

"Developing a pan-African commodity exchange"

Statement by UNCTAD-the international exchange environment and the role a regional African exchange can play.

Ladies and Gentlemen, Dear Friends,

1. First of all, thanks to all of you who has made this meeting possible. UNCTAD considers it a pleasure to have been invited to this conference as well as being part of this project.
2. When I mentioned to a very high level Government representative from a donor country that I was leaving to Botswana to discuss about the creation of a pan-African commodity exchange, he asked me: Are you dreaming?
3. And his comment brought to my mind the unforgettable speech of Luther King when he said:
4. I have a *dream* today!
5. "I have a dream that one day this nation will rise up and live out the true meaning of its creed: "We hold these truths to be self-evident, that all men are created equal."
6. And why not George Bernard Shaw's famous phrase "You see things and say "Why?" But I dream things that never were, and I say "Why not?"
7. It is difficult to dream when you reach a certain age, but it's more difficult to make dreams become reality. UNCTAD sees this meeting as an opportunity and a further step to help the African continent to make the dream of creating a Pan African Exchange a reality. But to achieve this, we need to enhance the role of the different actors in this partnership. We need strong and solid commitments from all involved, we need to create strong teams for the different challenges and tasks ahead.
8. Why should we try?
 - ***Firstly, because, properly regulated, commodity exchanges can contribute greatly to the achievement of government economic and developmental goals. They can also strengthen the bargaining power of weak groups such as small farmers.***
9. Commodity exchanges can fill the institutional gap left over by hasty liberalization and provide three basic functions: price transparency (everyone has access to a neutral reference price); price discovery (demand and supply developments are easily reflected in price levels); and reduced transaction costs (it is easier to find buyers or suppliers through a centralized market place). If the exchange offers forward or futures contracts, it also provides a risk transfer function.

10. In addition, exchanges normally help to define better quality standards, speed up the process of product standardization, and improve the discipline in the market place. Exchanges create incentives for market participants to produce commodities that meet exchange specifications, and behave according to exchange rules. Exchanges are dynamic tools to remedy some of the weaknesses of the market place. An African Commodity Exchange can do much to modernize Africa's agriculture and other commodity sectors, and boost regional, and why not South-South trade.
11. Hence, recent years have seen the rapid creation and growth of new commodity exchanges in developing countries. The Asia-Pacific region has enjoyed the greatest success in the advancement of its commodity exchanges – the three Chinese exchanges created in the early 1990s, and the three Indian national multi-commodity exchanges, founded in 2002-2003, are prime examples (all are now among the world's twenty largest). Latin American exchanges are rebounding after a recent period of financial instability, whilst exchanges in Eastern Europe and the former Soviet Union continue to develop in parallel with the region's transition to a market economy.

➤ *Secondly, because, we count with the support of the private sector in this initiative.*

12. The mobilization of the private sector is pivotal, as well as cooperation between the international business community and local partners and shareholders.

13. So, this pan-African exchange would have the following characteristics:

- Majority African, majority private-sector ownership, with ownership spread over many African countries.
- Reduction of costs by partnerships conducive to using the technology and systems developed by exchanges in other successful developing countries, for example India.
- Gradual development of the exchange on the basis of high-potential clusters. This would involve contracts for a national or regional market for which there is a large, unmet demand which would be relatively easy to transfer to an exchange trading platform; these “low-hanging fruits” contracts would be developed in partnership with local stakeholders, including existing local exchange initiatives (in a way, this is a franchising model). More difficult, less structured markets would be developed later (to the extent that local legal and regulatory conditions allow), as would truly new intra-African trade. This franchising model, combined with the approach towards technology, makes it financially viable to introduce an exchange – most past efforts have stumbled on the difficulty of high set-up costs combined with a likely low volume, given the economic size of most African countries.
- The exchange would trade a full range of contracts, from spot contracts (e.g., auction-type sales by fertilizer companies) to forward and futures contracts, and including trade in “repo” contracts (which will commodity-sector actors with cheap seasonal finance).
- Close cooperation with collateral managers, whose warehouses (and the warehouses they control) will provide building blocks for commodity exchange trade.
- Close cooperation with African banks, in various exchange-related functions, particularly clearing.

➤ *Thirdly, because, we count with the political support in this initiative.*

14. One of the reasons for failure in exchange regional initiatives in other parts of the world has been the lack of political will, and in Africa, we fortunately count

on political support, a very positive sign and indication of this, is the presence here of the AU. The African Commodity Exchange is one of the key “instruments of integration” of AU already mentioned in the Abuja Treaty of 1991 (article 46(d)), and after the AU was formally launched in July 2001, several AU meetings confirmed the interest in moving ahead.

15. The political endorsement of the exchange is vital. A lot can be done by African governments, e.g., recommending that their parastatals should buy or sell bulk commodities through the exchange, that Central Banks should include trading on the exchange as a legitimate use of hard currency, or that taxation should only apply to goods that are being delivered through the exchange, not on all “paper” transactions that take place. The AU can do much to help countries along the “development curve” for their commodities sector, which would make it feasible for the exchange, in cooperation with local parties, to introduce new contracts of use to that market.
16. As an additional benefit, the AU will in this manner provide public oversight over the functioning of the exchange, which will help to prevent exchange abuse and ensure that the exchange continues acting in the public interest. Co-host, with other interested parties, national seminars on commodity exchange development and use.
17. The AU will play a key political role, raising the understanding of the value of this instrument for regional integration among Africa’s decision-makers, guiding the debate on necessary complementary policy actions, and mobilizing a wide range of African institutions to support the project.

➤ ***Fourthly, because, we count with the support of the public sector in this initiative.***

18. The success of these Exchanges is a private sector responsibility – but there are significant opportunities for public-private partnerships. In effect, public support can provide the necessary confidence to private investors, and governments should interact positively with private sector groups that take exchange initiatives. There is now sufficient interest in the private sector to develop an African commodity exchange, and by adopting a positive role Africa’s governments have an unprecedented opportunity to finally bring to reality one of the core ideals of African integration.
19. Managing a vibrant exchange is incompatible with bureaucratic models. Fortunately, there is no lack of groups interested in developing exchanges in Africa. Unfortunately, with the exception of South Africa’s SAFEX, this interest has not led to viable exchanges. Partly this was due to the difficult environment (including policy, legal and regulatory barriers), partly to financially non-viable business models. Greater technical assistance and a more supportive policy, regulatory and legal framework can help convert the interest that still exists into successful initiatives.

➤ ***Fifthly, because technological developments in communications technology (Internet, satellites) and exchange software packages have changed the playing field.***

20. There are several reasons why implementation of a commodity exchange in Africa is more difficult than in Asia, CIS, Eastern Europe or Latin America. A commodity exchange can be a tool for regional economic integration, making it much easier to

trade commodities across borders. But with traditional exchange models, the necessary liquidity to make an exchange financially viable can only be reached if the market is already large enough. With the exceptions of Nigeria, South Africa and some of the North African countries, national commodity markets in Africa are rather small, and there is little formal intra-regional trade. Furthermore, commodity markets, many of which were until recently dominated by government-controlled marketing bodies, lack many of the key support institutions for efficient trade.

21. Exchange users pay for services rendered, but it may be an expensive proposition for exchange to set up the necessary structures to provide a real value to users. Thus, Africa's small underlying markets combined with the need for a nascent commodity exchange to invest in solutions for a wide range of problems make it hard for any exchange initiative to survive and flourish. Indeed, there have been more than twenty mostly national initiatives in Africa to create a commodity exchange, but with the exception of South Africa, these have not met much success.
22. It is now possible to leapfrog technologies – rather than following the western model of exchange development, it is possible to use technology for new approaches. There are three potentially viable models: simple, low-cost national exchanges that use established e-commerce platforms; national exchanges that buy or license the technology of one of the new sophisticated systems of developing country exchanges; and the more ambitious approach of a Pan-African exchange, which would use technology and a franchising model to combine the benefits of nationally-oriented exchanges with the benefits of scale of a continent-wide exchange.
23. **UNCTAD** sees its role as mostly technical, using its longstanding contacts in the commodities sector, and inspired by the success of its commodity exchange work in other countries as well as the clear expressions of support from Africa for a regional exchange, UNCTAD has over the past two years actively supported the pan-African commodity exchange initiative, and we think that there are now very good prospects for the introduction of such an exchange.
24. . "My friends, with your determination, and your positive acts and involvement, supported by **UNCTAD** wherever you need us, the Pan African commodity exchange will become reality. ...I return to my initial remarks - let today be the day when the dreams we awoke with this morning are now turning into reality. Thank you."