

THE USE OF DERIVATIVES BY SOUTH AFRICAN AGRICULTURAL CO-  
OPERATIVES TO HEDGE FINANCIAL RISKS

by

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I declare that The use of derivatives by South African agricultural co-operatives to hedge financial risks is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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Signature

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Date

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## **EXECUTIVE SUMMARY**

The agricultural sector plays an important role in the South African economy through job creation and earning foreign exchange. The role of agricultural co-operatives increased substantially over the last few decades.

The research focuses firstly on the identification of derivative instruments in the market and their applicability to mitigate financial risks co-operatives experience. Secondly, research is conducted about the extent to which co-operatives use these derivatives to hedge financial risks.

The research shows that most co-operatives are exposed to financial risks through different activities. It is, however, evident that although the derivative instruments are available, not all co-operatives make use of these instruments.

Recommendations for further research include the development of a risk management framework and determining the different economic factors that have an influence on the use of derivatives by South African agricultural co-operatives.

### **Key terms:**

Agricultural co-operatives; derivative instruments; SAFEX; futures contracts; forward contracts; options; swaps; forward rate agreements; hedging; financial risks.