



Organización Internacional del Café  
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Organisation Internationale du Café

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Projects/Common Fund

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### **Project proposal**

**Coffee price risk management in Eastern and Southern Africa – Study of the potential for commodity exchanges and other forms of market places in the coffee sectors of these countries**

### **Background**

This document contains an outline of a new project proposal designed to undertake a study on the potential for establishing commodity exchanges and other forms of commodity trading in Africa. The proposal has been developed as a result of the project on coffee price risk management in Eastern and Southern Africa to assist farmers in accessing commodity price insurance. The Executive Board of the CFC approved this project in January 2001 with recommendation to undertake a feasibility study of a commodity exchange in a separate project to be financed through fast-track.

### **Action**

The Board is requested to take note of this project outline.

## COMMODITY EXCHANGE PROJECT PROPOSAL

### A. PROJECT SUMMARY

The International Coffee Organization hereby submits the following fast-track project proposal with its recommendation for financing by the Common Fund for Commodities.

**Project title:** Study on development of commodity exchanges and other forms of market places such as electronic and auction exchanges in the Common Market for Eastern and Southern Africa (COMESA) region for coffee (and eventually other commodities).

**Duration:** Three months

**Location:** Main countries of the COMESA region and particularly: Ethiopia, Kenya, Uganda, Tanzania, Rwanda, Burundi, Malawi, Zambia, and Zimbabwe.

**Nature of project:** Implementation study of the usefulness of adapting to local, regional and international markets of coffee the different techniques of commodity exchanges and other market places.

**Brief description:** The envisaged study should allow Robusta and Arabica producing countries in the COMESA region to adopt modern techniques of trading coffees locally, regionally and internationally, so as to optimise economic benefits to the farmers and the countries concerned (price volatility control, price transparency and transaction securisation).

To that effect, the project will investigate among the European and American markets the potential offered by these facilities both in terms of consumer demand and adaptability to the COMESA coffee industries and environment. It will measure the improvements that these initiatives may have brought to coffee trading in general and producing countries in particular.

The project will concentrate on the following trading techniques and instruments: auctions, commodity exchanges, market places managed with the help of the Internet and other techniques of trading coffee that may bring similar advantages.

Main conclusions and recommendations, specified by countries of production and by instruments, will be the object of a document to be edited, distributed and appropriated by professionals and concerned organisations.

Beneficiaries will be the main African producing countries of Robusta and Arabica coffees of the COMESA region.

<b>Estimated total cost:</b>	US\$ 54,250
<b>Financing from the Fund:</b>	US\$ 54,250
<b>Mode of financing:</b>	Grant
<b>Project Executing Agency:</b>	Demeter SA, 1835 Chemin des saints Pères 13090 Aix en Provence, France.
<b>Supervisory body:</b>	International Coffee Organization.
<b>Estimated starting date:</b>	October 2001

## **B. PROJECT BACKGROUND**

1. A number of initiatives have been implemented these last two years, both by producing countries (Colombia, India, etc.) and consuming countries (USA, UK, among others), all offering suppliers of coffee trading instruments that pretend to improve fluidity, transparency and levels of prices of coffee exports.
2. In parallel, COMESA coffee producing countries have restructured or are considering restructuring their trading of coffees.
3. In particular, auctions and commodity exchanges have been envisaged in producing countries while Internet operated market places have been introduced.
4. The question now is to find out to what extent such instruments are in a position to improve the trading conditions. The auctions that have prevailed in East-African countries have shown their capacity to both level prices throughout the crop year for a given quality and to raise finance. In more southern countries, proper commodity exchanges have been tested with a degree of success.
5. The main question now is to analyse if:
  - (a) a regional approach of these instruments could and should be envisaged;
  - (b) if such instruments can be linked economically to consumer country based market places;
  - (c) if the coffee markets (producers, traders, exporters, the economy in general) will profit from such undertakings.
6. Such an analysis will have to cover not only the instruments themselves but also the environments in which they are supposed to be introduced:
  - the legal structures existing at the national levels (freedom to trade, role of the monitoring bodies, codes of conduct and coffee laws) and also at the regional level (trade agreements including tax free transit arrangements, existence of currency clearing instruments);
  - the logistics involved (interstate freight including trucking, regional servicing carriers, internet facilities and practice).
7. The proposed project should allow eastern and southern coffee producing countries to improve their regional integration and for such a purpose, cooperation of the COMESA Secretariat will be required.

### **C. INSTITUTIONS INVOLVED AND RESPONSIBILITIES**

8. The project will be under the supervision of Michel Manceau, General Manager of Demeter SA, a consulting Company specialised in the trading of soft commodities.

9. The envisaged tasks do not involve any specific means, besides some travelling to buying countries. Interviews of professionals of both the exporting and importing countries will be carried by direct visits.

### **D. PROJECT OBJECTIVES (BROAD AND SPECIFIC OBJECTIVES) AND RATIONALE**

10. The objectives of the project are to supply Robusta and Arabica COMESA producing countries with a precise image of marketing tools available to them, of their use, advantages, limits and necessary steps for their implementation.

11. Recommendations prepared in the report should allow concerned authorities of producing countries to dispose of sufficient information to decide on national and regional policies favouring or not the creation and development of these instruments.

### III. LOGICAL FRAMEWORK

**Project title:** Study of the potential for commodity exchanges and other forms of market places in the COMESA region for coffee

	<b>Logic of intervention</b>	<b>Objective indicators</b>	<b>Sources of verification</b>	<b>Hypothesis</b>
<b>Global objective</b>	<ul style="list-style-type: none"> <li>To analyse the implementation of commodity exchanges and other trading instruments such as market places in the COMESA coffee producing countries and their capacity to improve trading conditions and revenues of producers and their respective countries.</li> </ul>	<ul style="list-style-type: none"> <li>Values and quantities traded on relevant exchanges and market places in the soft commodity sector.</li> </ul>	Statistics issued by these exchanges	<ul style="list-style-type: none"> <li>These statistics are accessible and present enough time history for them to be useful.</li> </ul>
<b>Specific objectives</b>	<p>For COMESA coffee producing countries:</p> <ul style="list-style-type: none"> <li>Analysis and development of commodity exchanges and market places adapted to local environments and conditions</li> <li>Analysis of setting up these instruments at the national, regional and/or international levels.</li> </ul>	<ul style="list-style-type: none"> <li>Opinions of world traders and roasters on improvements to be expected.</li> <li>Legal, commercial, logistics facts and figures + experience in auctions and commodity exchanges of these countries.</li> </ul>	<p>Interviews of traders and roasters.</p> <p>Local regulations, statistics and audit reports of these experiences.</p>	<ul style="list-style-type: none"> <li>Objectivity of interviewed persons, enough experience gathered already.</li> <li>Local authority approves the eventuality of changes such as implied by these developments.</li> <li>Regional authorities have cleared customs barriers (transit trade, etc)</li> </ul>
<b>Expected results</b>	<ul style="list-style-type: none"> <li>Improvement of the prices paid to the growers and exporters through transparency and securisation of the transactions, possibility to sell forward, etc..</li> <li>General improvements for the coffee industry of concerned countries.</li> </ul>	<ul style="list-style-type: none"> <li>Price and volume statistics.</li> <li>Applicability of recommendations.</li> </ul>	<p>Study report + ICO.</p> <p>Professionals opinions.</p>	<ul style="list-style-type: none"> <li>These instruments find legal environment and entrepreneurial will for their implementation.</li> <li>Producing countries' local environment are stabilised</li> </ul>
<b>Activities</b>	<ul style="list-style-type: none"> <li>COMESA coffee producing countries concerned by the study: Ethiopia, Kenya, Uganda, Tanzania, Rwanda, Burundi, Malawi, Zambia, Zimbabwe.</li> <li>Project components:</li> <li>Documentary study</li> <li>Interviews of professional of consuming countries and of COMESA countries.</li> <li>Preparation of recommendations.</li> </ul>	<p><b>Means :</b></p> <p><b>Fees:</b></p> <p>Commodity exchange expert: 15 weeks</p> <p>Per diem in Europe, USA, Africa</p> <p>Air trips</p> <p>Telecommunications, editing, printing</p>	<p><b>Costs (US\$)</b></p> <p>41 250</p> <p>6 000</p> <p>6 000</p> <p>1 000</p> <p><b>Total : 54 250</b></p>	
				<p><b>General condition:</b></p> <p>Existence in producing countries of public and professional structures in a position to implement conclusions of the study in a liberalised environment where market forces play their role.</p>