Setting up Agricultural Commodity Exchanges in Africa

A Presentation by Ian Goggin

At the
Fourth Policy Seminar/Training Course

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

Held in Lilongwe, Malawi

Chances

ACE – Malawi
ECX – Ethiopia
KACE – Kenya
MACE – Malawi
UCE – Uganda
ZAMACE – Zambia
JSE (SAFEX) – South Africa (Futures Exchange)
Reality check: -

Not a panacea for all;

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

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

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 truly transform and develop African economy? Not unless we “change
Political stability.
Market interventions.
Tariffs & trade barriers.
Storage.
Too many middle men in the marketing chain.
Education/literacy.
Mind sets.

Communication/transport.
Infrastructure.
Information.
Trade policies.
Location of commodities.
Cultural traditions.
Access to capital.
Seasonality/short life span.
Markets

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.

Markets

Untrustworthy buyers/vendors.
High risk.
Weather conditions/irregular supply.
Price volatility.
Lack of working capital/access to finance.
Poor market information.
Poor market intelligence.
Lack of identifiable markets.
Poor Access to markets
Lack of competition.

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.

But I can really get into serious trouble with things 100% certain of, but turn out it just ain’t so... Markets are very dynamic – what was true yesterday might not be true today. Always moving!
Commodity Exchange?

“An exchange equals change.”

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

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

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

These rules pertain to four key dimensions of the market: the product, its price determination mechanisms, and the contractual relations that bind these rules and modalities together create the needed integrity and trust in the system.
It is critical is that the product grades are widely accepted by the market and are developed with participation of all market actors, including farmers, processors, and consumers.

A system that generates market information is a core attribute of an exchange, is that it enhances market transparency through generating eliminating information.

A system linked to warehouse receipts

Storing their goods in a reliable warehouse, including farmers, can use the warehouse receipt that is issued as loan collateral thus access finance without selling their goods. The chances of success for a warehouse receipt system are considerably higher if it is linked to
A system that increases market volume and liquidity and reduces risk.

A successful commodity exchange provides transactions for its participants -- farmers, processors, large consumers, food aid agencies, parasitologists, 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 of the 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 exchange who, as members of the exchange on behalf of an unlimited number of buyer and/or seller clients.

required

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

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

There is a need to involve all potential stakeholders in the region.
Participation in a Warehouse Receipt System or use of Commodity Exchange should be by choice of the individual(s) concerned and should not be "forced" on them.

Regional Exchange EAC

Feasibility study complete. Approved by NCPB Management and Board Directors.

Partnership now with NCPB to be taken to ministries of Agriculture, Finance and trade. New budget allocated funds for both WRS and commodity Exchange.
Every morning in Africa, a gazelle wakes up. It must outrun the fastest lion or it will be killed. Every morning in Africa, a lion wakes up. It must run faster than the slowest gazelle or it will starve. It doesn't matter whether you're a gazelle - when the sun comes up, you'd better be running."

Inspirational sign on a runner's clothes.

Thank you