COMMODITY EXCHANGES

There are a number of commodity exchange initiatives currently being undertaken in Africa, including ACE (Agricultural Commodity Exchange for Africa) in Malawi, ZAMACE (Zambia Agricultural Commodity Exchange) in Zambia, UCE (Uganda Commodity Exchange), Uganda and ECX, (Ethiopia Commodity Exchange).

ACE

ACE has been the most successful of these to date, with an Internet based trading platform, comprising of the main platform, the BVO (Bid Volume Only) platform developed to meet the needs of the P4P program of the WFP and now being used by other buyers and more recently the WRS (Warehouse Receipt System), which are fully integrated. ACE continues to get smallholder participation, both farmers and traders, in all these areas, which is a huge success for them given the way in which trades were traditionally carried out in the past. An example of the potential success of the WRS is expressed by a small trader below.

Mr Lawrence Chikhasu, owner of Bucow Investment, a small commodity trading company based in Mchinji was the first take advantage of the system. “I am a businessman and I need financing to keep buying maize from farmers. The storage cost is higher than what I am used to, but my maize is secure and the quality and quantity is guaranteed – I don’t have to think about post harvest losses anymore.” Mr Chikhasu deposited 14.5 MT and received 60% of the value, being Mwk 261,000.00 at 20% interest per year. “The warehouse receipt system is making it possible for me to buy much larger volumes and keep the maize till the prices are good. I believe the price of maize will be 35 to 40 kwacha/kg early next year when I want to sell my maize; so I will earn a good premium after paying storage and interest cost.”

ZAMACE

ZAMACE has gone through some difficult times recently and can be categorised as: -

1) Financial – with the ending of donor funding and with its inability to pay all its debtors, ZAMACE is technically bankrupt. Despite considerable cost-cutting measures already undertaken, the willingness of existing members to continue financial support is limited.

2) Operational – the cause of the above financial problems is the lack of use of ZAMACE by its members. Anticipated use by FRA did not materialise and WFP activity has declined considerably and demand has diminished in the light of heavy-handed state intervention in maize markets, but more generally members do not perceive ZAMACE to be adding value to their trading activity. This situation will only deteriorate, and, to date, a lack of closure on two key arbitration cases does not help.

3) Political - within the wider agricultural community, and within government, ZAMACE is still perceived as a 'traders' club' and thus support from government and also from farmers and other potential users is limited. Again this situation will not improve.

This situation is tempered by the opportunities, which are seen as: -

- The principle (if not the practice) of a transparent and efficient marketing structure is widely supported in Zambia.
- There are enough potential supporters in the market (including corporate investors and donors) to keep ZAMACE alive and over the longer term it is seen as a potentially good investment opportunity.
- With the imminent passage of the Agricultural Marketing Act and a widely predicted reduction in state marketing activity in 2012 and beyond, the environment for private commercial trading activity at all levels of the agricultural market will improve.
- ZAMACE and PROFIT are assisting the Securities and Exchange Commission to draft a Commodities Exchange Act that will, when passed, allow for the regulation and oversight of ZAMACE by SEC, which will allow for greater recognition by GRZ and other key stakeholders such as the financial industry.
- ZAMACE has a good chance of being delegated by MACO the powers of the Warehouse Licensing Authority under the Agricultural Credits Act of 2010, once an assessment of the full legal and operational implications of this Act has been done. Not only will this provide ZAMACE with an income stream (including possible GRZ grant support) but the development of a Warehouse Receipt System will be of great benefit to trading activity across the ZAMACE floor.

ZAMACE is currently undergoing restructuring, with financial support being provided by five members who have elected to remain part of the Exchange, pending a buy in from the Lusaka Stock Exchange (LuSE), who have indicated a desire to be majority shareholders in ZAMACE. An MOU has been signed between ZAMACE and the LuSE, which has led to other investment partners also taking an interest. With national elections held in Zambia yesterday, this process has been put on hold, but is expected to be revived next week.

UCE

The Uganda Commodity Exchange also faces problems, with no trade being conducted across the exchange floor for some time now. In an effort to address this, the UCE concentrated on warehouse receipts as a means of getting trades done across the Exchange and are the licensing authority for all WRS registered warehouses in terms of the Warehouse Act. To date, this has not resulted in trades through the exchange and other initiatives will need to be found to address this.

UCE is currently therefore running the WRS program, but not enticing trades from either buyers or sellers.

ECX

The Ethiopian Commodity Exchange based in Addis Ababa is fully government owned initiative with coffee, sesame and flax mandated by the Ethiopian Government to be traded across the Exchange. Despite this, volumes and values traded of both coffee and oilseeds across the ECX are declining and latest figures reflect this decline to be at 38.8% and 14.6% respectively. There is much speculation as to why this is so, but probably the argument which makes most sense is that since the Exchange started dealing in coffee, traceability is no longer possible as all coffee is sold ex warehouse, which are controlled be the Exchange and grades and specific production areas are comingled. This has resulted in two things, buyers looking elsewhere for niche market needs so reducing demand for Ethiopian coffee, together with reduction in prices obtained, due to the comingling and the resultant loss in quality. As far as the oilseeds are concerned this is more likely to be as result of poor rains in oilseed growing areas of the country.

Despite initial indications that shares in ECX were to be sold to the public, the latest news received that this will not happen and that the Ethiopian Government is likely to maintain full control for the foreseeable future. In communicating with other exchanges in the region, they see great difficulty in entering into agreements with the ECX, not only because of the high level of government control, but also due to the conditions under which business is done in Ethiopia, as well exchange control requirements in the country.

OTHER INITIATIVES

More recently, word has come through that there are initiatives in Kenya, Tanzania and Rwanda, although these are all in the developmental stage.

If these exchanges could all be linked, as the situation with ACE and ZAMACE, this will not only enhance their operations within the respective countries, but also expand their operations into the region, through the regional exchange based in Malawi. ACE is currently in discussion with UCE and the WRS initiative in Tanzania to provide linkages to the wider market and signs are encouraging that this might be achieved.

NOTE

South Africa has a futures exchange SAFEX, which is now part of the Johannesburg Stock Exchange, which trades futures contracts, call options and other derivative products.