Derivative exchange to help SMEs avoid risks

By Ngugi Mungai

6 Oct 2015

Small and medium enterprises will benefit in the derivative exchange that will be launched in this quarter at the Nairobi Securities Exchange, a Capital Markets Authority executive has said.

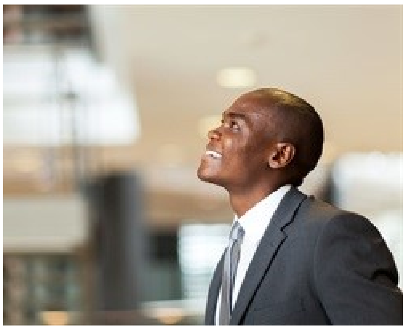

Image via 123RF

Luke Ombara, the acting director for policy, regulatory, and strategy said the financial instruments will allow SMEs to hedge against risks in currency fluctuations and changes in interest rates and prices. "SMEs that are in the, export/import, manufacturing and agriculture sectors will be able to hedge against any volatility that might affect their bottom line by trading in derivatives," he said on September 30 during the CMA derivative exchange workshop held in Nairobi.

A derivative is a security in the form of a contract that derives its price from an underlying asset such as a commodity. Hedging involves entering into a contract with a third party, who agrees to buy a risk associated with fluctuations of prices in an asset for a specified period. This way, a business is able to operate with confidence that no extra cost will be incurred when servicing a loan, buying goods, and changing currency.

NSE chief executive Geoffrey Odundo said they are developing learning materials that will enable SMEs and to fully understand the derivative market. "The derivative exchange will kick off in the fourth quarter after the CMA completes the approval process," he said.