Developmental Challenges of Commodity Exchanges in Africa

International Workshop on Strengthening and Widening Markets and Overcoming Supply Side Constraints for African Agriculture

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Characteristics of Markets in Africa

• Poor market information/intelligence.
• Lack of identifiable/available markets.
• Lack of competition.
• No quality standards.
Characteristics of Markets in Africa

- Poor communication.
- Lack of transparency.
- No enforceable contracts/dispute resolution mechanisms.
- Very conservative approach.
- Lack of understanding of market fundamentals.
Characteristics of Markets in Africa

- Unsophisticated and underdeveloped markets.
- Very little reliable data on trade flows.
- Much of the trade is informal.
- No quality standards, quality control or transparency as a result.
- Lack of identifiable or available markets
Characteristics of Markets in Africa

• Funding – ACE currently has no funding but has applied to the Bill and Melinda Gates Foundation and the EU for assistance.
• Laboratory in Lilongwe is in a similar situation.
What Else can a commodity exchange bring to the Market?

• Risk mitigation through: -
  – “Clearing facility.”
  – Deposit by buyer performance bond by seller.
  – Collateral management of goods in store.
  – Correct grading certified by recognised grading company.
  – Warehouse receipts.
Potential of Commodity Exchanges

• ZIMACE in Zimbabwe traded: -
• Commodities worth US$677 million in 2000/200.
• ACE has in six months traded 6, 803 tonnes of commodities to the value of US$2.85 million.
Contracts Traded on ACE

- I-Life small-scale farmers.
- All commodities traded to date are exports from Malawi.
- Looking to harmonisation of quality standards and are working with COMESA.
- Value addition.
- Tender procedures.
- Looking to raise incomes of the rural poor earning less than US$2 per day.
Potential Developments for ACE

- Fair trade providing the European market an opportunity to purchase directly from the market. UK want direct access to farmers.
- Organically produced commodities.
- SAFEX link, to provide hedging possibility for those commodities traded on SAFEX.
- Regional links, Zambia (ZAMACE) being implemented, with Kenya hopefully to follow.
- Bio fuel commodities.
- Minerals.
ACE Internet Trading System

Member A

Broker A

Broker A places an offer to sell on the ITS

Contract of Agency making Broker A the Selling Broker

ACE Internet Trading System

Seller

Buyer

The ITS generates a contract as soon as one of the Brokers accepts

Member B

Broking House B

A Broker from Broking House B accepts the offer or places a counter bid to buy

Contract of Agency making a Broker from Broking House B the buying Broker
What can African Governments do to facilitate Agricultural Commodity Exchanges?

- Create an enabling environment in which an exchange can operate.
- Promote an understanding of how markets work.
- Remove remaining tariff and non-tariff barriers as soon as possible. COMESA.
What can African Governments do to facilitate Agricultural Commodity Exchanges?

• De-regulate markets.
• Allow the free movement of agricultural produce.
• Expand marketing opportunities.
• Encourage use of exchanges and support the transparency and market information an exchange brings to the marketplace.
What can African Governments do to facilitate Agricultural Commodity Exchanges?

• Procure governments requirements across the exchange floor.
• Investment in infrastructure, especially in rural areas.
• Address the issue of foreign currency availability.
• Promote the use of warehouse receipts.
• Above all, put into practice agreements reached.
ACE

- Not a panacea for all, either in real terms or as a result of perceptions.
- Agriculture needs to be viewed as an industry.
- Maize, whilst both politically and emotionally sensitive need to be put into perspective.
Thanks

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• Ministry of Agriculture, Malawi.
ACE (Agricultural Commodity Exchange for Africa)

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