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**Market volatility and commodity dependence**

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



# MARKET VOLATILITY AND COMMODITY DEPENDENCE

## Public-Private Initiative on Commodity Market Volatility

Public and private sector financiers agree on the need for a coordinated response to public concerns about financialization and commodity market volatility. Nevertheless, the views on effective measures to mitigate the problem differ very considerably, and the lack of common understanding of key underlying issues prevents effective joint action. This gap calls for a dialogue to reach agreement on issues of common interest to mitigate commodity market volatility and its costs, as well as to channel financial capital into investments into physical production capacities for key commodities.

There is a significant gap between development, vs. financial and academic views on commodity derivatives trading, which results in poor and often controversial discussions and, consequently, ineffective action to identify and address the real development problems related to commodity derivatives, price volatility and long term investment incentives and capital flows into primary agriculture. The discussion is divided along the lines of economic schools of thinking (Keynesian vs. Neoliberal) as well as political affiliations.

There is also considerable amount of understanding that, in principle, equitable and fair participation of primary commodity producers in global commodity markets is in everyone's interest, and, further, that the general investing public and long-term



# How impact investment can address price risk volatility



# The CFC and its instruments

- Governance: An international organization with 101 Member countries
- Financing: Share Capital and Voluntary Contributions
  - Self financing from income on the capital
  - Investment of Members' share capital (low risk )
  - Project investment of voluntary contributions (higher risk )
- CFC Staff
  - Managing Director (elected)
  - Secretariat - 20 persons
- CFC Partners: Work with organizations supporting Commodity Development Measures - Special relations with ICBs and UNCTAD

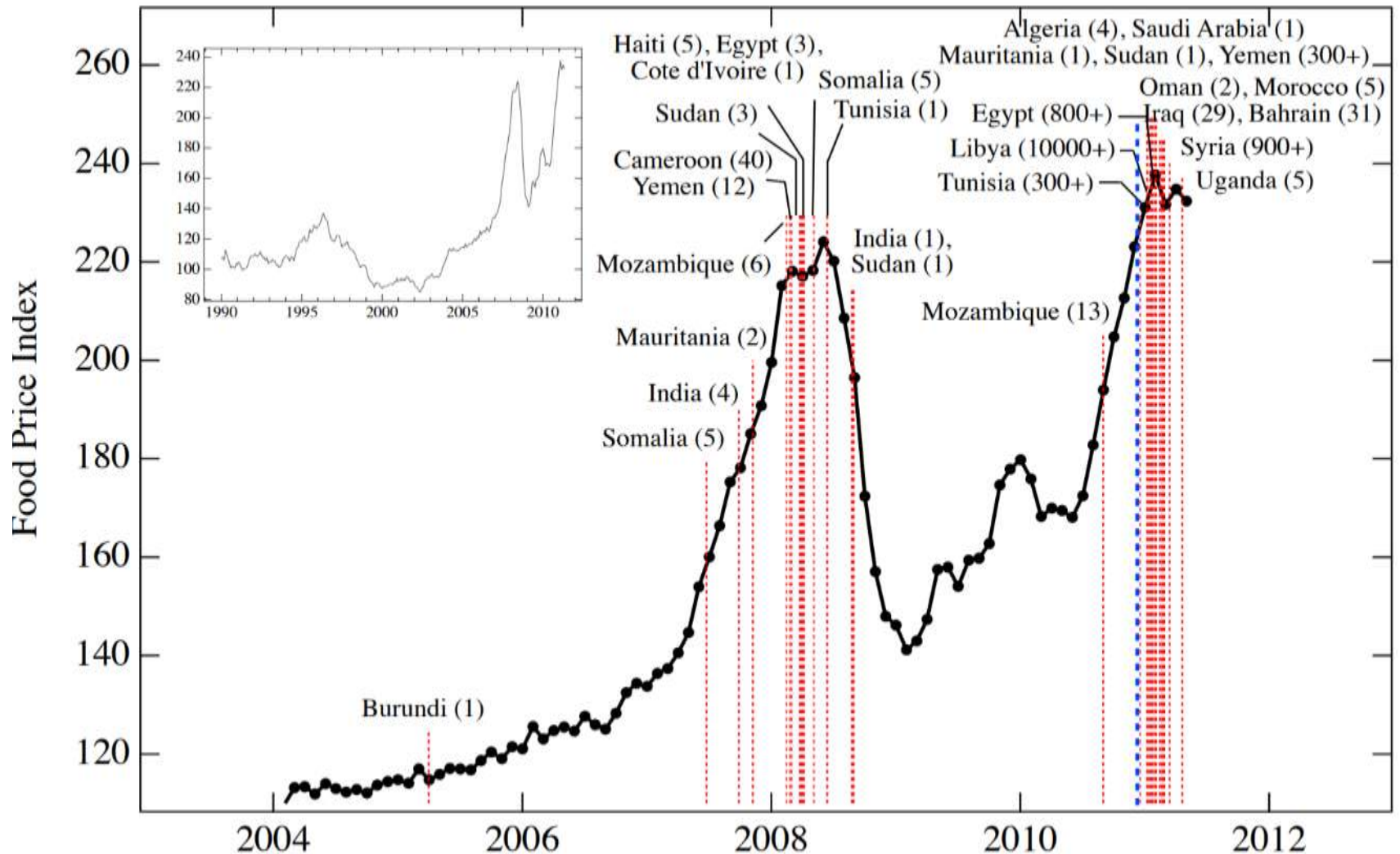


Image from New England Complex Systems Institute,  
[www.necsi.edu](http://www.necsi.edu)





Vulnerability \*  
Volatility =  
Loss

- Study of volatility impact - cocoa in West Africa
- Up to 30% sales without contract
- ~45% fixed price contracts
- Impact of price risk on POs:
  - >70% report loss of income
  - ~65% lose financial reserves and increase debt
  - ~60% experience problems with membership
- Up to 65% farmers receive prefinancing from POs
- Export via local agents

# What and how we do

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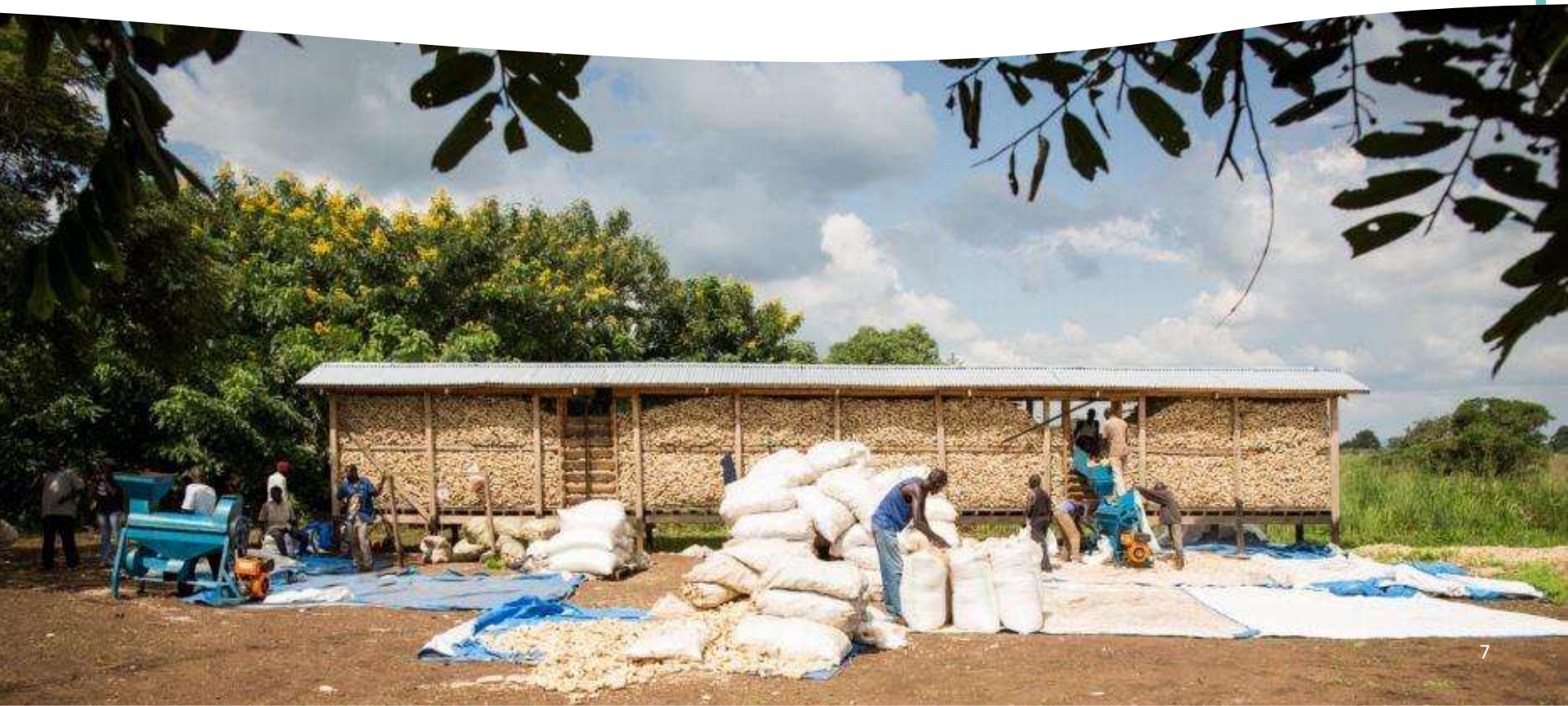
- Vision: Commodity sector has to play its part in development
- Mission: To make financing available to projects which create development gains
- Instrument: Impact investment approach
  - Viable - Economic model
  - Sustainable - Financial rate of return
  - Measurable - Development impact
- Open call: Any institution/individual can apply
- Efficient project selection and follow-up process





# Moving up the value chain

- Reducing Vulnerability to Price Volatility – Kenya
- Malawi Agricultural Commodities Exchange
- Financial leasing and microfinance services
- Joseph Initiative – bringing smallholder to market
- Community forests timber certification
- Integrated production of limes
- Chicoa fish farm





# Example 1: Tolaro

- Cashew processing in Benin
- Increase capacity to 20,000 tonnes/year (USD15mln)
- 850 new jobs at processing factory
- 15,000 supplier farmers by 2023
- Total project cost USD5.5mln
- CFC investment USD1.5mln (under OFID facility)
- Moringa Fund, Oikocredit, Triodos Bank, Root Capital





# Hub of impact investing

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- Part of impact investing community, member of Toniic
- Sharing information about coinvestment with private impact investors
- Participate in impact investment funds (IIFs)
- Make CFC's expertise available to IIFs to help with investment in commodity sector
- Operating TA facilities: AATIF, Moringa Fund etc.
- Enabling investment in commodities by taking a minority stake



# Example 2: AATIF

## AATIF Highlights

Join us in discovering AATIF's milestones since inception in 2011:

**12**  
transactions closed

AATIF since 2011 (i) provided funding to four FIs which have seasonally extended loans to more than 250 agribusinesses, (ii) supported three Intermediary and four Direct Investee Companies and (iii) signed a commitment towards funding with one MFI.

**USD 160 m**  
disbursed since Fund inception

Therof into FIs for on-lending into the agricultural sector USD 85m  
Therof to Intermediary and Direct Investee Companies USD 75m

**CFC** common fund for commodities  
**38**  
approved Technical Assistance Projects

Since its inception, the AATIF TA Facility Committee has approved 38 technical assistance projects with a total budget of EUR 2.42 m. By December 2017, 27 projects have already been completed, which benefited 9 AATIF Partner Institutions with ultimate beneficiaries in 3 African countries.

**Wienco**  
Intermediary, Ghana  
AATIF loan: USD 20m, Term 3 years

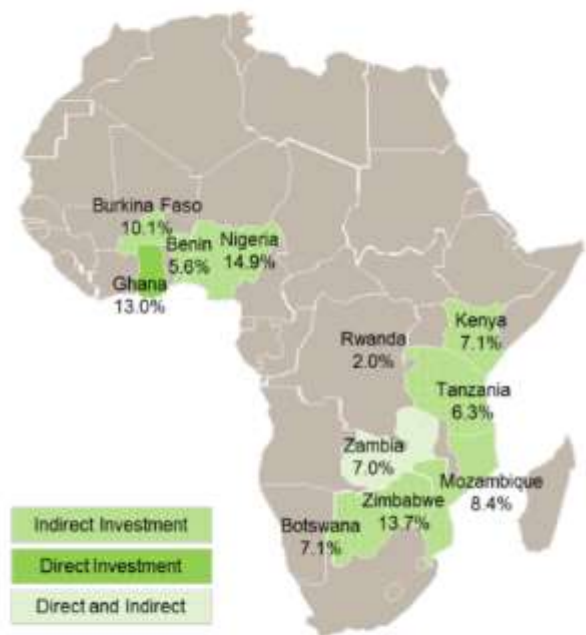
- Distributor of inputs, off-taker of cocoa, maize & cotton
- Collaboration with smallholder farmers (cocoa, cotton, maize)

**Coopers-K Brands Kenya**  
Direct Investment, Kenya  
AATIF loan: USD 4m

- Financing of a plant for the production of minerals and nutritional supplements for livestock
- High quality, local value added production

**BancABC**  
Financial Institution, East Africa  
AATIF loan: USD 25m, Term 5 years

- Supporting growth of local agric. funding
- Credit protection in the form of risk sharing



Data as of 30 June 2017

**Agrivision Africa**  
Direct Investment, Zambia  
AATIF loan: USD 10m, Term 5 years

- Wheat, maize and soy farm
- Vertical integration into wheat and maize processing via a captive mill

**GADCO**  
Direct Investment, Ghana  
AATIF loan: USD 5.3m, Term 5 years

- Ghanaian rice producer
- Partnership with smallholders

**ETG**  
Intermediary, Pan Africa, 26 countries  
AATIF loan: USD 30m, Term 5 years

- Supply chain manager of agricultural commodities
- Connecting smallholder farmers to global commodity markets

**Chase Bank**  
Financial Institution, Kenya  
AATIF loan: USD 10m, Term 5 years

- Kenyan commercial bank focused on SMEs
- On-lending activities target investments along the entire agricultural value chain

**PTA Bank**  
Financial Institution, COMESA\*  
AATIF loan: USD 30m, Term 5 years

- Multilateral development bank
- Private sector related trade and project/infrastructure financing

**MyBacks**  
Financial Institution  
AATIF Loan: USD 5m

- Financing of subsidiaries in Mozambique and Uganda
- Upgrading IT based lending to agriculture clients served through local Opportunity International bank
- Implementation of robust S&E Management System



# Future plans

- Main challenge is identifying suitable projects
- Possible subject areas:
  - Innovation in technology
  - Accessible financing
  - Proactive gender investing
  - Sustainable commodity economy
- New Instruments
  - Impact bonds
  - Expanding from TA management into impact fund management

