

A dark blue background featuring a faint world map. The map is centered and shows the outlines of continents. The text is overlaid on this background.

Commodity Exchanges:
***Facilitating trade and empowering
farmers in the developing world***

The United Nations logo, which consists of a world map surrounded by a laurel wreath, is positioned on the left side of the slide.

By
Leonela Santana-Boado
Economic Affairs Officer
Special Unit on Commodities
UNCTAD, Geneva

Yaoundé, 28 October 2009

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

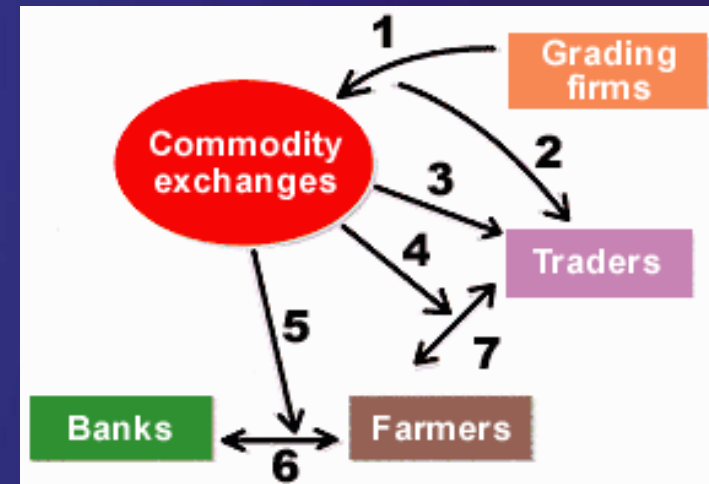
What is a Commodity Exchange?

- ❑ “A market in which multiple buyers and sellers trade commodity-linked contracts on the basis of rules and procedures laid down by the exchange.”
- ❑ Modern exchanges go beyond that. They are centres of information: they broadcast local and world prices, supply and demand data, weather, and relevant government policy actions.

- ❑ **This includes:**

- ✓ *Spot trade (for immediate delivery);*
- ✓ *Warehouse receipts (WR) trading;*
- ✓ *Forward contracts;*
- ✓ *Futures and options contracts;*
- ✓ *Trade facilitation services;*
- ✓ *WR-backed REPOs.*

- ❑ **A commodity exchange has to connect the rural areas to the urban centers.**



A Commodity Exchange: Why?

Potential benefits

Market creation

- ✓ Stimulating regional integration & South-South trade
- ✓ Price discovery
- ✓ Price risk management
- ✓ Infrastructure enhancement
- ✓ Rational crop planning based on forward price signals

Market access

- ✓ Facilitate provision of finance
- ✓ Price transparency
- ✓ Reduced counterparty risk
- ✓ Quality assurance/upgrade
- ✓ Premiums for quality production
- ✓ Marketing choices, spatial and temporal

Commodity Exchanges development: What can UNCTAD do?

Exchange creation and growth

- ❑ To assess the relevance of existing commodity exchanges initiatives and identify if it could be an appropriate solution and how to make them more efficient and useful for farmers
- ❑ To scan and analyze the conditions depending on the type of Commodity Exchange (physical commodity exchange, commodity *futures* exchanges, etc.)
- ❑ Creating a new commodity exchange is no easy matter – how is it to be organized, what contracts are to be traded (UNCTAD has done several feasibility studies), what are the possibilities with respect to trading platforms, how does one target potential users, what types of regulation are required.

What can UNCTAD do?

**A public-private
orientation**

- ❑ UNCTAD is ideally placed to overcome the trust gap that often still exists between the public and private sectors in developing countries and which hinders investments in trade-related institutions.
- ❑ Identify the components of the legal-regulatory frameworks required for the functioning of different types of services provided by a commodity exchange (rules, taxation)

What can UNCTAD do?

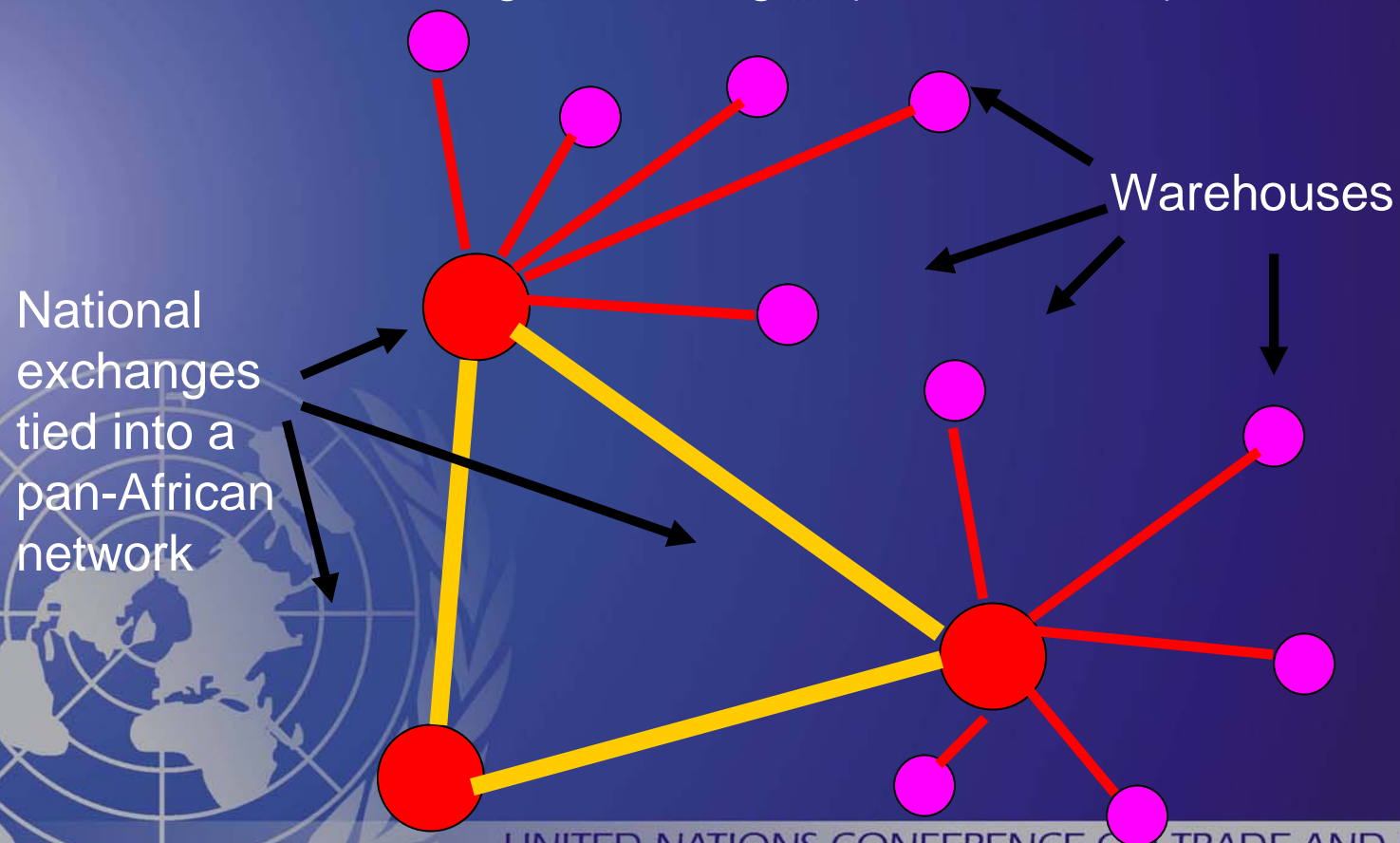
Bridging the information gap

- Organize Capacity building and training programmes that addresses the needs of the various stakeholders
- Visit to successful Exchanges both inside and outside the region

What can UNCTAD do?

Exchange of
Innovative ideas:
Regional Dimension

- Creation of regional linkages (Bourse Africa)



Starting point for the creation of Commodity Exchanges

Managing expectations

- ❑ The exchange will serve the government and the population
- ❑ However, some parties might be opposed to change (because of trading interests or unwillingness to adapt procedures)
- ❑ Example: Banks will be asked to:
 - Adapt the procedures for securitizing warehouse depository receipts
 - Move to an on-line letter of credit, and
 - Accept guarantees based on derivative instruments
- ❑ Therefore, strong leadership needed to encourage these parties to move
- ❑ And, need of collaboration: all parties need to understand their interest and see the exchange as an opportunity

Requisites for the creation of a Commodity Exchange

- An enabling policy environment
- Appropriate regulatory structures that ensure the documented transfer of ownership.
- Education that provides experience of market orientated studies
- Ensure the empowerment of producers and facilitate aggregation of product
- Price communication strategies
- The objectives of the exchange must be aligned with the agricultural policy and issues that catalyse rural development, leading to a public / private partnership.

Requisites for the functioning of a Commodity Exchange

- Commodity traded must be easy to compare, with grades widely accepted by commercial parties
- Local market prices must be sufficiently volatile to create large price movements
- Need the building blocks of trade facilitation - good roads, transport companies, weigh bridges, warehousing, collateral management services, communications
- Minimal government intervention on pricing
- Strong commercial interest on all sides of the trade - producers, consumers, traders, banks, & speculators
- Large numbers of physical buyers & sellers; high volumes of physical trade
- Physical buyers & sellers are doing enough business with each other that they have high levels of credit risk
- Potential users of the exchange are using the exchange price as the reference for physical trading

The exchange ownership

- ❑ The transparency and accountability of the structures should encourage a “for profit” management structure
- ❑ Crucial need for a public sector role: assuring the enabling policy and regulatory environment, investing in and fostering investment in physical infrastructure (especially warehouses), and in promoting supporting institutions such as warehouse receipt systems
- ❑ Therefore, the best solution is some form of public (including donor)/private "partnership"

Programme Implementation Strategy:

Key areas to be addressed

❑ Creating infrastructure

- Use existing technologies or create new ones to provide technical interfaces
- Remind: the future of commodities is certainly electronic
- Encourage cooperatives where organizations are too small or fractured to adopt technology, so that everyone can participate in the exchange
- Appropriate warehouse facilities must be identified or created. A credible warehouse receipt system, combined with a reliable and well managed warehouse structure, is the key to credible delivery

❑ Education of all parties

- Private sector (banks, warehouse operators, etc.) on how to adapt procedures
- Farmers on how to use exchange and what its benefits are
- Authorities (collaboration needed between exchange and authorities)

❑ Public / Private Dialogue

- Because different objectives of the Government and of the private sector
- Therefore, dialogue is needed to find the best solution for all parties



Thank you!



Check us out at
www.unctad.org

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT