

# **The Common Fund for Commodities**

**Impact driven financing  
mechanisms for commodity  
dependent  
LLDCs**



# Outline

- Challenges in commodity financing
- CFC role and functions
- Impact investing with private sector
- Instruments:
  - Impact oriented funds
  - Development impact bond
  - Direct investment
- Challenges



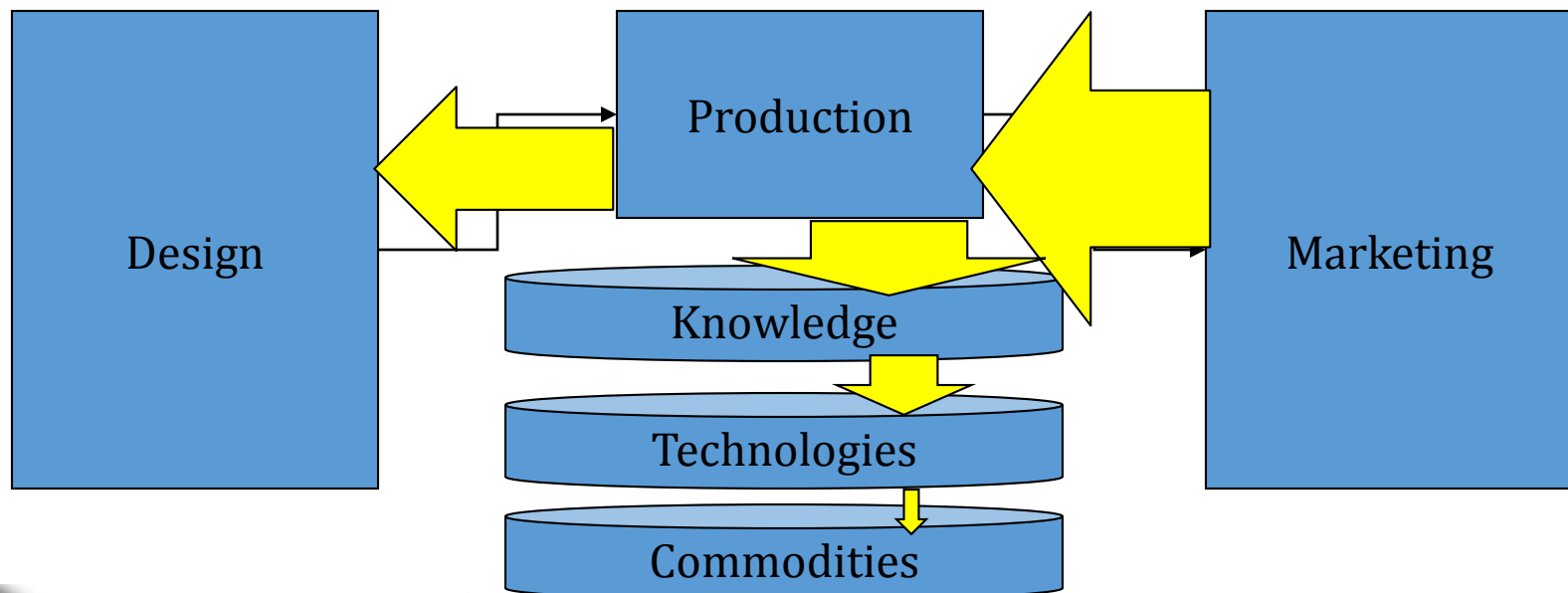
# Challenges in commodity financing

- Most LLDCs (24 of 32) commodity dependent – face development challenges due to significant influence of global commodity markets
- Measures addressing commodity dependence require financing
- Budgets for aid financing constrained: 10% fall since 2009, 6% recovery in 2013, stagnation expected in 2014 (OECD)
- Commodity sector development – driven by value chains
- Integrate development financing into value chains – must work with private companies operating in value chain
- Private financiers concerned about high costs of operations in LLDCs



# Value chain approach as guiding principle

- A tool to analyse sustainable economic development
- Economic gain driven by the market
- *All elements* must be financially viable
- Value chain *analysis* leads to suggestions for value chain *development*



# Guiding Principles of Operations

- Invite calls for ideas for solutions and activities for commodity development in identified spheres;
- Finance with private sector, impact funds, governments, international organization etc. through risk taking grants, loans which will generate return on investment;
- In each programme target and evaluate impact including delivery on social and economic investment prognoses
- Take advantage of lessons learned and skills in order to replicate the successful interventions; and
- Operate as a paid service provider for the private sector, NGO's, etc.



# New implementation approach

- Finance measures to realize the potential of commodity production, processing, manufacturing, and trade for the benefit of the commodity producers.
- Target projects which are:
  - Innovative
  - Commercially viable,
  - Sustainable
  - Scalable, and
  - Expect broad developmental impact on stakeholders of commodity value chains



# Impact oriented investments

- investments made with the intention to generate social and environmental impact alongside a financial return (GIIN – [www.thegiin.org](http://www.thegiin.org))
- Financial viability plus the “triple bottom line”: social, economic, environmental
- Financial goals and TBL goals compete – need tools to bridge the gap



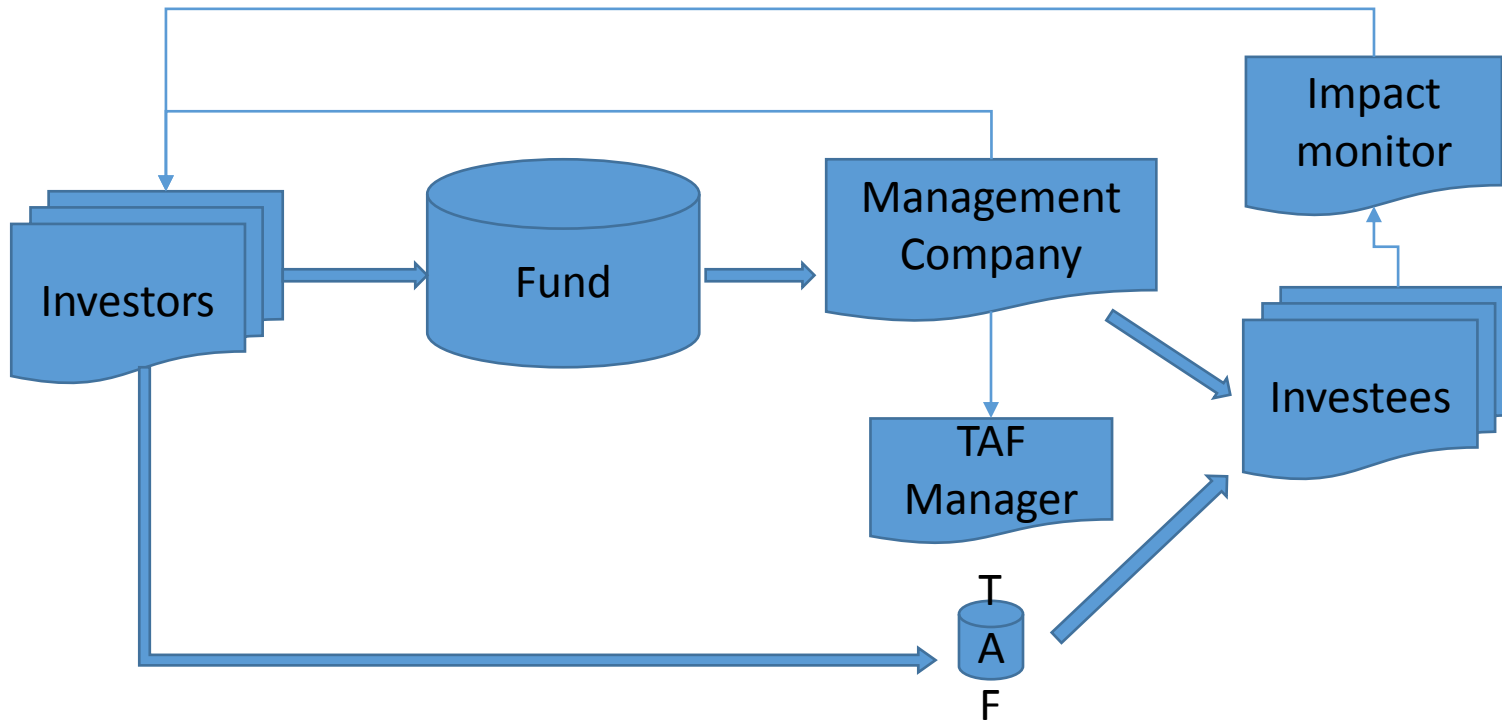
# Tools for impact investment in LLDCs

- Becoming a minority “knowledge investor” in a larger impact investment fund to enhance their capacity to function in LLDCs
- Structuring a development impact bond targeting specific opportunities in LLDCs
- Direct investment in specific “model projects” in LLDCs to test viable development models





# Impact investment funds



# Impact investment fund: paperwork

- Start with target investees: commodity and types of business. Most often value added food products for domestic market
- “Issue document” – financial parameters and impact indicators
- Limited Partnership Agreement – to be signed by all investors
- TAF Agreement
- Impact Monitoring Agreement



# Impact Investment Fund: issues

- Relevant impact indicators to attract investors
- Size: probably USD15mln absolute minimum
- “Waterfall” of returns and total cost of management: management fee and carried interest
- Governance of TA Facility
- IO as a minority “knowledgeable investor”
- Building a base of knowledge to provide management backstopping to investee companies



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is the AAF SMI Fund Manager

**OUR INVESTMENT THESIS**

The Fund will invest in potential portfolio companies by taking either a majority or significant minority stake, where it seeks to have board representation and other meaningful shareholder rights.

The goal is to invest in agri businesses across the value chain in the target markets and build these businesses to



A food and agri business focused fund managed by DATABANK.

DATABANK is affiliated with the Databank Group




**moringa fund**  
Agroforestry & Sustainability

The Moringa Vision | What is Agroforestry? | Sustainability


"Better land management, higher productivity, higher and more stable local incomes, reduced project risks and positive environmental and social impacts."

Agroforestry is the spatial or temporal combination of trees and crops or livestock. It exploits biological and economic synergies to produce better land management, higher productivity, higher and more stable local incomes, reduced project risks and positive environmental and social impacts.

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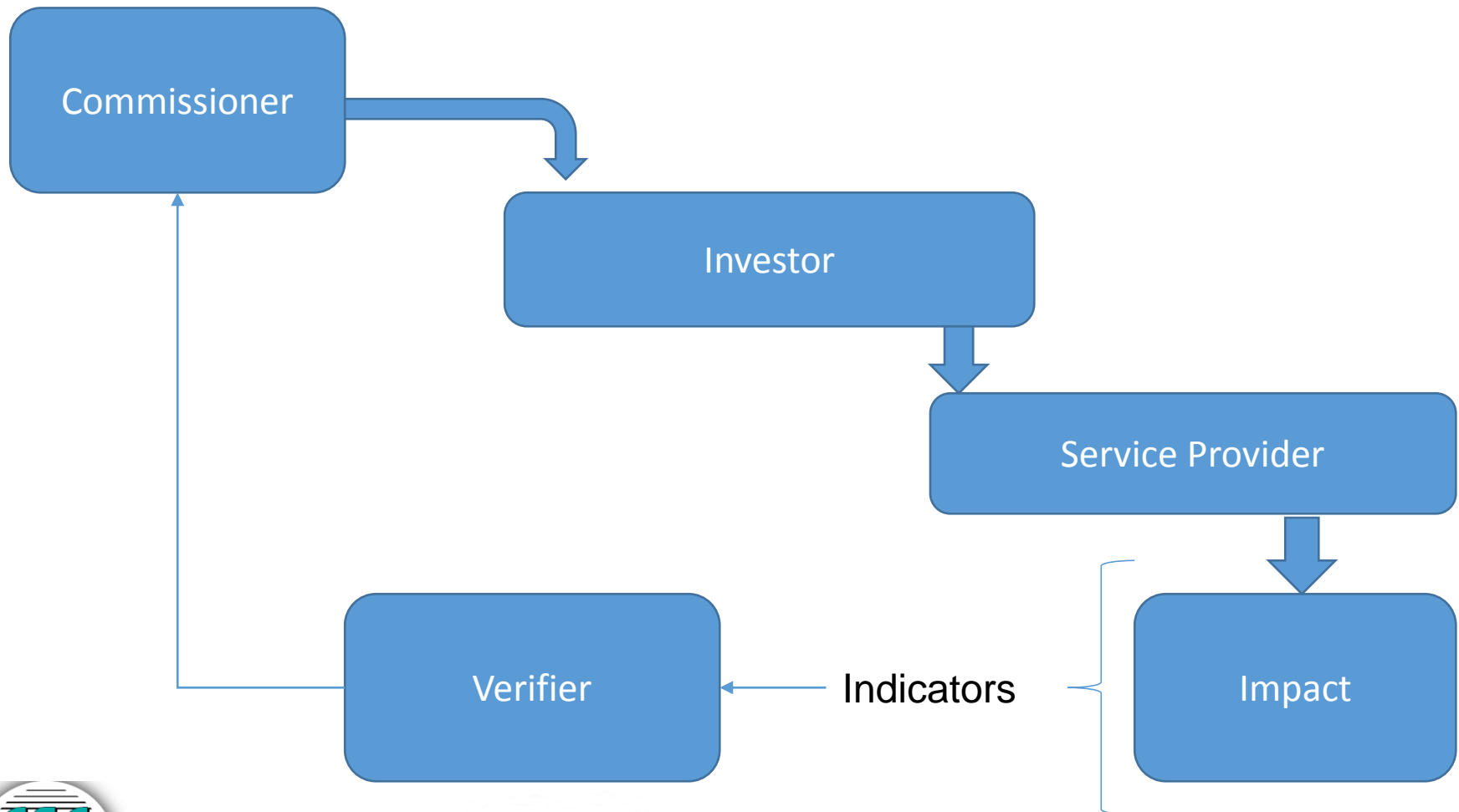
**Our Mission**

Our mission is to promote sustainable agriculture and rural development in the target markets by investing in agri businesses across the value chain and building these businesses to

**Testimonial**

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# Development Impact Bond



# DIB: set-up

- DIB is a 3-party contract:
  - Investor commits to make funds available
  - Service provider commits to implement actions towards achieving impact
  - Commissioner commits to pay the Investor upon verification of results
  - Impact indicators and evaluation methodology included in the contract
- Verification contract: the Commissioner appoints a Verifier using TOR contained in DIB contract



# DIB: issues

- Main advantage: incentives for all players consistent with development
- Cost of development work can be determined commercially without compromising development goals
- Challenging to formulate suitable indicators
- Impeccable verifier required for proper operations
- Dispute settlement provision
- Visibility – who owns a project? DIB is a TOOL, not a substitute for a good project



# Direct Investment

- Dominant operational model in LLDCs: network collection of smallholder produce for an attractive market:
  - (a) regional food market, landlockedness as cost advantage against import;
  - (b) high value exportable product
- Skilled management and right incentives
- Risk sharing through partnerships
- Little if any collateral – financing different from banks





# Direct investment: Maize collection network - Uganda



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# Challenges

- Few investable operational models meeting financial and development requirements – innovation required
- Margins are thin because of high cost of obligations required to maintain collection network
- Mainly viable in local markets where transport cost advantage can be realized from local sourcing



# Impact driven financing

Mobilizing new financing sources for  
LLDCs

Thank You

[www.common-fund.org](http://www.common-fund.org)



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