

# 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\$1.1 million in 1994/1995.
- Commodities worth US\$677 million in 2000/2001.
- ACE has in six months traded 6, 803 tonnes of commodities to the value of US\$2.85 million.

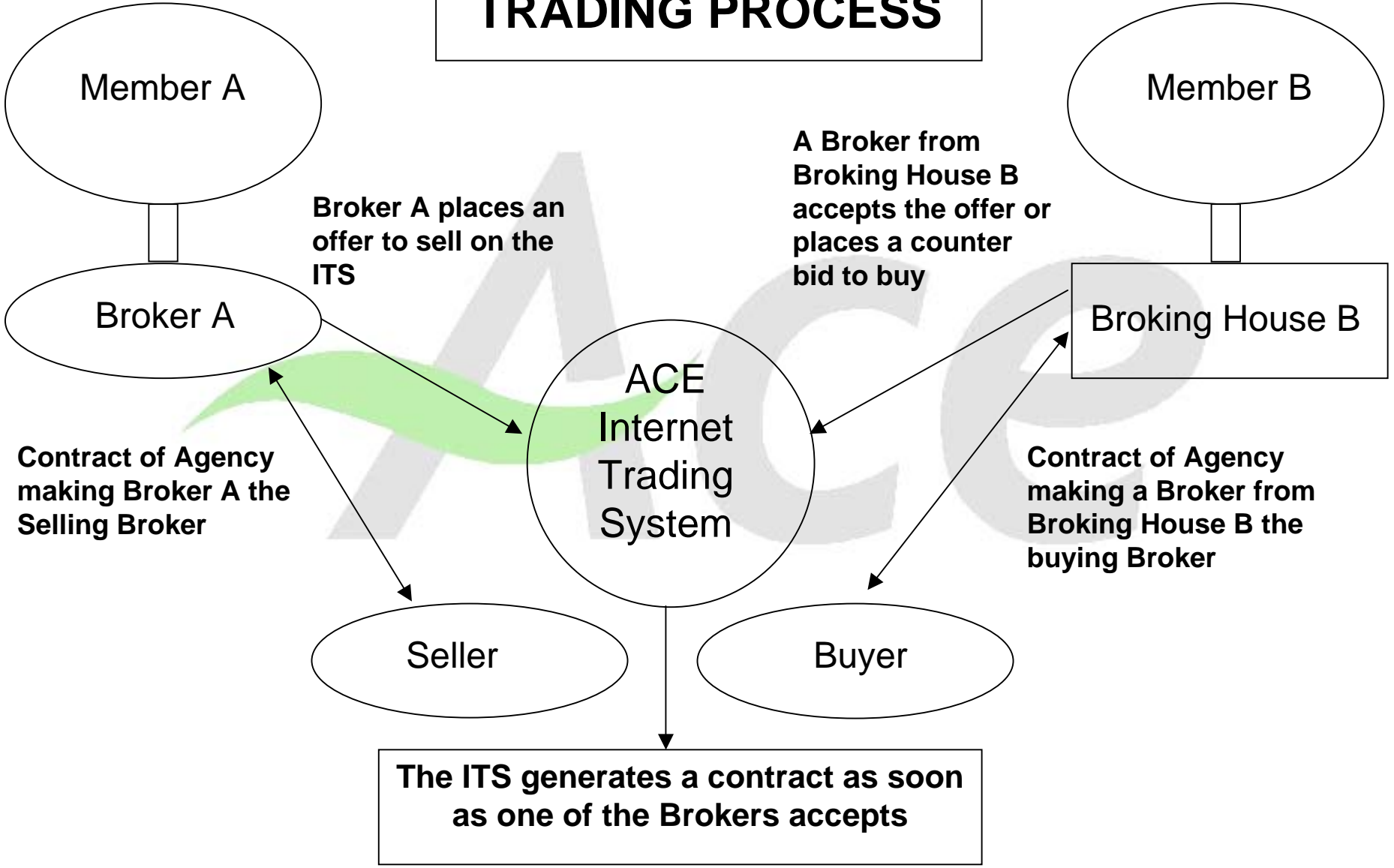
# Contracts Traded on ACE

- 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.

# TRADING PROCESS



# 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

- COMESA for their continued support of this initiative.
- NASFAM for all they have done for the Exchange over the years.
- Ministry of Agriculture, Malawi.

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