented in LDCs, representing 59% of the total financial commitments.

- The time the Fund is spending between formal project approval by the Executive Board and signing of the Project Agreements has reduced as compared to the first FYAP. A substantially larger number of projects had their Project Agreement signed within one year after approval. Although considered a significant improvement, there is scope for further reduction of this time period in case more specific attention is given to the division of roles and responsibilities between the PEA and the other implementation agencies during the project preparation stage. Also the way the project implementation activities are to be incorporated within the local structures is often a subject of negotiation during the contracting stage. It seems likely that the time between approval and actual start-up can be shortened by taking these factors into account.

- The current FYAP included 5 new projects having a loan component in addition to receiving CFC and counterpart funding. Part of the loan for only one of these projects has been disbursed during the FYAP-cycle. It is noted that the Fund took steps to facilitate the development and disbursement of the loans portfolio. With this measure the Fund meets with objections encountered during the complex disbursement of current loan financed projects. On the other hand, achieving the FYAP objective to increase the ratio of loan financed projects may only be achieved in the years beyond this five-year period.

- It is important for the Fund to be aware of the possible implications applying credit mechanisms under the proposed set-up will have, both in terms of the Fund's mandate and of financial risks involved.

- The active involvement of facilitating committees (IGG Committees, VSC) established at some of the ICBs, seems to have a positive effect in the process of effectively formulating a proposal which complies with the FYAP selection criteria and guidelines.

- At the level of the CFC Secretariat, the Consultative Committee and that of most ICBs, there is limited understanding on the practical interventions and incorporation of the supply chain concept into project design and in project implementation. This, likewise with the differences in interpretation of the FYAP's programme criteria by the Fund and ICBs, may lead to a variety of (possibly conflicting) interests and views by different actors like CFC Secretariat, ICBs, national governments and producers.

- In the majority of CFC funded projects, the private sector is not directly participating. The inclusion of (organised groups of) beneficiaries, or the intention of the project to target the private sector through means of dissemination of project results, seems by CFC to be defined as private sector participation.

- By and large the tripartite agreement in management and implementation between CFC, ICB and PEA is working reasonably effectively. There are, however, areas for improvement as there are still sometimes contradictive interpretations of CFC staff and ICB staff on the division of tasks.

- Measuring expected results and project impacts are difficult as only few projects include quantitative base-line data as criteria for project selection, monitoring and evaluation. Outputs as formulated in the projects' logical frameworks often lack measurable and specific objectives. Appraisal missions carried out prior to EB approval can be very useful in collecting data on basis of which a more sound assessment of the project proposal can take place.

- The Fund has been quite active in undertaking concrete actions with respect to advocacy and dissemination of project results. At this stage in time, however, little can be said about the effect of these activities in terms of maximising impacts of interventions. ICBs are open for active collaboration with the Fund in the field of advocacy and generic dissemination of project results and lessons learned. The Fund, however, has not yet clearly formulated a policy or formulated concrete objectives in the field of advocacy and dissemination.

- The mandate of CFC in terms of poverty alleviation and socio economic development of commodity producers is still relevant. All projects specifically target the overall objectives of the CFC and propose concrete intervention strategies to achieve / contribute to realisation of these overall goals.

- Projects supported under the recent FYAP have a rather narrow focus and do not cover adequately other important interventions that lead to poverty reduction and sustainable development in a commodity sector. It is noted that CFC predominantly has been supporting projects aimed either at development of technologies and approaches for smallholders and SMEs to improve their production processes and efficiency, or at developing end-market opportunities. Projects that are related to other important intervention areas (e.g. inter-firm cooperation, improving the chain governance in favour of small producers, development of business support structures) are virtually not found in the current CFC project portfolio. The lack of certain intervention strategies may hamper projects effectively contributing to CFC's overall objectives.

- The conceptual analysis shows there are very big differences between various commodity sectors in terms of their intervention strategies required to enhance commodity development and contribute to poverty alleviation. The different stakeholder groups involved require different support interventions. The current constellation and mandate of organisations involved in project identification and formulation, however, does not allow the development of pilot projects distinguishing different commodity sectors through applying a set of sector-specific support intervention strategies. The proposed programme approach to be developed for the different international commodity sectors may address this issue.

7 RECOMMENDATIONS

The following recommendations are made:

- As there exist contradictive interpretations of CFC staff and ICB staff on the division of management tasks, the roles and responsibilities of the respective organisations should be further discussed and explained. The tasks related to technical management should be spelled out more clearly. During the project preparation phase, ample attention should be given to the division of roles and responsibilities between the PEA in relation with the other implementation agencies concerned. The current CFC manuals may be reviewed whereby the emphasis should be on providing a succinct outline of the key responsibilities and tasks, rather than a further elaboration.

- Projects should be appraised with an emphasised view on the incorporation of the project structure in the local environment. This implies taking into account also other disciplines than the current focus on technical and marketing aspects. In assessing whether a project has potential to develop from pilot project to a self-sustaining activity supported by local structures and actors in the chain, the local structures (e.g. institutional, judicial, financial frameworks, availability and potential of commitment of private stakeholders, etc.) should be looked at to assess whether these are supportive to the proposed intervention. Special attention should be given to the inclusion of the private sector in the design and implementation phase.

- Carrying out appraisal missions prior to formal project approval may be considered more often to facilitate a comprehensive assessment of the proposal. This appraisal mission should in detail assess local demand, stakeholders' interest, operational feasibility and economic viability of the project. As such, appraisal missions are a potential tool for assessing a projects' capability to contribute to the FYAP overall objectives. In addition, appraisal missions may provide the implementing stakeholders with useful information for effectively anticipating the negotiations on Project Agreements with CFC, the ICB and the PEA concerned. Hence, the start-up process might be smoothened and shortened.

- The two different methods identified by the Fund for employing a loan arrangement, should be carefully worked out. Both options should be assessed thoroughly to determine whether employment of the schemes might potentially be conflicting with the Fund's mandate. A risk analysis should be carried out taking into account specific commodities, geographical locations and type of income generating activities for which the Fund expects to make loan financing available. Also, an assessment needs to be done in terms of managerial and operational capacity against the background of roles and responsibilities to be fulfilled by both the CFC and the financial institutions concerned.

- The Fund should apply more result-oriented impact definitions, both on project level (through use of description of measurable and quantified outputs) and on programme level (through inclusion of financial / economical performance criteria in the FYAP). This will help better monitoring and evaluation of impact and sustainability effects.

- Given the importance attached by the Fund to advocacy and dissemination activities, and the willingness of ICBs to actively cooperate with CFC in these fields, a common communication strategy may be developed. This communication strategy should aim at making an effective use of resources (human, finance, means of communications) in cooperating with other institutions. The strategy should clearly formulate concrete steps to take for achieving specific goals.

- The concept of supply chain management, the translation into practical interventions and incorporation of these into the project design and implementation should be the subject of a discussion amongst the CFC Secretariat, the Consultative Committee and the ICBs. This discussion should be initiated with a view of coming to a common understanding of the practical concepts, and on a clear understanding on the application of the concept in the design, selection, appraisal and implementation processes of projects concerned. This discussion should also include the (interpretation of the) FYAP's objectives and intervention strategies as to avoid contradictive interpretation on the modalities of FYAP between ICBs and CFC.

- Consideration should be given to changing the perception of the Fund on addressing commodity specific problems in the light of actual and relevant socio-economic developments. The programme approach may be useful in initiating this process, using also outputs from international commodity conferences and strategic studies undertaken by the Fund. The main goal of this process would be to come to a definition of priorities on intervention strategies applied to different commodity sectors and groups of stakeholders, serving to adequately cover other important interventions that lead to poverty reduction and sustainable development in a commodity sector. As both CFC and ICBs are neither mandated nor well-equipped to initiate this process, it is proposed to have this process guided by an independent knowledge institute capable of overseeing the interests of all stakeholders concerned.