

EXPERIENCE IN THE CREATION AND MANAGEMENT OF NATIONAL COMMODITY EXCHANGES IN WEST AFRICA: CASE STUDIES OF NIGERIA AND GHANA

PRESENTATION AT WORKSHOP ON ENHANCING THE
FUNCTIONING OF CEREALS MARKETS IN WEST AFRICA,
GIMPA EXECUTIVE CONFERENCE CENTRE,
ACCRA, GHANA 09-11TH DECEMBER, 2010

Dr. Gideon E. Onumah

g.e.onumah@gre.ac.uk



Motivation: Potential to help address challenges in food sector

❖ Inadequate food production:

- 80% of West Africa supply originates from region
- Bulk of West African food imports cereals
- Africa imports 25% of food requirements; valued at over US\$25 billion per year (plus US\$2 billion of food aid) and growing at 3% per annum.
- Recent trends in export restrictions raise concerns about dependence on food imports
- Food deficit and price hikes affect urban and rural poor – spend 60-70% of budget on food – food security seen as a national security issue prompting intervention

Technically feasible to increase domestic/regional supply

- ❖ Agro-ecology remains generally favourable
- ❖ Yields can be substantially increased
 - Yield-enhancing technology exists (e.g. fertiliser, irrigation, improved planting material and husbandry)
 - But need to address uncertainty regarding supply; producer incentives to use inputs; and lack of finance to procure inputs
- ❖ Reducing post-harvest losses crucial:
 - Recent study by World Bank estimates post-harvest grain losses at 13.5% (valued at \$4 billion per annum)

Improved regional food trade is part of the solution

❖ Evidence of benefits:

- Agro-ecological potential for staple production
- Yield-enhancing technology exist (e.g. fertiliser, irrigation, improved planting material and husbandry)

❖ Need to reduce transaction costs arising from:

- Lack of reliable quality/quantity assurance systems
- Enforcement of SPSS becoming a barrier to trade
- Lack of liquidity and uncertainty regarding contract enforcement
- Multiple handling and numerous check points
- Policy uncertainty and poor transport infrastructure

Exchange infrastructure seen as part of the solution

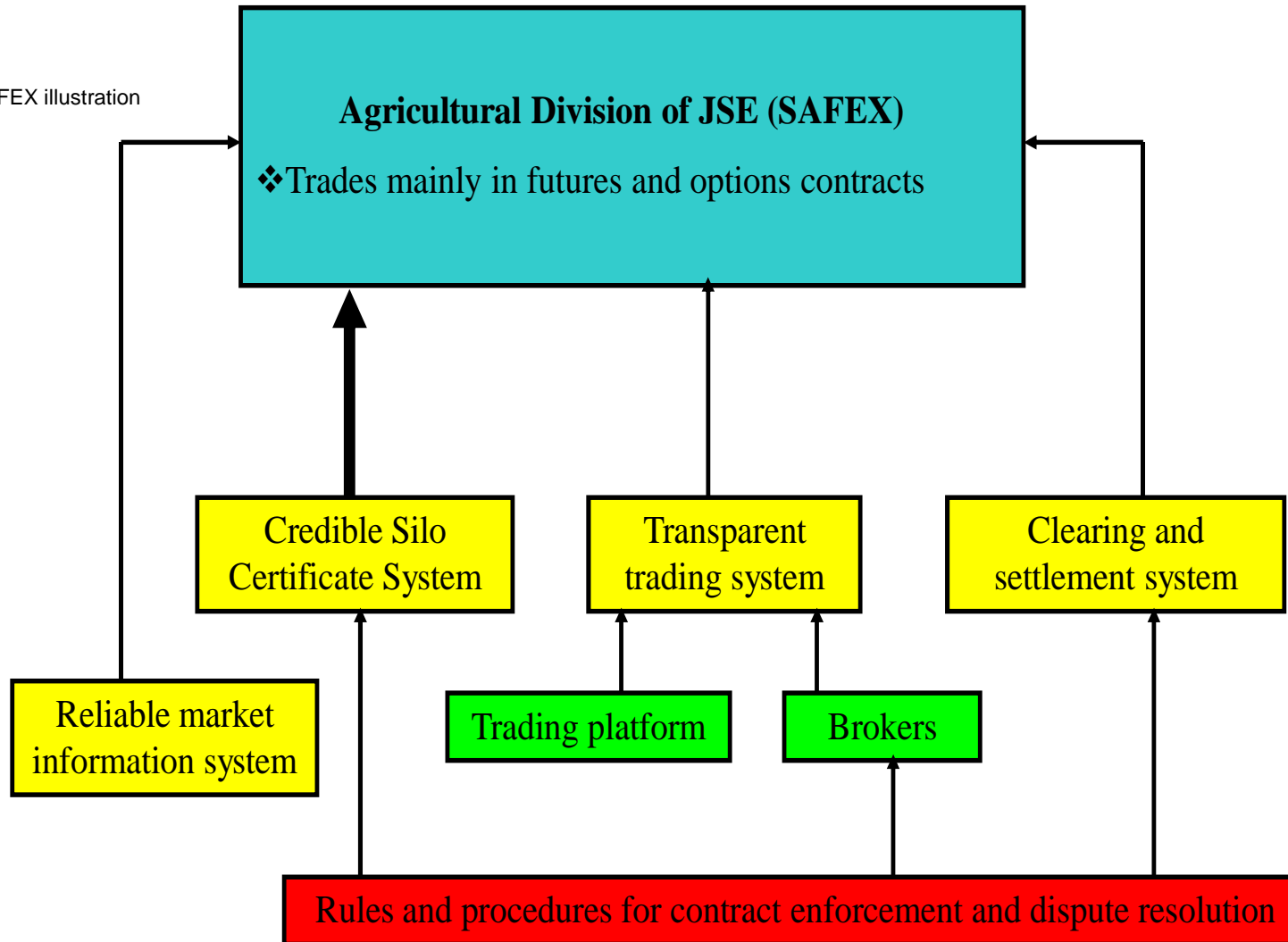
- ❖ African Ministers of Trade Summit in Arusha (November 2005) prioritised development of WRS/commodity exchanges due to benefits:
 - “Sight unseen” – saves time and reduces uncertainty and transaction costs
 - Transparent price discovery; ease of liquidation of collateralised stocks (inventory finance more attractive)
 - Offer price risk management instruments
 - Improves information collection/dissemination
 - Creates opportunities for investments
 - Improved storage reduces post-harvest losses
 - Enhances deferred sale – with inventory credit
 - Can improve procurement/management of strategic food reserves/relief stocks

Types of agricultural commodity exchanges in Africa

- ❖ Cash/spot exchanges – delivery/payment in 30 days:
 - Ethiopia Commodity Exchange (too early to assess)
 - Uganda Commodity Exchange (incorporated in 1988 – being restructured due to poor performance)
 - Abuja Commodity Exchange (struggling)
 - Kenya Agricultural Commodity (success principally in disseminating market information)
 - Zimbabwe Agricultural Commodity Exchange (defunct due to policy-related constraints)
- ❖ Futures exchange:
 - South Africa Futures Exchange (now part of JSE Securities – the most successful in Africa)

Supporting infrastructure – SAFEX case

- SAFEX illustration



Pre-requisites (1)

- ❖ Warehouse (silo) receipt systems (WRS):
 - Regulated and widely-accessible as against
 - Tripartite collateral management-based systems or
 - Targeted, NGO-promoted systems (warantage)
- ❖ Trade-friendly commodity standards
- ❖ Reliable market information systems
- ❖ Transparent trading systems:
 - Electronic trading platforms (on their own insufficient)
 - Brokers
- ❖ Credible clearing and settlement systems
- ❖ Robustly-enforce trading rules and procedure
- ❖ Low-cost but trusted dispute resolution



Pre-requisites (2)

- ❖ Build capacity of key players
- ❖ Promote collective marketing by farmers:
 - Primary-level farmer organisations more effective
- ❖ Stable macro-economy important to ensure:
 - Low-cost inventory financing
 - Attract investment in exchange-trade assets
- ❖ Stable trade/investment policies needed to:
 - Reduce uncertainty in markets
 - Attract critical mass of market players
- ❖ Start-up support crucial

Nigeria review: ASCE background

- ❖ Incorporated in July 1998 and transformed into commodity exchange in August 2001
- ❖ Wholly owned and funded by the Federal Government of Nigeria
- ❖ Potential:
 - Formal segment of market for four major agricultural commodities offer opportunity to trade over 2.3 million tonnes
 - Commodities include maize for industrial use, animal feed production and regional export; sorghum and soybeans for industrial use and regional export; and cocoa for local processing and export
- ❖ Less than 3,000 tonnes traded 2006-09

Does ASCE have what it takes?

- ❖ Commodity standards set and enforced via own laboratory and independent assayers
 - Need to be made more trade-friendly (simpler, generic codes rather than for each purpose)
 - Harmonised with conditions in target regional markets
- ❖ Market information collected from several markets and disseminated e.g. using website:
 - Focus on strategic markets
 - Ensure timely dissemination
 - Build capacity to analyse and share information on trends
- ❖ Bank-based clearing and settlement system – no defaults

ASCE and what it takes? (2)

- ❖ Transparent trading platform involving Trading members
- ❖ Risk management and arbitration system:
 - Margins represent 5% of value of trade exposure
 - Arbitration system based on Arbitration and Conciliation Act (1990), Chapter 19 and enforceable in Nigerian courts
- ❖ Regulated by Nigeria Securities and Exchange Commission
- ❖ Ongoing training for key market players (including regulators)
 - Key in promotional drive

ASCE and what it takes? (3)

- ❖ Delivery system:
 - ASCE designates warehouses as delivery locations
 - Warehouse regulations
 - Minimum capacity: 500 tonnes
 - Have basic equipment and infrastructure including weighbridge
 - Minimum capital for certification equivalent to US\$1m.
 - Sanction for material breach of regulations – fine not exceeding equivalent of US\$2,000
- ❖ Lack of warehouse legislation with robust regulatory enforcement:
 - Cited as discouraging insurers and lenders
 - Therefore used only for short-term, transaction-specific stockholding

ASCE: Government role going forward

- ❖ Important in set up and sustaining exchange:
 - Covering operating and other costs
- ❖ Soft-budget approach can blunt incentives for commercial orientation:
 - Attract private capital participation
 - Focus on enabling regulatory and policy environment
 - Promote more open trade in the region
 - Invest in strengthening capacity of smallholder groups to undertake collective marketing using exchange infrastructure

Proposed Ghana Commodity exchange

- ❖ Feasibility study undertaken by SEC with funding by the World Bank indicates:
 - Technically feasible: storage infrastructure in urban markets but require expansion in surplus-producing areas; interest from collateral managers and warehouse operators; financial institutions (including brokers on the stock exchange interested); existing IT infrastructure able to support electronic trading platforms
 - Financial viability demonstrated for exchange, traders, producers, processors and warehouse operators
 - Potential benefits demonstrated in terms of incentives to increase agricultural output, expand value addition in the commodity sector and increase lending to the sector

Proposed Ghana Commodity exchange (2)

- ❖ Approach – link to ongoing initiatives, e.g.:
 - SEC leading on creating robust regulatory system, including relevant legislation (study to be commissioned)
 - WRS pilot led by the Ghana Grain Council
 - Financing of warrants and interest in promoting Repo system by CCHFH
 - Interest by NAFCO in exploring synergy with exchange/WRS-based trading system (important lessons from recent developments in Zambia)
 - Interest from policymakers (Ministry of Finance involved in SEC studies; Ministry of Agriculture collaborating with GGC; and Ministry of Trade indicating keen interest)
 - Donor interest

Conclusion

- ❖ Potential exists in Nigeria to move ASCE forward, especially if credible delivery system is developed:
 - That should be the near-term focus
- ❖ After previous efforts, Ghana has opportunity to succeed:
 - Collaboration based on roles of key players important
- ❖ Regional exchange:
 - Not sure in the short to medium term
 - But lessons from Eastern/Southern Africa suggest national exchanges plus regional initiatives to harmonise standards and lower trade barriers

Thank you