

# Setting up Agricultural Commodity Exchanges in Africa

A Presentation by Ian Goggin

At the

Fourth Policy Seminar/Training Course

**“Risk Management in African Agriculture: Taking Stock of What Has and Hasn’t worked”**

Held in Lilongwe, Malawi

## Exchanges

ACE – Malawi

ECX – Ethiopia

KACE – Kenya

MACE – Malawi

UCE – Uganda

ZAMACE – Zambia

JSE (SAFEX) – South Africa (Futures Exchange)

## Commodity Exchanges

Reality check: -

Not a panacea for all;

Does **NOT** determine prices, which is a function of the market;

Does not “guarantee contracts” or performance in spot/forward markets, but does offer arbitration;

## FACTS

Why is understanding markets so important?

Economic development;

Competitiveness;

Regional and International Trade;

Increased opportunities;

Standards;

Cost savings;

Where is the demand (what is it for), where is the supply and can they be married?

## Efficient Market

Brings domestic supply and demand into balance

By giving producers market access and prices that optimise productivity

By providing consumers with product of known quantity and quality at more predictable prices

Absorbs rural surpluses and supplies inputs and food into rural as well as urban areas

Does not impose an ongoing burden on the

**If we don't understand we will continue to do things the hard way...**

Can the African

agricultural sector

successfully transform and

develop African

economy? Not

unless we "change



## Challenges

Political stability.

Market interventions.

Tariffs & trade barriers.

Storage.

Too many middle men in the marketing chain

Education/literacy.

Mind sets.

## Challenges

Communication/transport.

Infrastructure.

Information.

Trade policies.

Location of commodities.

Cultural traditions.

Access to capital.

Seasonality/short life span.

## rkets

Lack of individual initiative/diversity.

Lack of market information/research.

Lack of knowledge production & marketing.

Lack of value addition and poor handling/grading.

Breach of contracts.

## rkets

Untrustworthy buyers/vendors.

High risk.

Weather conditions/irregular supply.

Price volatility.

Lack of working capital/access to finance.

## rkets

Poor market information.

Poor market intelligence.

Lack of identifiable markets.

Poor Access to markets

Lack of competition.

## rkets

No quality standards.

Poor communication.

Lack of competition.

No quality standards.

Poor communication.

# Change is long-overdue !

## In agriculture

*The world we have created is a product of our thinking; it cannot be changed without changing our thinking.*

Albert Einstein

### MARKET RISKS

I can never really get into  
trouble in relation to  
things I know

I can get into some trouble  
in relation to things I don't  
know

It is not that I can really get into  
trouble with things I am  
100% certain of, but  
it turns out it just ain't so...

Markets are very dynamic  
– what was true yesterday  
might not be true today  
Always moving!

## change?

### Input received from participants

Forum where suppliers and producer come together

Common market where people bring their produce

Where buyers and suppliers meet

Market where people buy for speculative and long term purposes

## Commodity Exchange?

“An exchange equals change.”

A commodity exchange allows people to do things that they could not do before, or to do what they could do, more efficiently.

The greater the inefficiencies, the greater the benefits an exchange will bring; but also, the greater will be the barriers that an exchange will face.

# Commodity Exchange?

By providing new tools, new efficiencies, exchange acts as a catalyst for change, converting an “old style” economy into a modern one. It is not merely a different platform for doing what would be done anyway.

An exchange brings buyers and sellers together through their agents.

An exchange is an agent of change – and this is what Africa needs.

or



# Opportunities

Political stability.

Market interventions.

Tariffs & trade barriers.

Growing realisation that systems need to change.

Renewed “buzz” regarding commodity exchanges.

Pressure from the industry for change.

Markets are driving this need.

What exchanges can provide.

# Can Provide

**A commodity exchange operates with a set of rules or conventions that are widely known and understood.**

These rules pertain to four key dimensions of a market: the product, its price determination mechanisms, the participants, and the contractual relations that bind the participants.

These rules and modalities together create a market environment of needed integrity and trust in the system.

## Can Provide

What is critical is that the product grades are widely accepted by the market and are developed with the participation of all market actors, including farmers, processors, and consumers.

### **A system that generates market information**

One more attribute of an exchange, is that it enhances market transparency through generating and disseminating information.

## Can Provide

### **A system linked to warehouse receipts**

Farmers storing their goods in a reliable warehouse or processors, including farmers, can use the warehouse receipt that is issued as loan collateral and thus access finance without selling their goods.

The chances of success for a warehouse receipt system are considerably higher if it is linked to

# n Provide

**A system that increases market volume and liquidity and reduces risk.**

successful commodity exchange provides transactions for its participants --farmers, processors, large consumers, food aid agencies, parastatal agencies, and others—in a low-cost environment.

The lowering of costs is passed on to market actors who can then directly benefit from a higher share

exchange provides a mechanism for increasing market liquidity

exchange enables transfer of price risk, and

exchange creates trust, order, and integrity in the market.

# changes

Brokers are the key set of actors on the exchange who, as members of the exchange, trade on behalf of an unlimited number of buyer and/or seller clients.

# required

The task ahead, especially the awareness and training aspects should not be underestimated.

The general level of understanding of the World and commodity exchanges is poor and needs to be addressed.

There is a need to involve all potential stakeholders in the region.

## Guiding Principle

**Participation in a Warehouse Receipt System or use of Commodity Exchanges should be by choice of the individual(s) concerned and should not be "forced" on them.**

## Global Exchange EAC

Feasibility study complete.

Approved by NCPB Management and Board of Directors.

Partnership now with NCPB to be taken to

Ministries of Agriculture, Finance and Trade.

Now budget allocated funds for both WRS and Commodity Exchange.

# tal thought

Every morning in Africa, a gazelle wakes up and knows it must outrun the fastest lion or it will be killed. Every morning in Africa, a lion wakes up and knows it must run faster than the slowest gazelle or it will starve. It doesn't matter whether you're a gazelle or a lion - when the sun comes up, you'd better be running."

*Inspirational sign on a runner's c*

Thank you