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# Role of the Common Fund for Commodities in the Promotion of the Spice Trade

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Common Fund for Commodities

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# Realizing the potential of commodity production, processing and trade for the benefit of the poor

- Introduction
- Who we are
- What do we do
- How we work in commodities including spices
- What we support
- CFC's Partner Organizations
- Expected Outcomes



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# CFC : An Intergovernmental Financial Organization

- The Common Fund for Commodities (CFC) is an autonomous intergovernmental financial institution established within the framework of the United Nations.
- Headquarters: Amsterdam, The Netherlands
- CFC Secretariat established in 1989
- 101 member countries
- Institutional Members - EU, AU, COMESA, SADC, ECOWAS, UEMO, CARICOM, EAC, EAEC, Andean Community



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# CFC Vision, Mission and Mandate

## Vision:

***Contribute to social and economic growth, access to food and international and regional markets for Developing Countries through sustainable value addition to commodities, and related value chains in a transparent manner.***

## Mission:

***Be a leading partner in operationalized activities for commodities in Developing Countries***

## Mandate:

***The CFC-supported interventions cover all aspects of the value chain from production to consumption. They aim at fair benefit to all.***

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# Role of Commodities in Development

- A source of income and livelihoods for a large proportion of CDDCs populations, thus also for food security.
- A link to the global market, thus a source of economic volatility – hence uncertainty.
- Commodity sector can deliver the key Sustainable Development Goals (SDGs) by increasing basic food supplies, enhancing incomes and creating employment in the rural areas, improving terms of trade leading to better living standards, and greater gender equality, contributing to women's empowerment.



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# Challenges in Physical Commodity Markets

- Uncertainties about production: weather, pests, calamities
- Low elasticity of demand: small variation in availability means large variation in price
- Demand for physical commodity determined by fundamental consumption, hence self-stabilizing
- Long time-lags in production capacity response, so may have cycles in production



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# Key Commodity Issues

Known practical measures include

- Market Development
- Value-chain Development :
- Diversification and Value-addition
- Enhancing Productivity and Food Security
- Advocacy, Building Partnerships and Dissemination



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# Feasible Areas of Interventions

Interventions “from field to fork” along the complete value chain:

- Improving the competitiveness of commodities and enhancing production through smallholder production;
- Expansion of processing of primary products to move up the value addition chain i.e. processing and marketing **higher value** products;
- Horizontal, Vertical and Geographical Diversification of production to increase the export earnings and/or reducing the dependency on a few commodities;
- Enhancing Commodity-chain development to increase income; improving access to markets; support for transparent and competitive markets;
- Minimizing physical marketing and trading risks;



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# Value chain approach

- A tool to analyse sustainable economic development
- Identifying chain actors
- Understanding opportunities and obstacles in specific commodity value chains that will lead to identification of solutions
- Value chain analysis leads to suggestions for value chain development



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# CFC's Core Competence

- Address vulnerability of poor participants of (agricultural) commodity value chains, i.e. (a) exposure to volatility, and (b) capacity to cope.
- Technical competence in commodity sector:
  - 25 years of project experience
  - About 400 projects
  - Total cost over USD 800 million, of which about USD 325 million is CFC funding



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# CFC's Approach

- Develop a reliable farm-to-fork supply chain for ensuring sustainable growth - Work closely with the private sector, Governments, farmers, and NGOs.
- Supply chain interventions designed to "produce what consumer wants" rather than "sell whatever is produced".
- Increase production of "quality assured" and "identity preserved" commodities at globally competitive prices.



# Impact Indicators

## Beneficiaries (Who?)

Direct Beneficiaries

Indirect Beneficiaries

Number of Women

Firms/Cooperatives  
assisted

Business Created

Jobs Created

## Economic (How much?)

(Net) Project Benefits

Value Added

Farmer Income with  
Project

Farmer Income Without  
Project

Production Costs

Additional Farm Gross  
Revenue

## Production (How?)

Hectares under  
production

Total Production

Increase Production per  
farmer

Yield increase

Quality improvements

## Others

Food Security

Sustainability



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# Impact on

- Beneficiaries and Incomes
- Gender
- Environment
- Value chain
- Market system



Source : IHT



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# SPICES

- A diverse group of dried seeds, fruits, roots, bark and other plant materials used as seasonings or to add colour/aroma to a wide range of foods and beverages.
- Immense diversity of products and countries of origin. Volumes relatively low, the diversity of product types and source countries rather large.
- Demand steadily increasing as a result of population growth, rising incomes and the changing food preferences.
- Largest producers and consumer of spices are China and India. Largest overseas markets are European countries (particularly Germany, the Netherlands and the UK) followed by the United States.



## Indian Spices



Source : IDH



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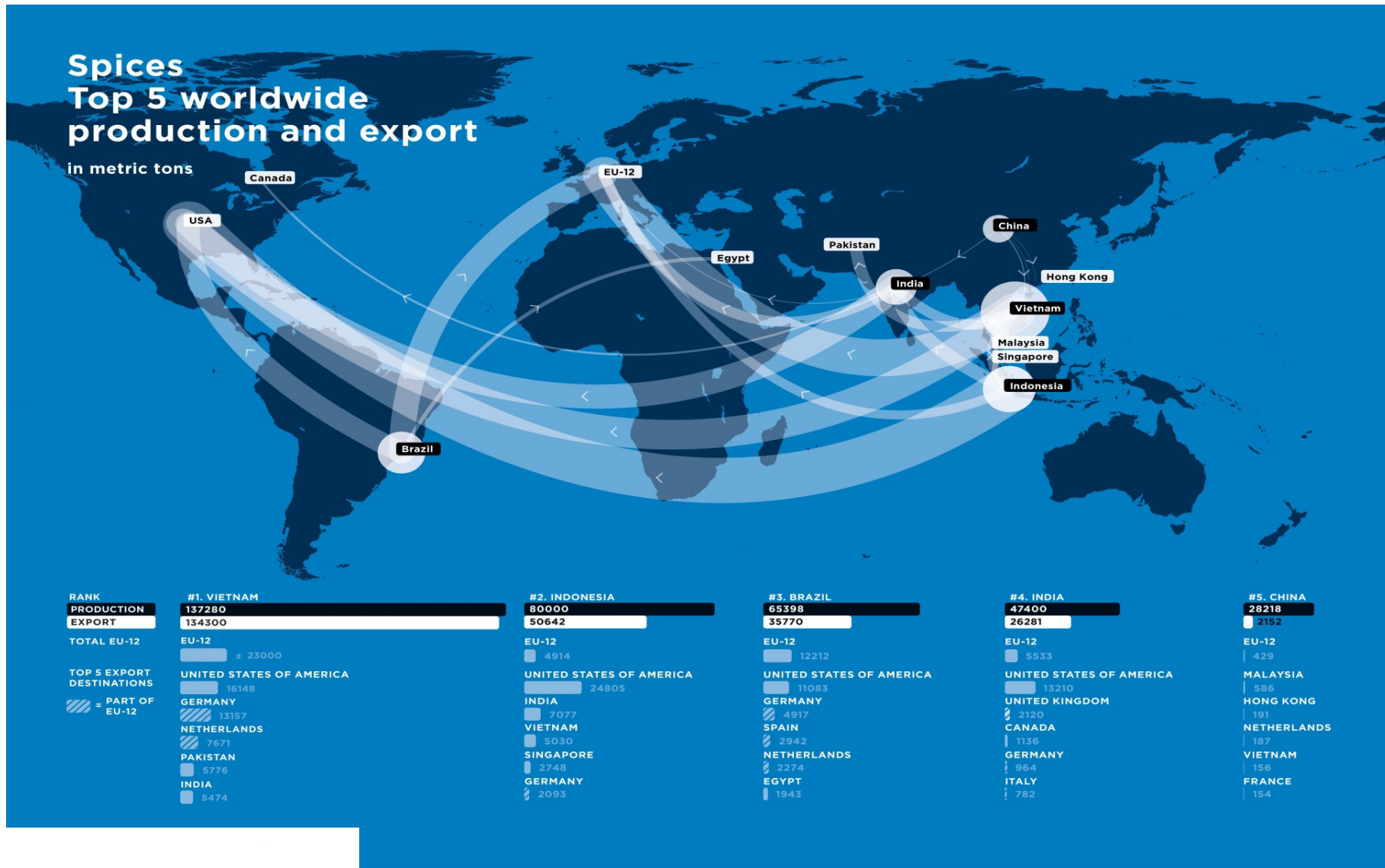
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# Spice production and trade

- Most spices produced by poor, small-scale farmers.
- Mostly sold on the spot market, or to traders who buy them directly at the farm gate, or the producers deliver them to a collection point.
- Often, sold to the same buyers. Producer needs a guaranteed and competitive prices. If prices are not rewarding the producer may shift to producing higher-value crops.
- Spice exporter(s)/trader(s) deal with producers and buyers. Hundreds of small-scale farmers, usually through intermediate traders, want a good price for their produce while exporters need to deliver products that comply with quality requirements and, increasingly, with social and environmental standards (in volatile markets).



# Production and Trade



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# Prevailing Situation

- Many features of the spice trade remain unchanged. Most spices are still grown in tropical or subtropical countries. Each chain still involves many players, and spices still change hands many times. Competition in the market is high, and becoming even more with the introduction of synthetic flavourings (new competitors and emergence of new sources).
- Spice trade operation dramatically changed . Freely available market information. Farmers can access up-to-date prices even from most remote areas . Transfer of spices along each chain reduced from months to only a few weeks.



# TYPICAL SPICE SUPPLY CHAIN



Source : KIT



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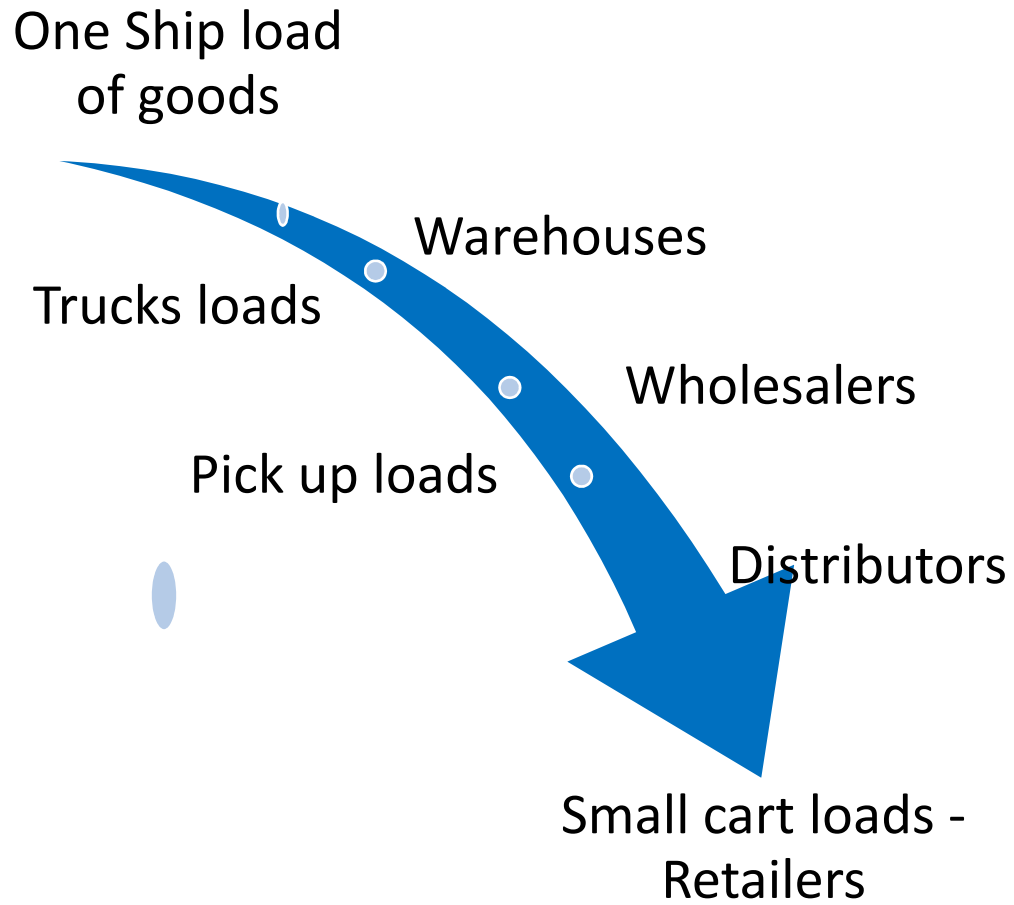
## Prices Supply Chain

- Remunerative prices to producers
- Maximum satisfaction to end consumers for the price they pay
- Increase production and productivity and generate additional income and employment to producers and their families.
- Commission Agent : Not directly involved in trade but facilitates process by arranging weighing machines, labour, transport, credit etc.
- Trader / Exporter : Handle produce on behalf of distantly located wholesalers, exporters and for processors
- Wholesalers: purchase large quantities and sell in bulk to retailers
- Processors: handle value addition process like powder, oleoresin, pigment extraction, etc. and packaging
- Retailers: sell in small quantities to consumers

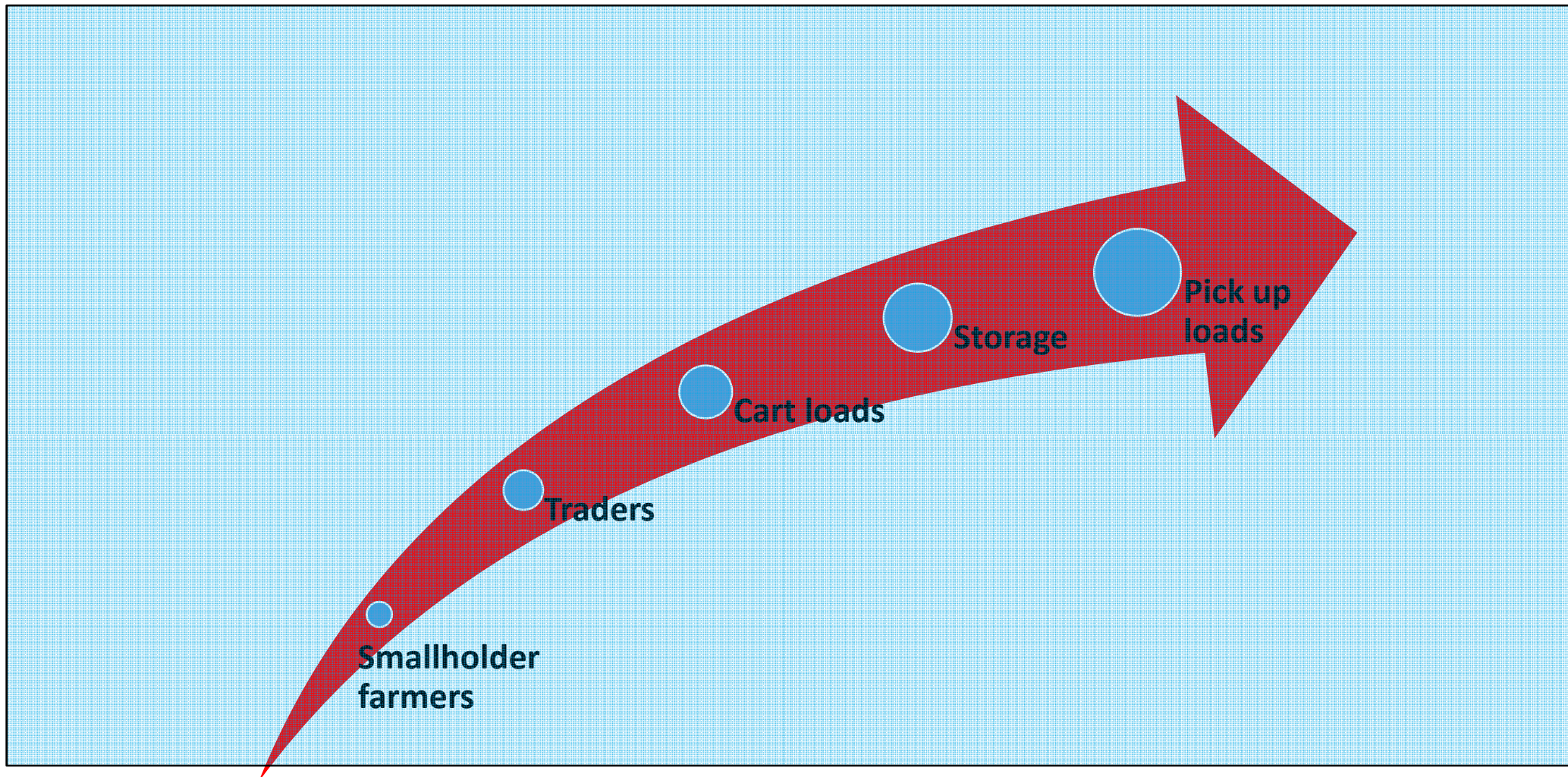
## Farmers add value to their product – cleaning, packing and delivery of spices



Typical Trend of Imports ...



# Missing Piece for Effective Trade ...





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# Challenges and opportunities

- The complexity of sourcing, the length of supply chains, the diversity of participants in each chain and the penetration of the spice chain into virtually every branch of the food system.
- Weather conditions, diseases, volatile markets make spice supply irregular.
- Buyers are still looking for high quality.



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# Flow of Resources

Finance will go where it is needed –Spices sector is competing with other sectors for finance.

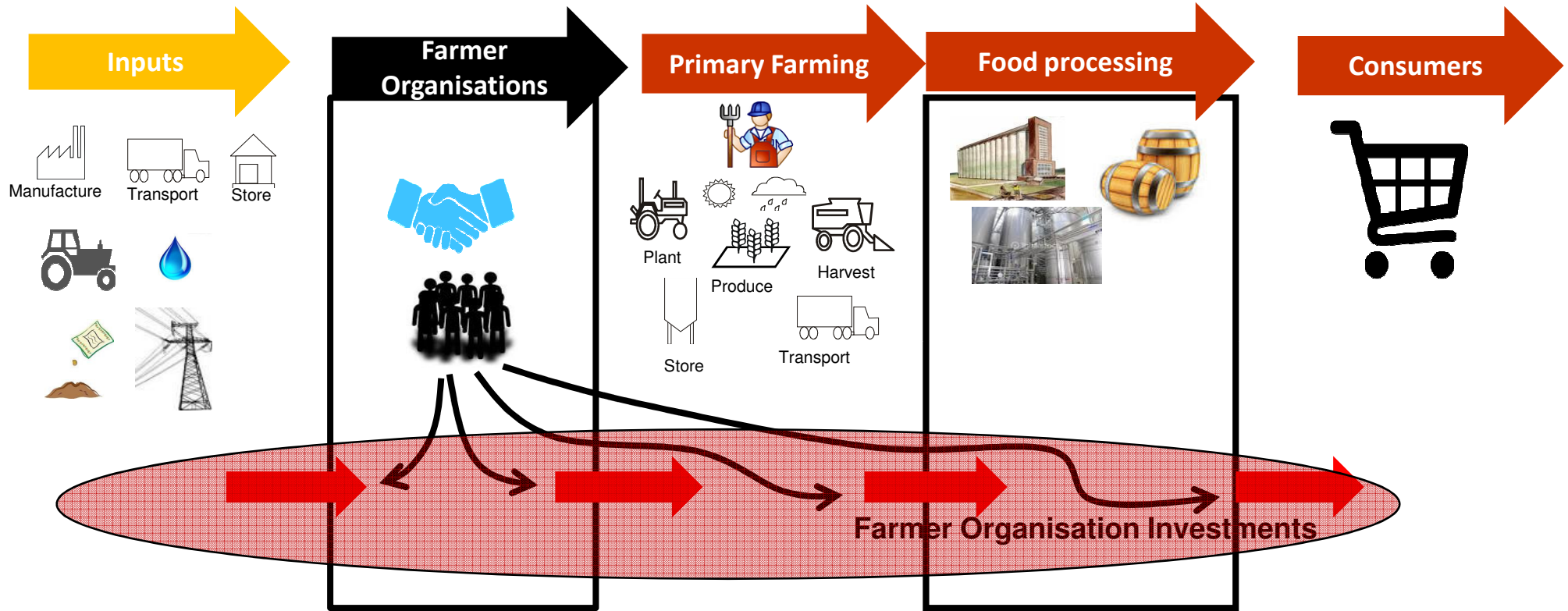
Securing good quality produce from small holder farmers is not a choice but an imperative - Both ends of the value chain, i.e. producers and processors, are in it for the long term.

Service providers can move to other areas e.g. transporters, warehouses, financiers, traders, etc.



# Investments to Integrate Value Chain Operations ...

## Aggregation of Activities within the Value Chain



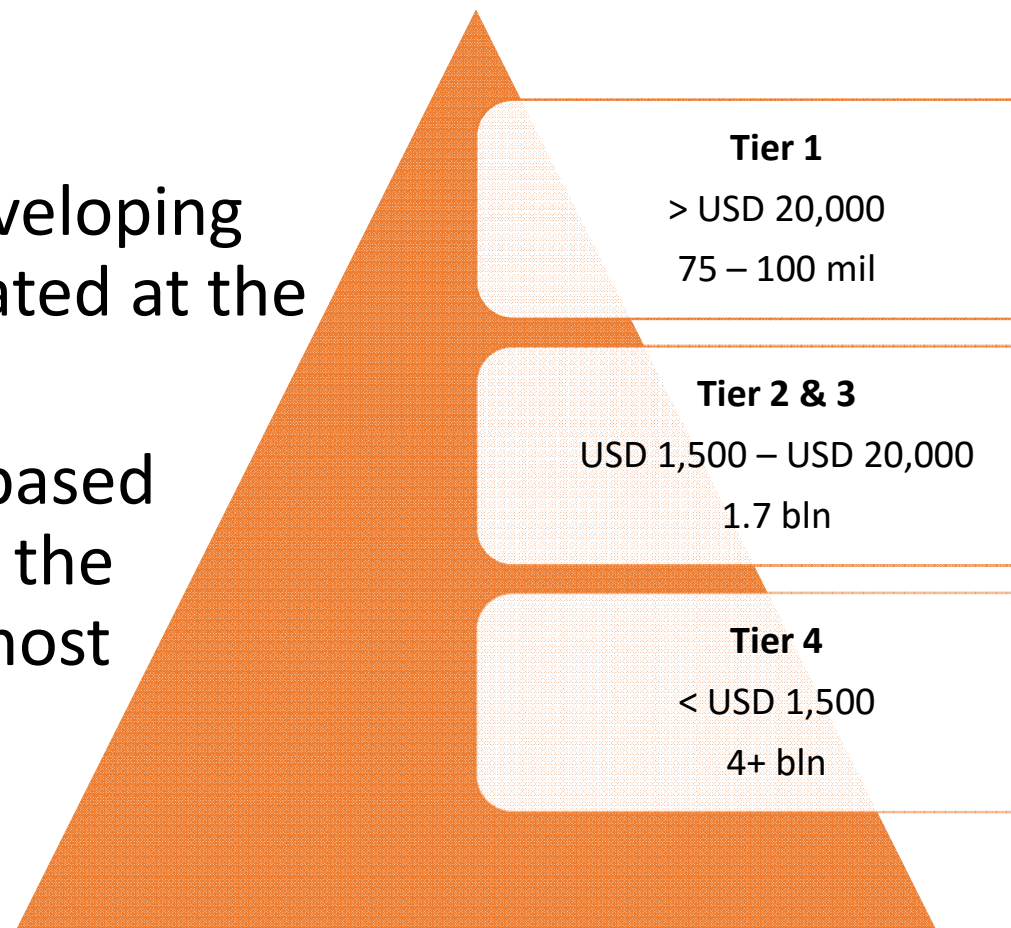
- Strategic investments
- No control: Leverage private sector skills (Avoid ownership of technical skills).

• Source : EDF



# Aiming at the “Base of the Pyramid”

- Commodity production in Developing Countries is heavily concentrated at the bottom of the social pyramid
- Development of commodity based value chains primarily targets the incomes of the poorest and most vulnerable people



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# Challenges and opportunities – how to support Spices sustainability initiatives

Many farmers and agri-trade companies lack resources to invest in improving the quality of and expanding their production. Farmers and spice exporting companies are abandoning export markets in favour of less demanding local and regional markets, or are switching to other crops.

Availability under threat?



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# Possible Interventions

Having farmers involved in the programme for commodity development makes economic sense in terms of traceability, information, availability and quality control.

Direct sourcing (i) increases gross profit margin, and (ii) investments, such as in added-value production.

From the farmers' perspective, participating in the programme brings financial benefits and information about the changing demands of end users. A processing plant at the source which brings added value to their crop is an indirect financial benefit and a source empowerment.



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# Guiding Principles of Operations

CFC involves ideas for solutions and activities for commodity development in identified spheres. Areas covered include:

- Commodity orientation
- Innovation
- Development impact
- Financially sustainable
- Management and implementation strategy
- Beneficiary focus
- Cost effectiveness
- Scalability/replicability, and potential for growth, including replication to other areas and markets
- Environmental and social sustainability
- Expect broad developmental impact on stakeholders of commodity value chains

# How CFC invests in commodity development

Commodity Orientation Interventions

Development Relevance/Impact

Environment Effects/Impact

Addressing Receptive Market

Financial Viability

Quality of Loan Proposal

Own Contribution

USD 300,000 – USD 1.5 mln





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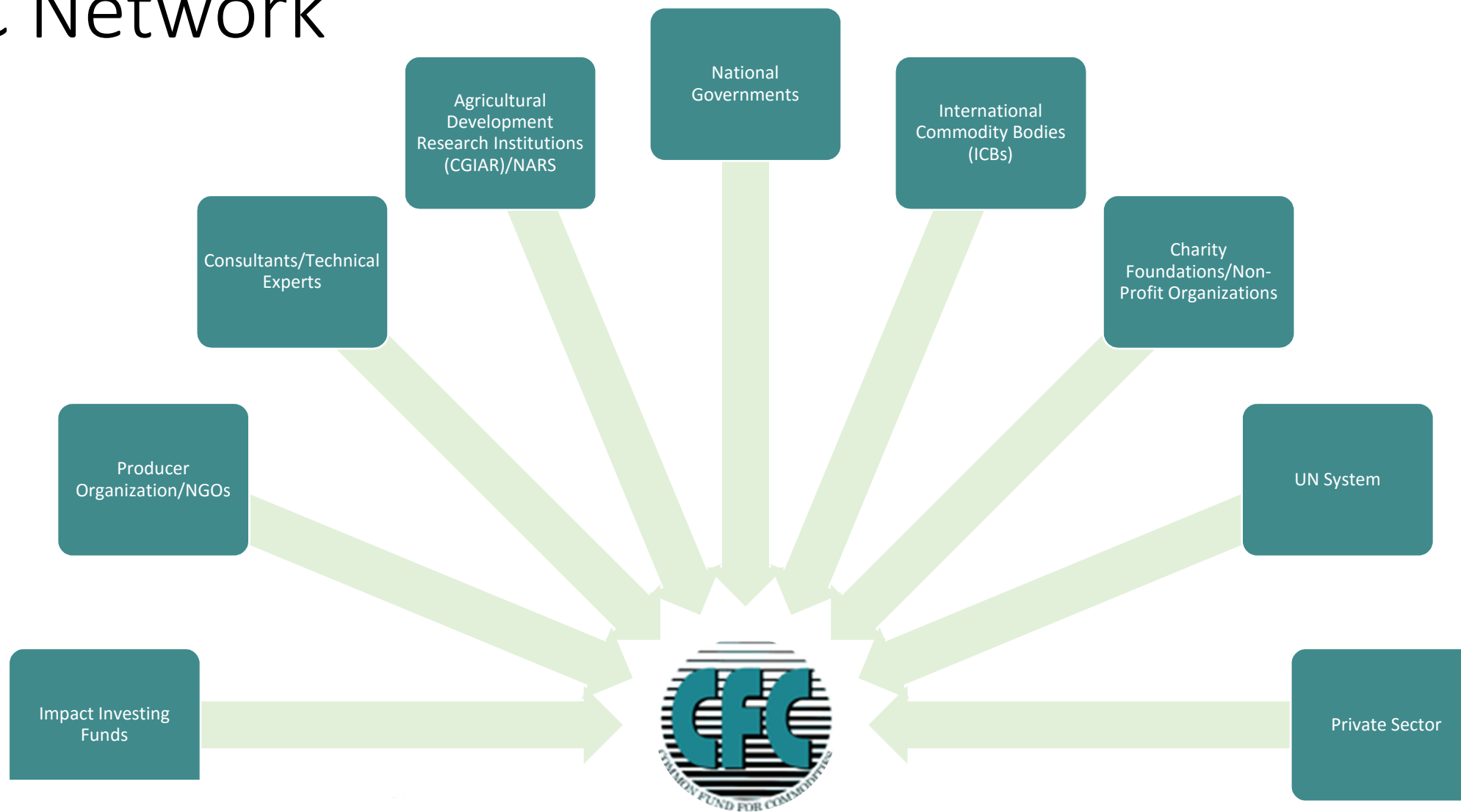
# Eligible partners and institutions

Partnerships with other bi-lateral and multi-lateral agencies and social investors. CFC Partner Institutions include:

- Public and Private Institutions;
- Bilateral and Multi-Lateral Development Institutions;
- Cooperatives; Producer Organizations; SMEs; Processing and Trading Companies; and
- Local Financial Intermediaries such as MFIs.



# The CFC Network



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# Thank you for your kind attention

For more information visit  
[www.common-fund.org](http://www.common-fund.org)



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