



SEC NIGERIA

SECURITIES AND EXCHANGE COMMISSION, NIGERIA

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NIGERIAN COMMODITIES TRADING ECOSYSTEM – What you need to Know Vol.1



The commodities Trading ecosystem in Nigeria has been one to watch for the past couple of years, with the Federal Government intensified efforts towards diversifying the economy and reducing overdependence on crude oil, a lot of investments have been channeled towards the commodities space especially the agricultural commodity market space.

Numerous programmes such as the CBN Anchor Borrowers Programme as well as the NEXIM Bank Export stimulation Fund are to mention some of the few deliberate efforts of Government to ensure food stability and sufficiency in the country.

There are other efforts put in place by the Securities and Exchange Commission through the activities of the Technical Committee (TC) on Commodities Trading Ecosystem which draws members from various stakeholders in the commodities ecosystem including the Central Bank of Nigeria, Financial Markets Dealers Quotations (FMDQ), Nigeria Stock Exchange (NSE), Standards Organization of Nigeria (SON), Bank of Agriculture (BOA), The Nigeria Incentive-Based Risk Sharing System (NIRSAL), Financial Systems Strategy (FSS 2020), AFEX Commodities Exchange Ltd and the Nigerian Commodity Exchange (NCX). The report of the TC is being implemented and its expected to make the much desired impact.

WHAT IS THE ECOSYSTEM?



Commodities Trading Ecosystem is an organized environment within which commodities trading takes place and directly or indirectly, affects activities and development of the commodities market and the exchanges.

It is comprised of various elements, which are integral to the architecture of the market and vital to the smooth and efficient functioning of a commodity market or exchange. It encompasses all spheres of the commodity trading

“Deliberate efforts should be made to develop public enlightenment and education roadmap for the commodities markets to improve understanding and encourage participation. It is also vital to encourage investments in all the requisite supportive infrastructure such as warehouses and storage facilities by exchanges and the private sector”

A Report on Commodities Trading Ecosystem in Nigeria
<http://sec.gov.ng/wp-content/uploads/2018/04/Report-of-TC-on-Commodity-Ecosystem-2.pdf>

environment that includes, commodity exchanges, farmers, merchants, aggregators, processors/producers, commodity market operators, warehouse operators, collateral managers, banks, insurance companies, clearing houses, and logistic companies.

The commodities ecosystem will not function properly nor achieve its value from its existence if any of the above elements are absent, inefficient or underdeveloped.

It is imperative therefore, to have an organized and efficient commodities market to spur growth and competitiveness and to play the strong role of enabling food security, employment generation and economic diversification.

The ecosystem will assist in moderating consumer prices, promote attractiveness of agribusiness, foster financial inclusion and improve industrial output and profitability as well as government revenue. It will also enhance the wellbeing of the farming community and help reduce rural - urban drift

BENEFITS OF THE ECOSYSTEM INCLUDE:

- Create economic diversification and growth
- Create employment and raise the living standard of the farming and mining communities
- Foster financial inclusion of small holder farmers and miners
- Make investment in commodities more attractive.
- Create liquidity and facilitate price discovery, which further encourages commodity trading.
- Provide opportunities for investment in the commodities value chain such as warehousing, assaying services, brokerage and logistics
- Promote the development of derivative markets as derivative instruments with commodities as the underlying instruments
- Provide reliable price benchmarks for non-exchange traded markets such as the Over -The -Counter (OTC) market
- Ensure exported commodities meet minimum quality and standard through traceability

WHAT IS THE POSITION OF THE ECOSYSTEM NOW?

The Commodities Trading Ecosystem in Nigeria is at its nascent stage with a lot of work required to be put in by stakeholders. There is a knowledge and information deficit which trickles down to the players in the ecosystem, the requisite policies and infrastructure

required are either in a comatose stage or non-existent.

A complete circle of engagement with all stakeholders will be required to get the Ecosystem up and running using a hands on approach that not only rejuvenates the ecosystem but also sustains it.

WHAT NEEDS TO BE DONE

1. Good Enabling Business Environment:

The business environment in the agricultural and solid mineral sectors should be attractive enough to encourage participation across the value chain. This means that constraints to the development of the sectors should be regularly assessed by relevant Government agencies and efforts should be made to remove identified constraints. Existing impediments should be eliminated, new policies with potentials to facilitate agricultural and solid mineral development should be introduced periodically.

2. Macroeconomic Policy :

Government should ensure that its macroeconomic policies are sound and stable; promoting private sector investment. The policies should be consistently favourable to the development of the agricultural and solid mineral sectors. While a commodity exchange can promote the growth of the agricultural sector, if appropriate agricultural policies are non-existent, it would stunt the development of the sector.



3. Strategic Purchases through the Exchanges

Government should procure grains into the strategic grains reserve through the exchanges and mandate all of its agencies such as NEMA to procure their grains through the commodity exchanges. This will ensure quality, price transparency, and foster the development of the exchanges.

International agencies operating in Nigeria such as the World Food Programme (WFP) should be encouraged to buy their agricultural commodity requirements through the Exchanges.



4. Price Information



The Exchanges serves as a platform for obtaining price information. Prices of commodities traded on the exchange should constantly be made available to the public through various channels including electronic media and print. These prices serve as a guide to investors in making investment decisions.

6. Access to Finance

Improving agricultural production requires funds to acquire farm inputs/inplants, increase the capacity of farmers and capacity across the value chain.

Improved access to finance will also ensure that farmers undertake post-harvest activities more efficiently, access markets, and improve agricultural practices, among others.

Small-holders farmers' access to capital for increased output is very much a challenge. This is in spite of the fact that agriculture contributes almost 30% to real GDP and is a major employer of labour in the country.

5. Improved Infrastructure

Infrastructural development is important in agricultural and solid mineral development and a well-functioning commodities market. Improvement of existing roads/railways and development of new ones are important to the investment and development of the agricultural value chain as they link farmers to the markets, reduce post-harvest losses and facilitate the movement of people and goods including agricultural input at lower transportation cost.

Improved rural infrastructure can potentially expose rural farmers to fertilizers and better farming technology thereby raising productivity.

The provision of efficient and good network of infrastructure can have significant multiplier effect on the economy and the commodity exchanges.



7. Development of Warehouses

An investor will be willing to trade commodity on the exchange if he is assured that the commodity will be available whenever he wishes to exercise his secured right.

An important requirement in giving such assurance is the dependability of the warehouse in which the commodity is held. To ensure dependability, warehouses for storing exchange traded commodities must satisfy standard conditions to hold and keep the quality of specified commodities.

The warehouses have to be license by the Exchanges registered by the SEC and controlled by a party (collateral manager) independent of either the seller or buyer of the commodity.

A well-developed warehousing system would foster the development of warehouse receipt trading.

9. Provision of Improved Extension Services

Provision of high quality farm inputs at more affordable price to smallholder farmers will significantly reduce their burden and boost production. Establishment of more seeds centers across the Federation for better access to improved seeds by smallholder farmers is



important.

Government agencies and the private sector should be encouraged to invest in mechanized farm implements to service the needs of smallholder farmers in clusters. Such implements should be available for lease by the farmers during farming season at affordable rate

8. Grading and Certification

Grading and certification are critical for enshrining standards and for the integrity of commodities traded. This is core to the operations.



The grading and certification function of the exchanges ensures quality of commodities traded in the market and promotes trust and confidence. As the agency responsible for establishing and approving standards in Nigeria, the SON should continuously collaborate closely with the SEC, through interactions with the Commodities Trading Ecosystem Implementation Committee, the exchanges and other stakeholders to develop standards for the commodities traded over the exchange.

10. Discounted Payment to Farmers on Insurance

This is one of the programs of Nigerian Agricultural Insurance Corporation (NAIC) whereby the government subsidizes premiums paid by farmers to NAIC for agricultural insurance.

Government should support the liberalization of agriculture insurance by allowing private sector owned insurance companies participate in intervention schemes such as the CBN Anchor Borrowers Scheme. This will expand insurance coverage to include more farmers and farmer cooperatives. Currently, provision of insurance cover to farmers in intervention schemes is done only by NAIC. Besides, insurance capacity generally in agriculture should be developed as there seems not to be enough capacity in agriculture insurance.

11. Education and Enlightenment Programs

Educational and enlightenment programs on the role of commodity exchanges and auxiliary institutions should be targeted towards the general populace and specifically to policy makers to educate and encourage them to make policies that will promote the development of the Commodities Trading Ecosystem and enlighten farmers on the benefits the commodity exchange offers in terms of price transparency and value addition.

Stakeholders such as the aggregators, exporters and processors should be educated on the benefits of a commodity exchange, the entire value chain and how it can address most of the challenges facing the commodities market ecosystem. While the general public should be enlightened on investment opportunities available on the commodity exchange market value chain, such as warehousing, collateral management and transportation

SEC's EFFORTS TOWARDS THE DEVELOPMENT OF THE COMMODITIES TRADING ECOSYSTEM

The SEC in collaboration with stakeholders in the capital market, is taking necessary strides towards implementing the initiatives of the Capital Market Master Plan (2015-2025) which aims primarily at developing the Nigeria Capital Market.

As part of the implementation, the Commission constituted a market wide Technical Committee to develop a roadmap for reviving the Commodities Trading Ecosystem. The Committee submitted its report which has over 40 recommendations to be implemented in four phases between 2018 and 2025.

To coordinate the implementation of the TC Report, the SEC constituted an institutional members' committee to direct the implementation of the recommendations. The SEC has a representative on the Committee while the secretariat is resident with the Commission to effectively drive the process. The Implementation Committee has commenced implementation of some of these initiatives.

