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Commodity exchanges – and how they will help leverage agricultural finance

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MD & CEO



ACE AUDIT CONTROL & EXPERTISE

Joint MD



India's No.1 Commodity Exchange



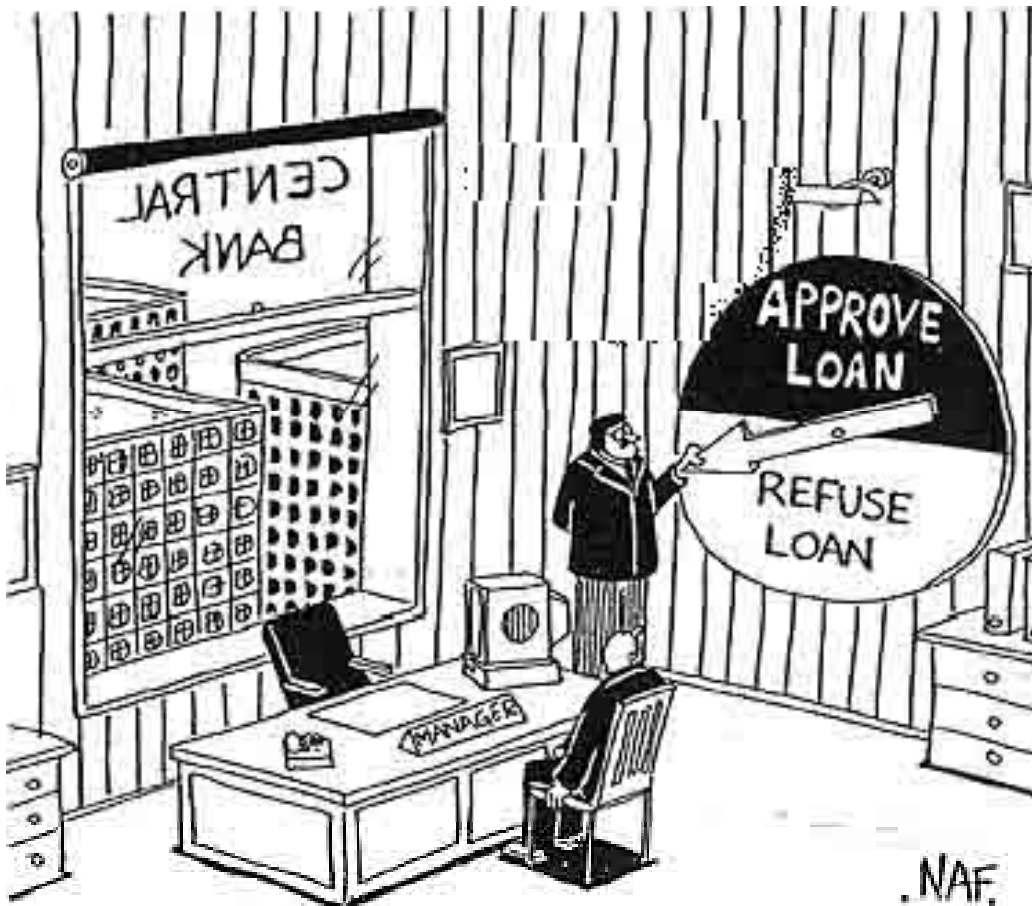


Overview

- The context – risk is central to finance
- Risks and commodity exchanges
- Creating new ways to anchor agri-finance
- Moving forward in the ECA region



1. The context - risk is central to finance



Financial institutions have to carefully balance risk and rewards in all their financing decisions...

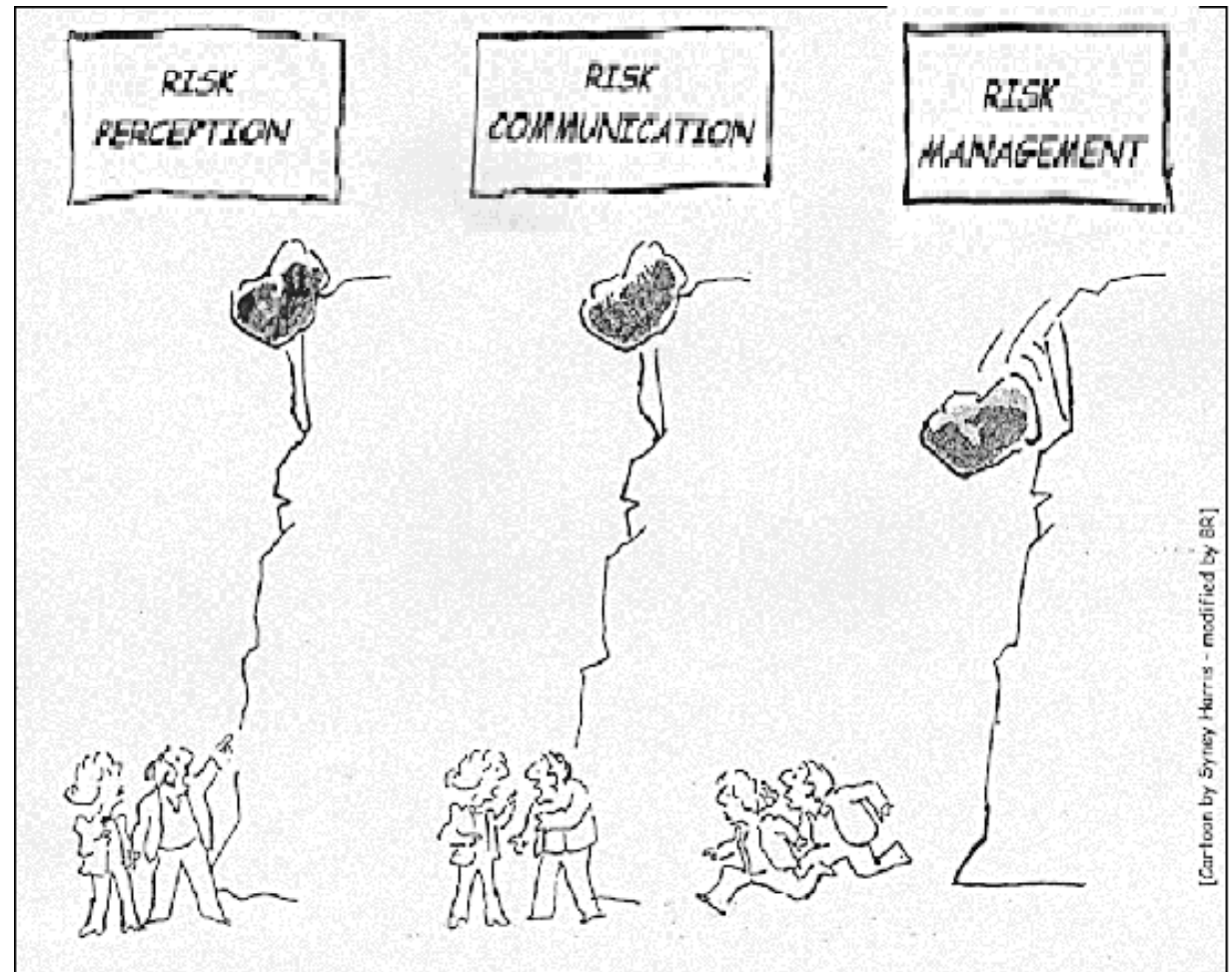


*“If anything, trade finance is the execution
of thought – the intellectual rationalisation
of **risk** to facilitate trade.”*

Reihard-E. Uhl, Head of Global Trade Finance,
Deutsche Bank,
in the foreword to the 2003/4 Trade & Export
Finance Handbook.

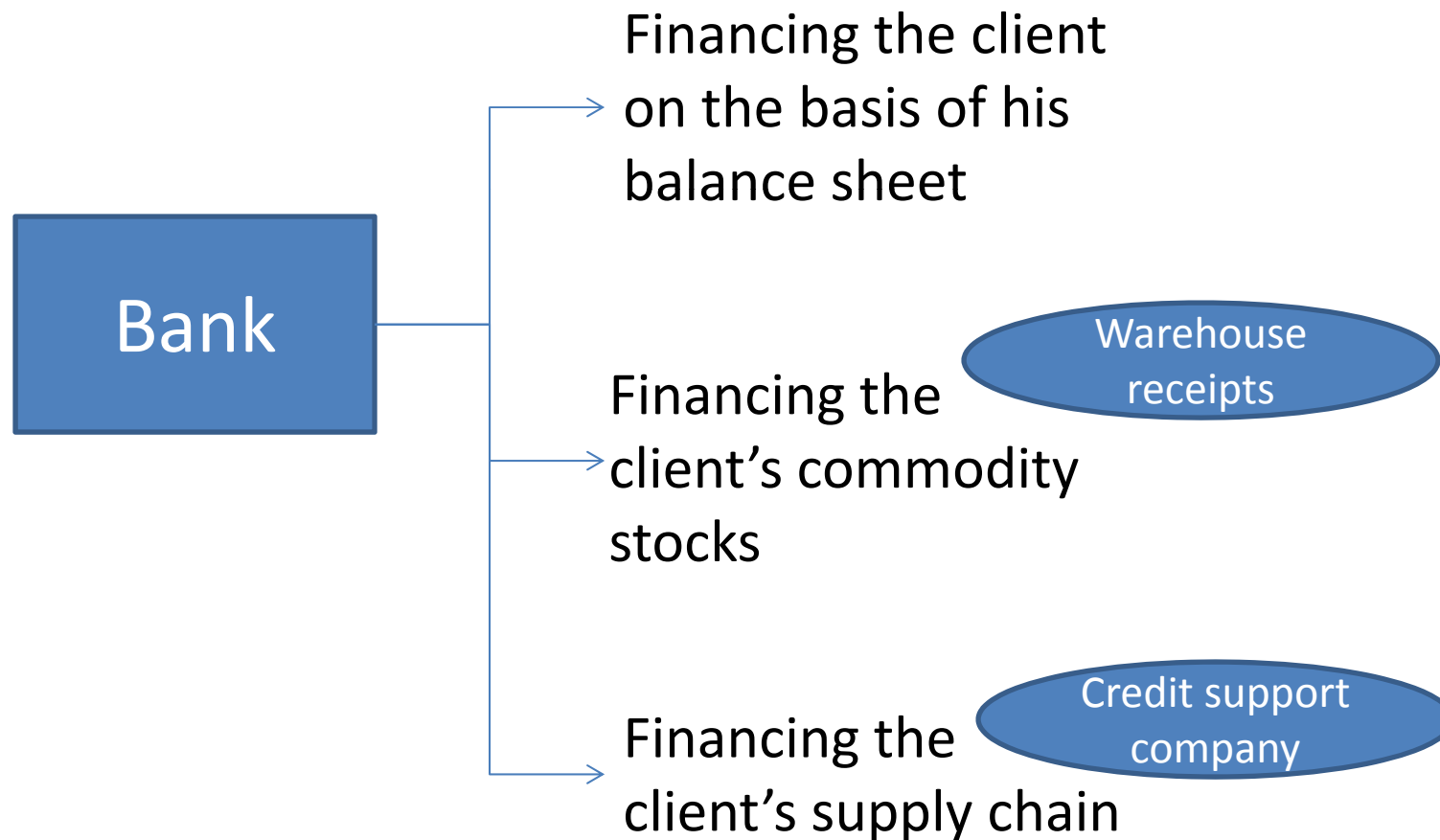


Many of the banks' threats and opportunities relate to **risk**. Better understanding and management of risk can thus play a crucial role in banks' adaptation to the new realities of the financial world.



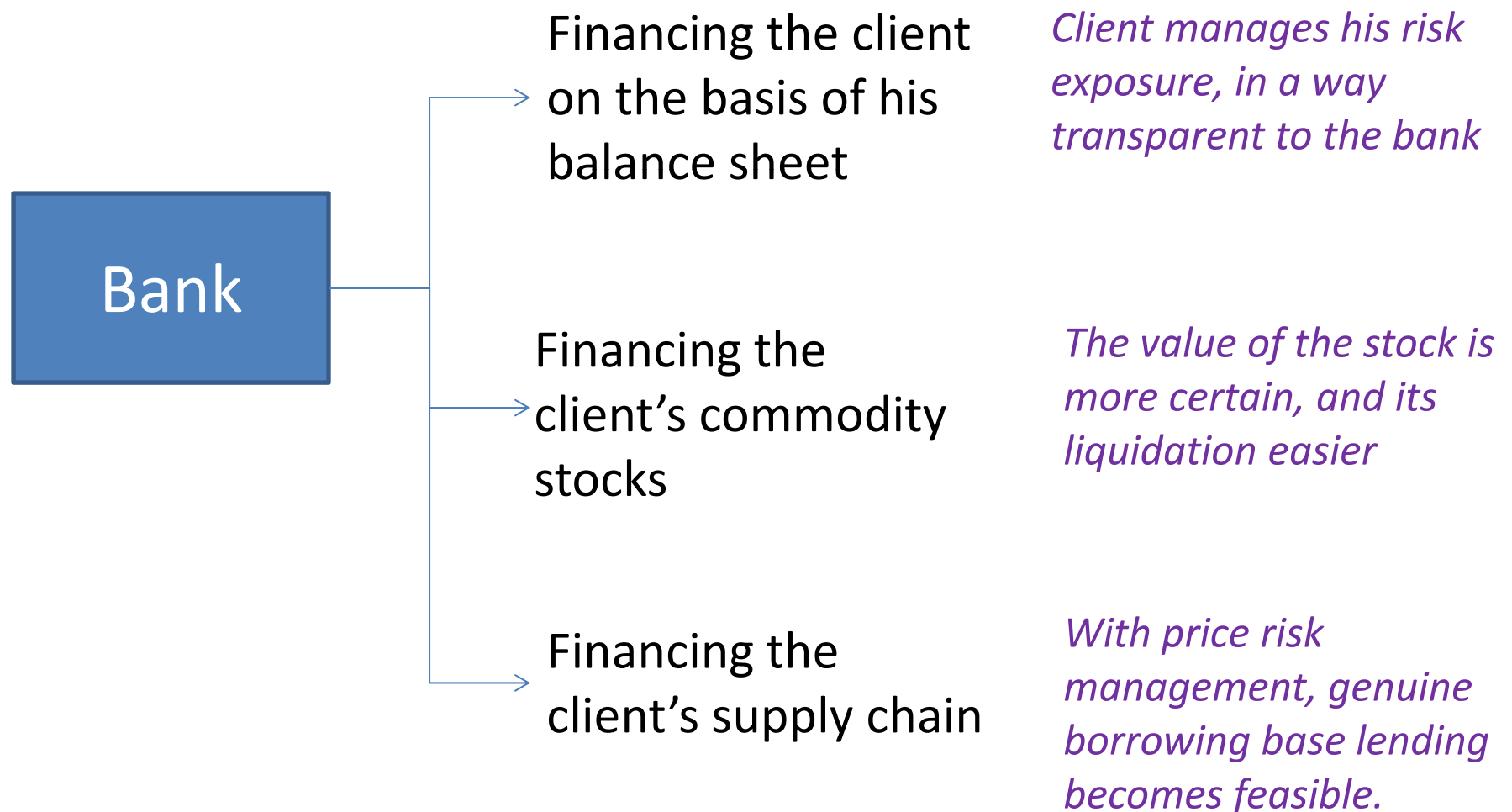


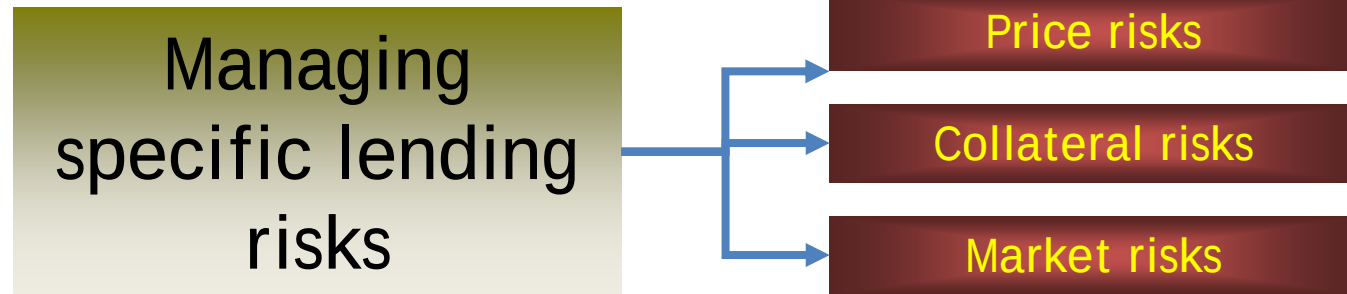
2. Risks and commodity exchanges



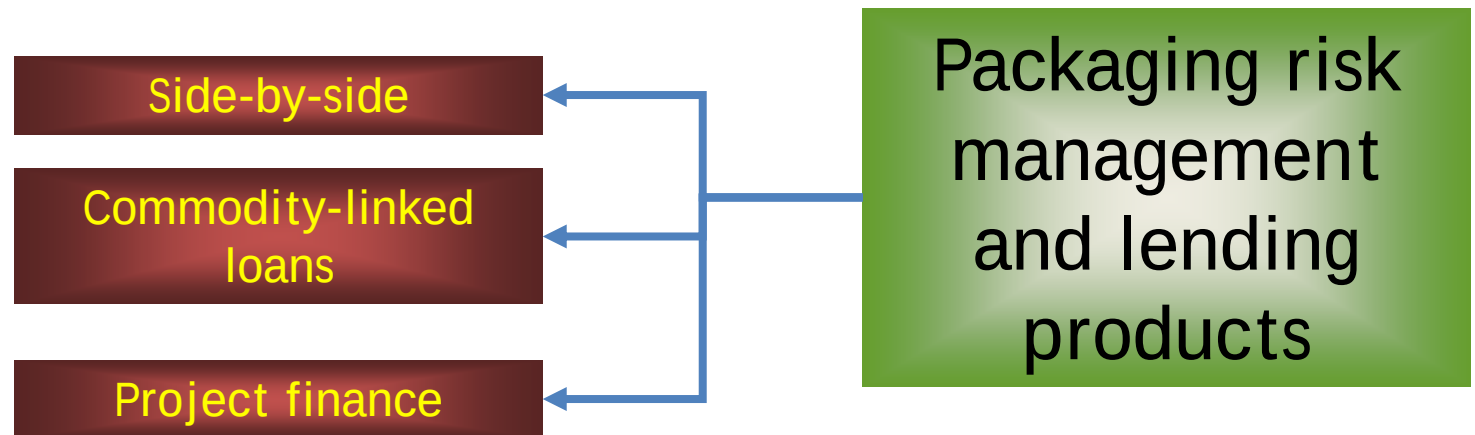


Commodity exchanges can mitigate risks





Organized commodity exchanges provide many tools



Over-the-counter risk management products

Portfolio diversification



Risks can be ironed out...



*And more efficient forms
of collateral taken*



"I've never had my gold fillings used as collateral before."



ACE AUDIT CONTROL & EXPERTISE

*Banks can improve
financial leverage...*



"Of COURSE it's only a dollar...
It's a small business loan!"

*And offer clients the risk
management tools they
need to move ahead*

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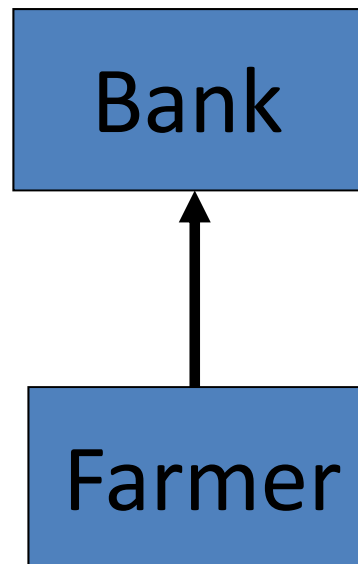


"Business is all about taking
chances. So what are you waiting
for? Go ahead and jump!"



3. Creating new ways to anchor agro-finance

Will the farmer
earn enough,
and reimburse?

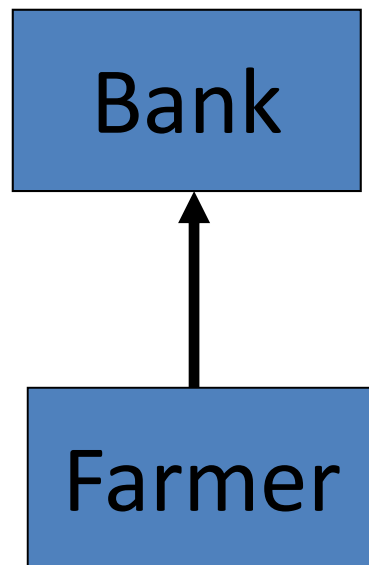


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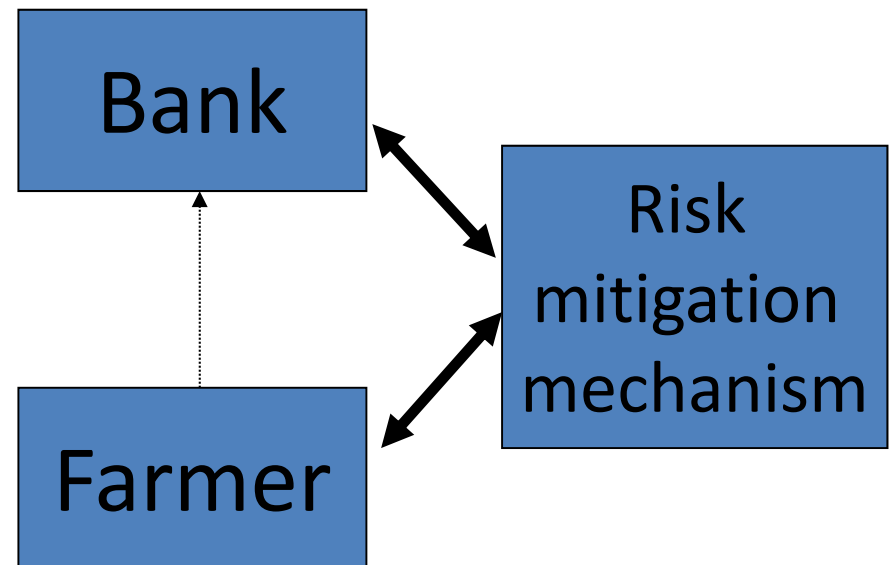


Will the farmer
earn enough,
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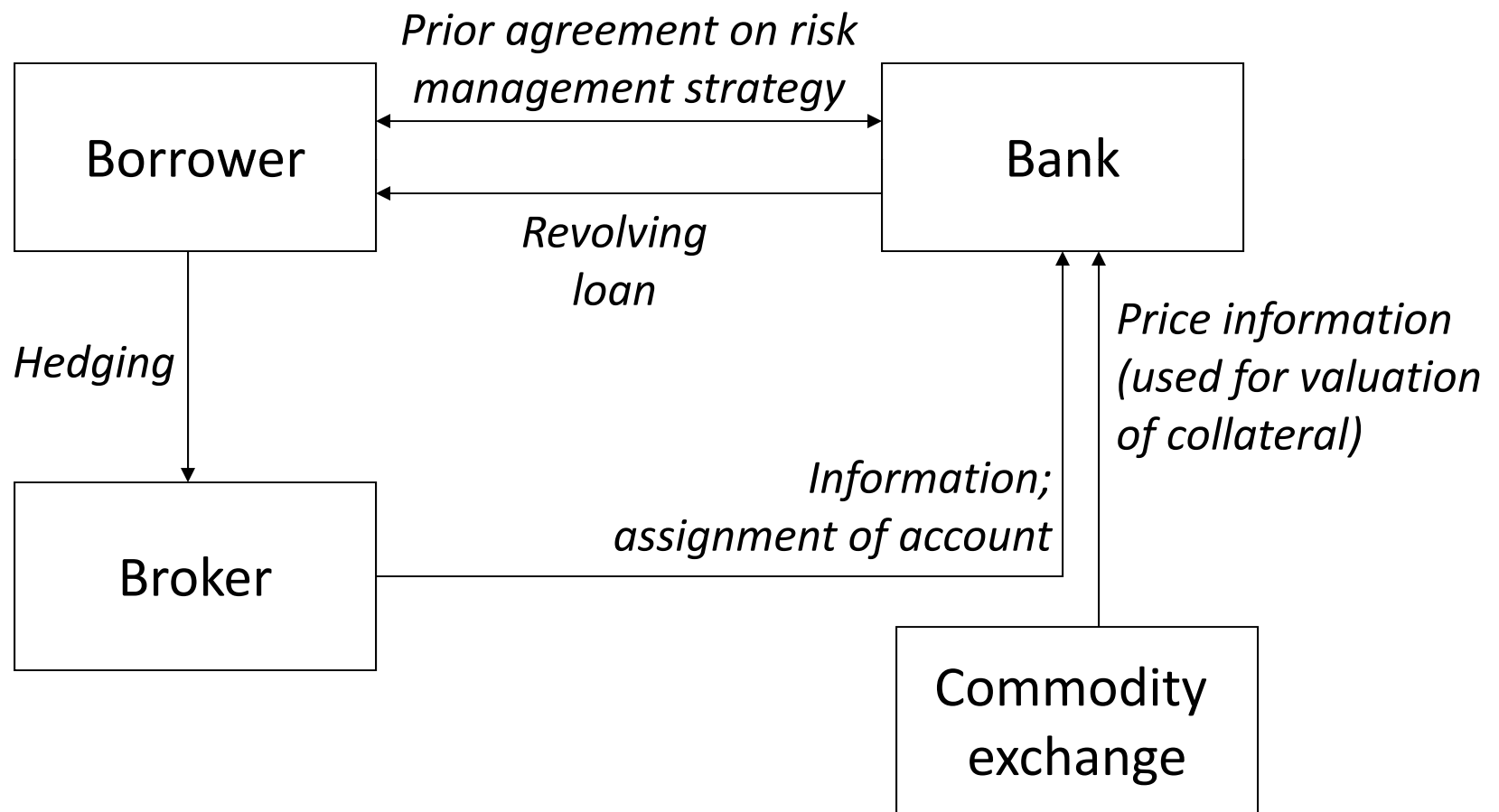
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Will the farmer
produce enough





Risk management (hedging) by borrowers reduces the risks of a bank





Accepting warehouse receipts as sufficient collateral enables banks to provide fast, easy credit.

Agri Business/Commodity Backed Loans in an instant ! **At Unbelievable Rates**

Agri Business Loans

- Loans available for Processors, Aggregators & Traders in Agricultural sector
- Overdraft & Term Loan facilities available
- Term Loans available upto a maximum of 15 years
- Loans available against Residential/Commercial/Industrial properties*

Commodity Backed Finance

- Loans available to Farmers, Aggregators and Processors
- Loan against Agri commodities stored in CWC/SWC/Licensed Warehouses/Private Warehouses & Godowns or Dematerialised Agri Commodities
- Wide Range of Agri Commodities permissible
- Maximum term of 12 months and maximum funding of 75% depending on type of commodity

Call us at:

Mumbai - 26307799, Hyderabad - 23128777, Karnataka-984657 7799, Tamilnadu - 9894477799, Andhra Pradesh-984851 7799, Delhi Mobile - 9816177799, Delhi BSNL -41617799, Kerala - 9895477799, Chattisgarh & MP - 9893147799, Coimbatore - 4387799, Chandigarh - 9055799, Lucknow - 9895477799, Uttaranchal - 9897477799, Haryana-989617 7799, Punjab - 981597 7799, Jaipur-982956549, Indore - 402 7799, Ahmedabad-66309881, Kolkata - 9831377799, Chennai-42047799, Bangalore - 41267799, Cochin-9836117799, Maharashtra & Goa - 9890447799, Gujarat-9896277799, Bihar & Jharkhand - 9934017799, West Bengal-9832007799, North East - 9862407799, Himachal Pradesh-9816647799, Jammu & Kashmir - 9906967799, Orissa-9838487799, Assam - 9954727877, UP East-9936127799

Once the call gets connected, dial 15 or 25 to talk to a phone banking officer

ICICI Bank
Agri Business Loans

Its time your efforts paid off!

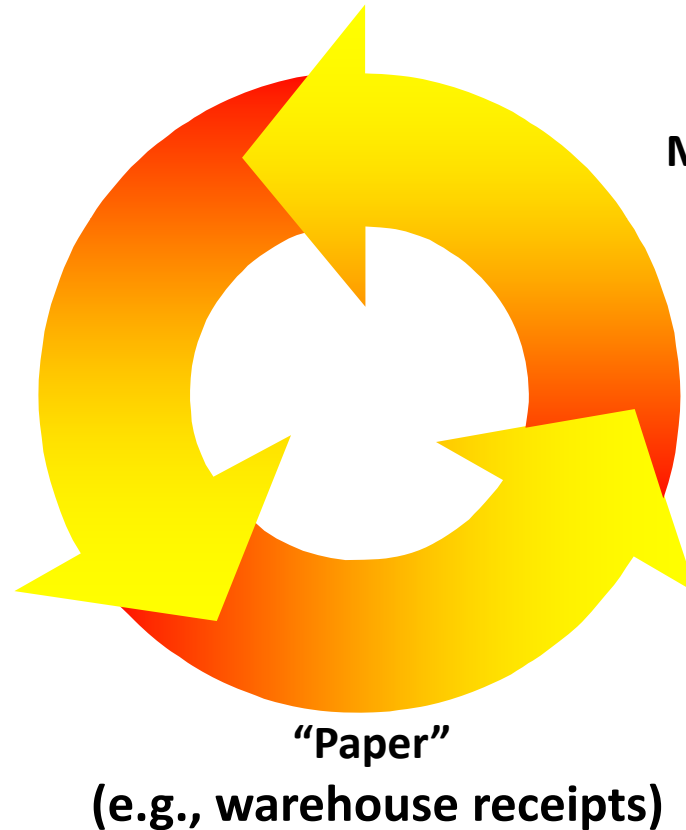


With hedging, banks can provide flexible and revolving “borrowing base” credit lines to its clients

Credit availability automatically follows the client’s business and his financing needs, without any extra risk for the bank.

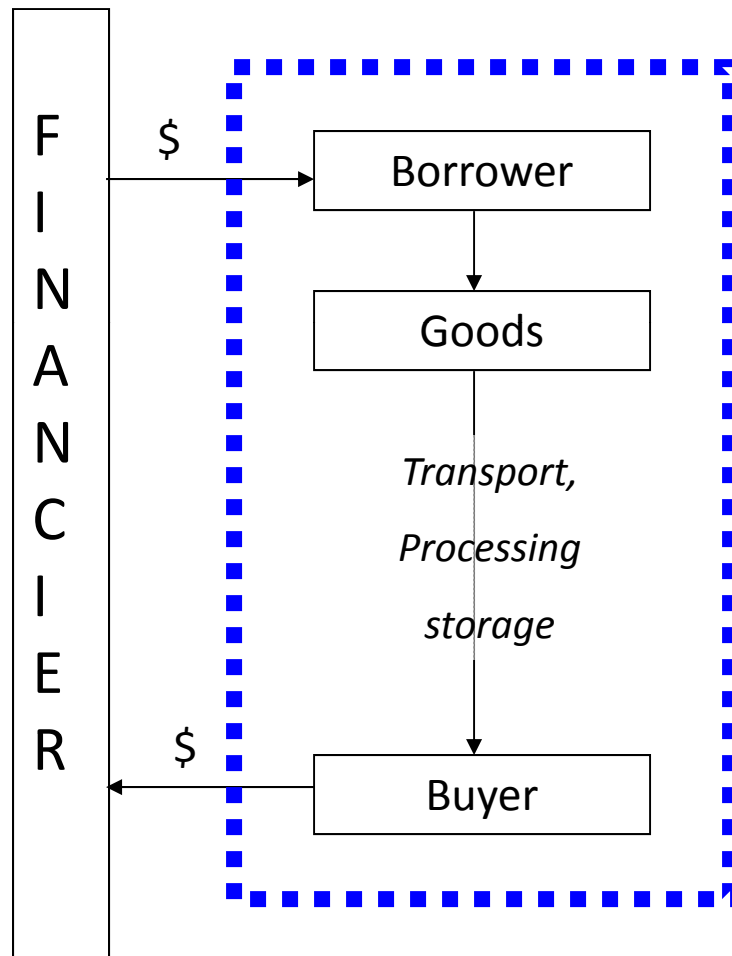
Commodities

Money



“Paper”

(e.g., warehouse receipts)



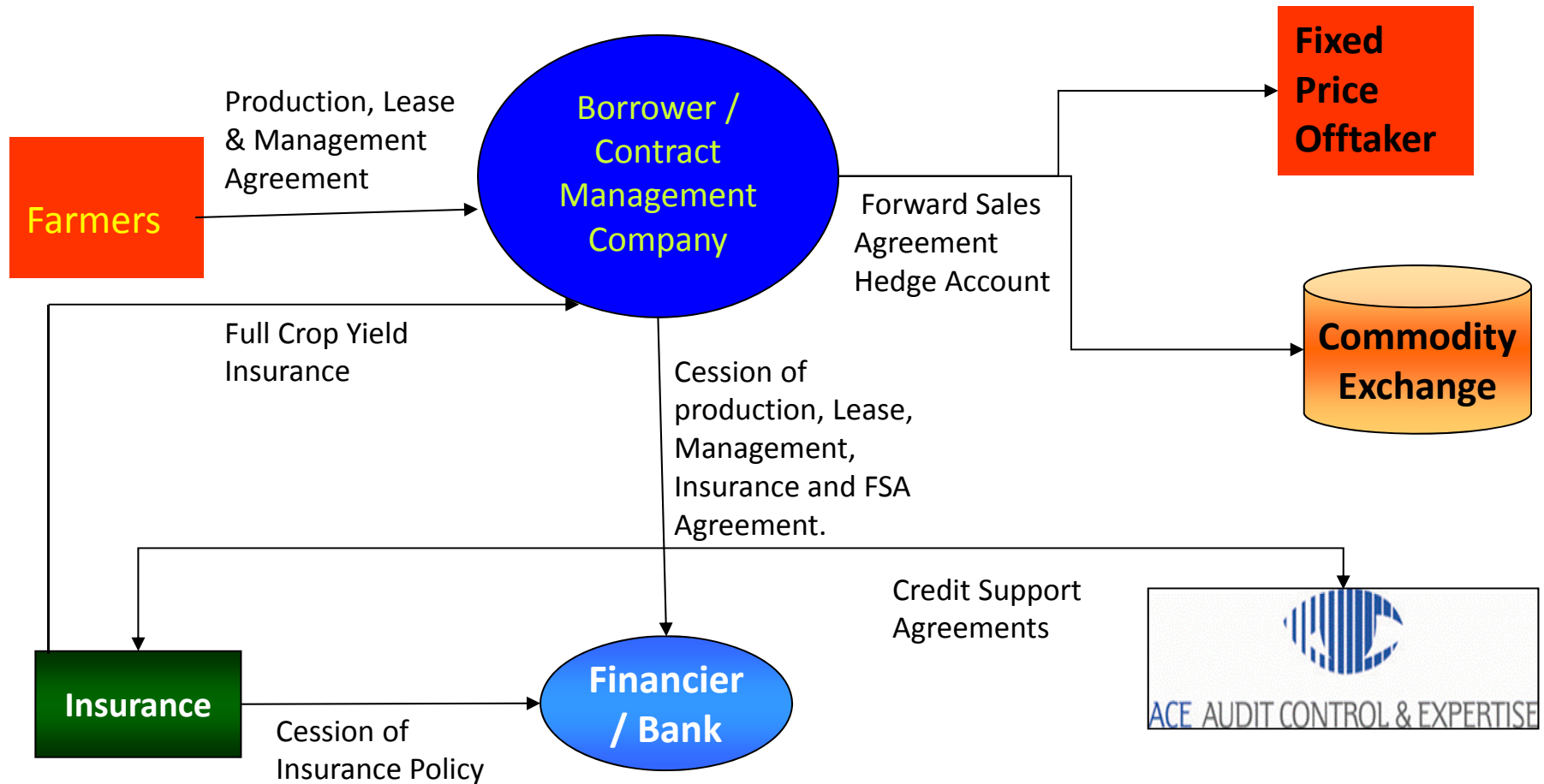
In borrowing base finance, the whole asset conversion cycle can be “wrapped”. From the moment that the financier puts in his funds to the moment he is reimbursed, all risks are not just managed and mitigated, but fully laid off on a credit support company.

Risk events within this “wrap” become the problem just of this credit support provider.



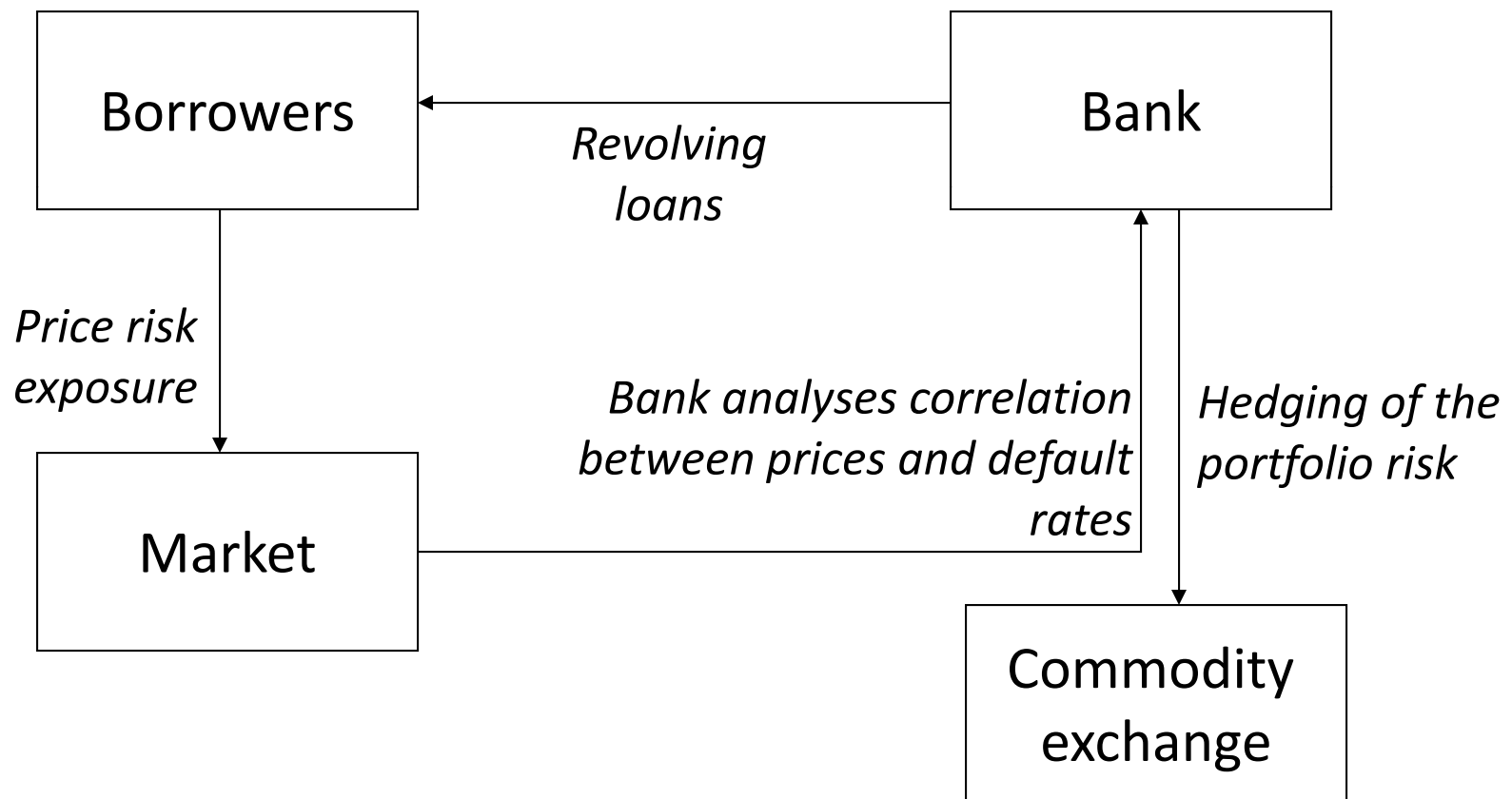


Contract farming schemes become easier



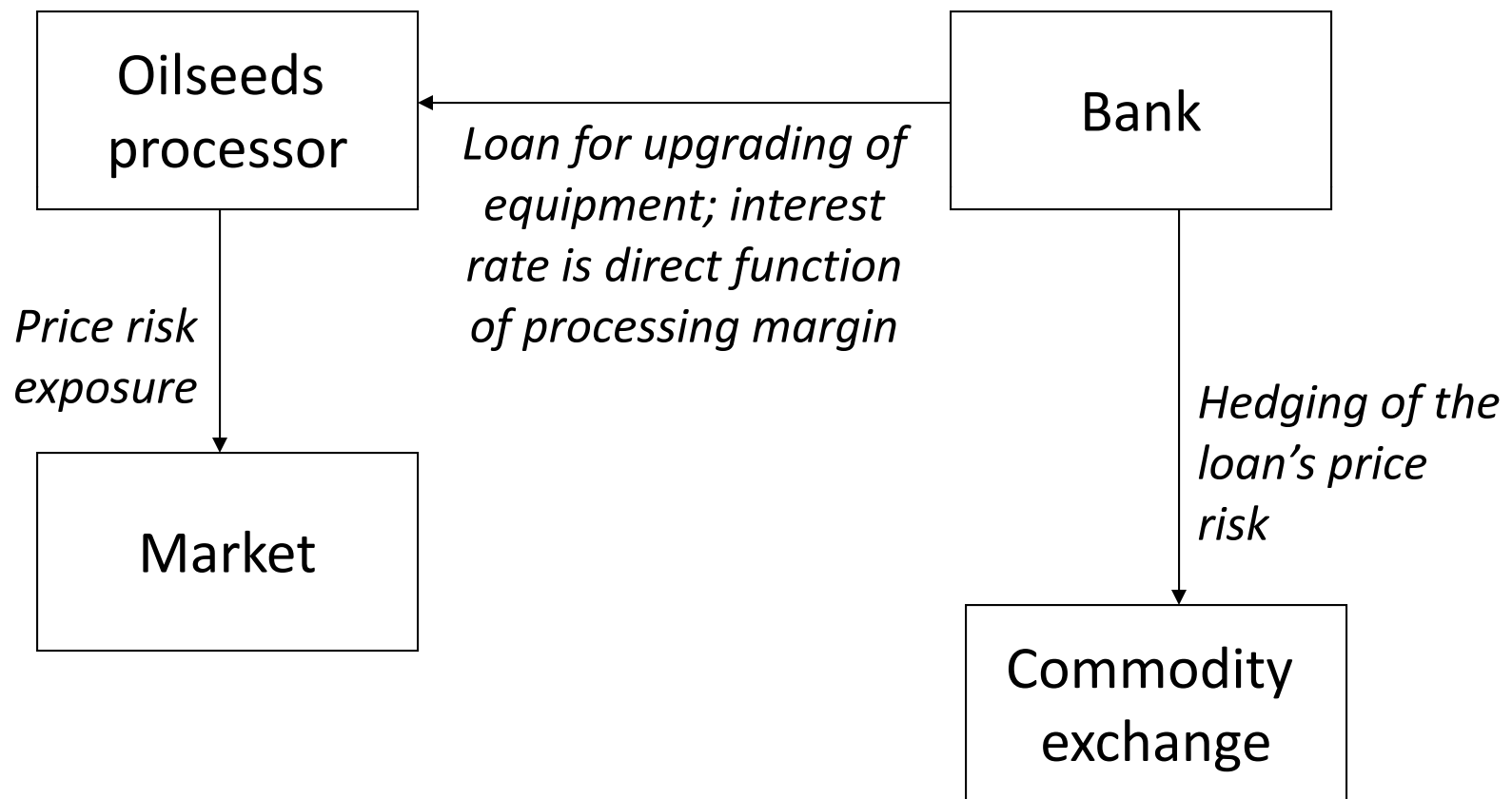


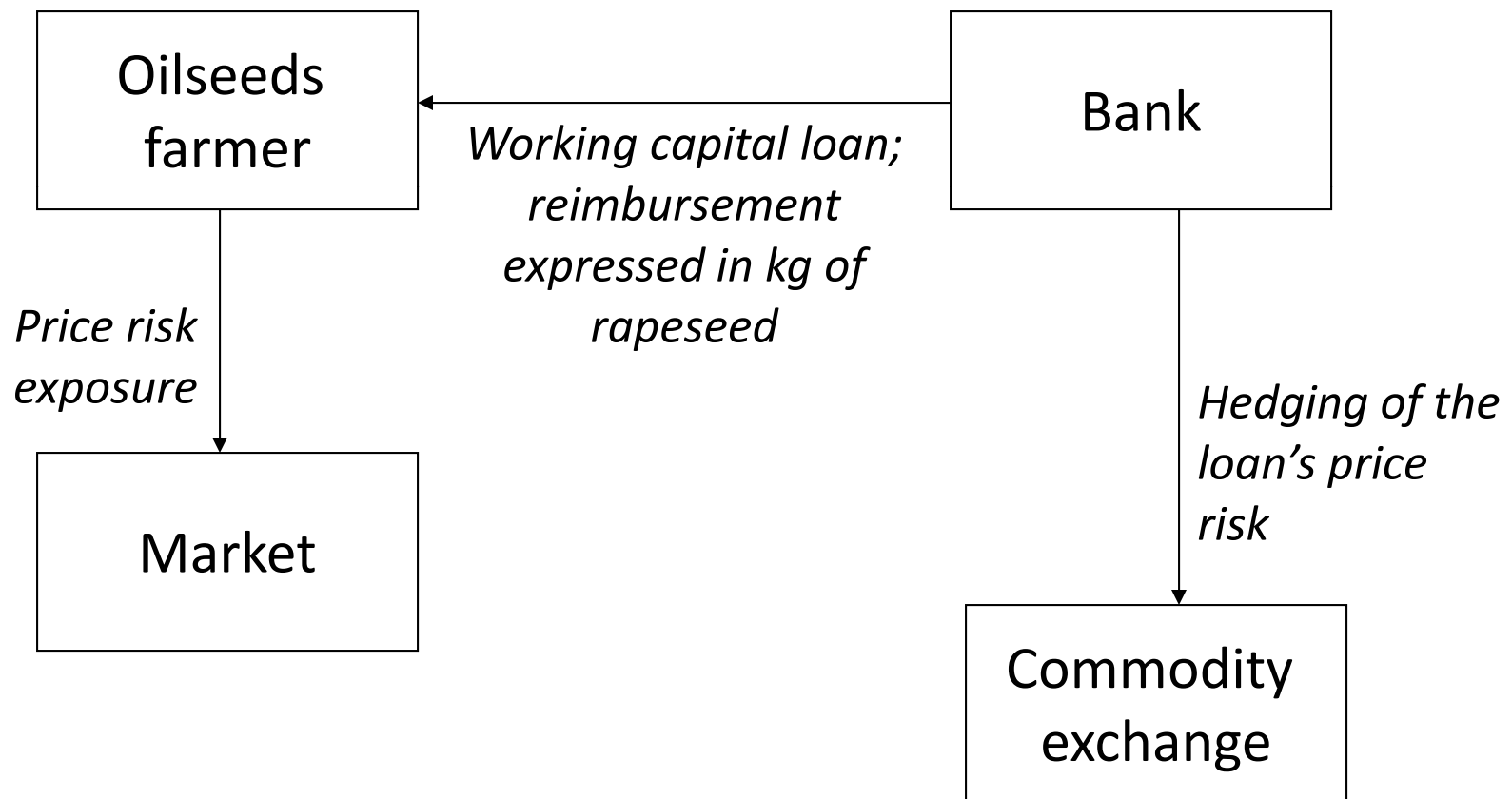
The bank can reduce its portfolio risk by hedging





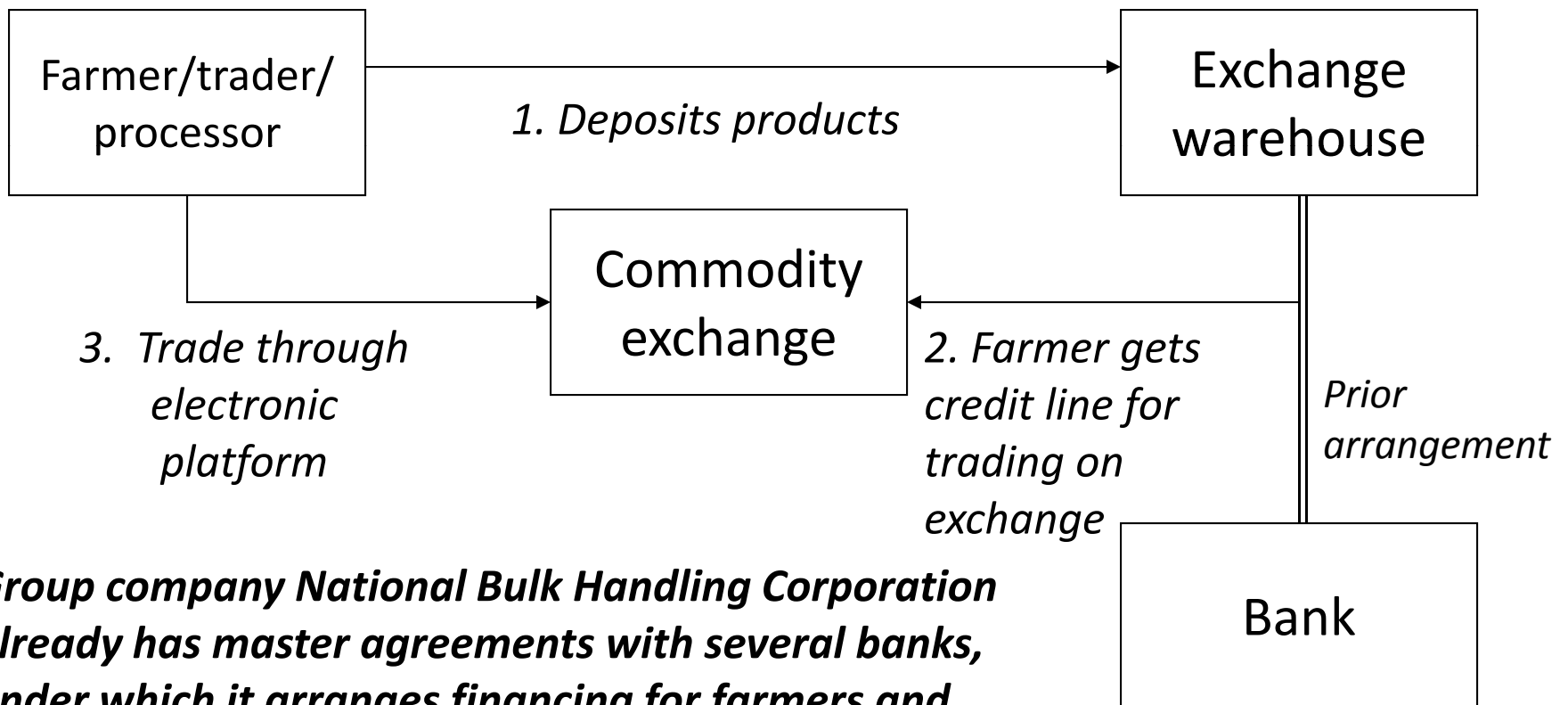
Combining loans with risk management...







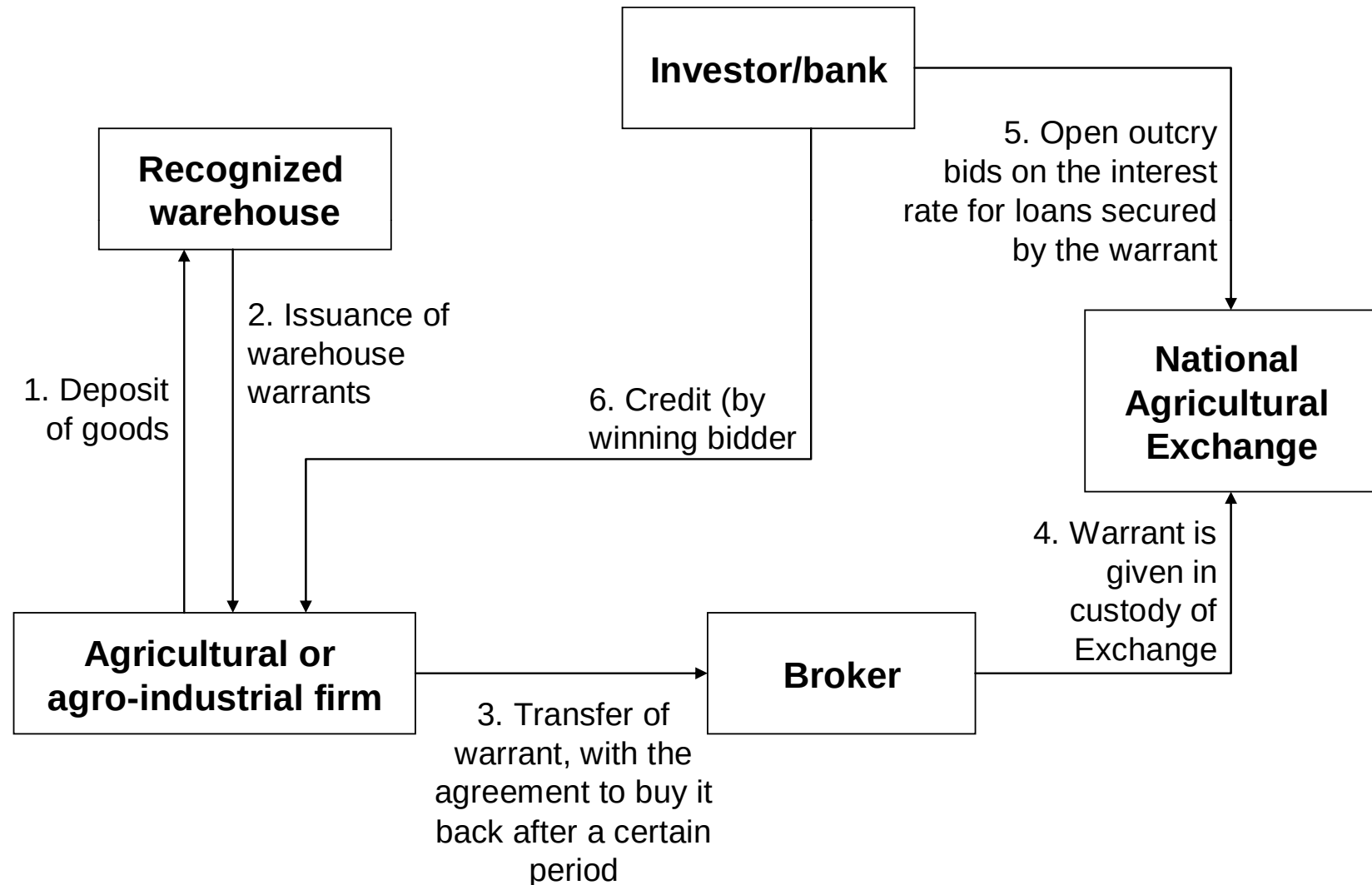
If it has entered into a prior arrangement with a bank, a warehouse can act as an “introducing broker” and provider of a trade credit line



Group company National Bulk Handling Corporation already has master agreements with several banks, under which it arranges financing for farmers and traders.

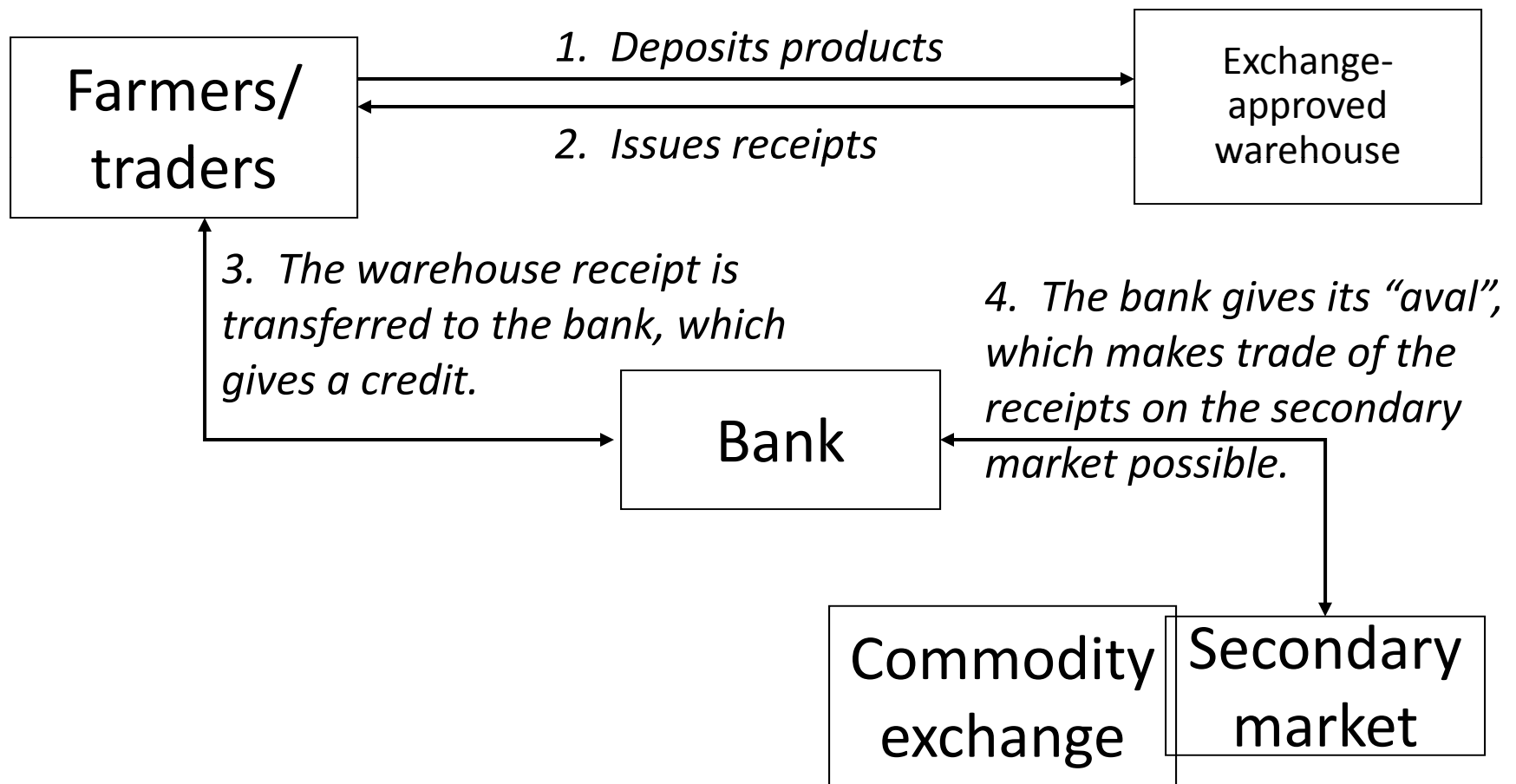


Exchange-traded repos





Providing the platform for trading the bank's paper





4. Moving forward in the ECA region

The synergy of exchanges, warehouses and a modern information/communication system will make it possible to cross over into a new era for agriculture.





There is wide scope for efficient commodity exchanges in many ECA countries, in particular to boost agricultural sectors.

Such exchanges can provide price transparency, greater discipline, and improved finance.

They can act as a conduit for funds and expertise between agricultural producers and processors on the one hand, and the capital market on the other.



Azerbaijan

Product: Establishing Electronic Spot Exchange, similar to the one in Belarus or Uzbekistan but privately-owned.

Issues: Limited size of local agricultural market, and therefore, need to include export trade (which has already well-established patterns).

Recommendations: Fruits (dried and fresh), vegetables and flowers sales are through Moscow wholesale markets; the sales and pricing point could be brought back to Azerbaijan. Evaluate private sector interest in such an initiative, and move forward accordingly.

Belarus

Product: Improving State Commodity Exchange and supporting it in a policy of privatization, if the government expressed the desire to do so.

Issues: Government policy which sees exchange primarily as instrument of government control

Recommendations: Provide advice on the benefits of privatization of Belarusian Universal Commodity Exchange, include the possibilities to introduce forward trading and trade in commodity repos, and enhance clearing operations. Provide assistance in the privatization process if desired.



Kazakhstan

Product: Futures, improved warehouse receipts system with electronic trading, regional integration

Issues: Too much government interference as well as unwillingness of parts of the private sector to support a more transparent market place.

Recommendations: Active marketing awareness raising campaign, proper regulation on derivatives (structure, rights of investors and clearing system).

Kyrgyzstan

Product: Improving wholesale markets, introduction of repo contracts

Issues: Lack of awareness and expertise.

Recommendations: Provide advice on commodity exchange development. Assist in development of local commodity repo market. In the medium term, assist in building links with Uzbek (for cotton), Kazakh (for grains) and other regional exchanges



Russia

Product: Further development of commodity derivatives market, expanding the number of contracts traded and increasing the efficiency of physical delivery procedures through the introduction of electronic warehouse receipts (including a system for trading such receipts).

Issues: slow process of regulatory reform; private sector oligopolies, and an active state interference into the economic activities.

Recommendations: Assist in national derivatives legislation, marketing and development of new price risk practices, integrating into world exchanges, warehouse receipts legislation.

Tajikistan

Product: Improving wholesale markets, introduction of repo contracts

Issues: Lack of awareness and expertise

Recommendations: Provide advice on commodity exchange development. Assist in development of local commodity repo market. In the medium term, assist in building links with Uzbek (for cotton), Kazakh (for grains) and other regional exchanges. Note: existing Canadian/Asian Development Bank project may provide entry point.



Turkey

Product: Improving commodity derivatives market operations through the expanding of the number of contracts traded and the development of reliable physical delivery procedures. Introducing regional exchange (in the long term, servicing Hungary, Macedonia, Romania, Serbia, Turkey plus Azerbaijan and Central Asia countries).

Issues: Non-operational warehouse receipts system, two different government bodies (Capital Markets Board and Ministry of Industry and Trade) trying to oversee the sector. (It should be made sure that government and other role players are ready to move towards a specialized commodity derivatives exchange.)

Recommendations: Assist the existing derivatives exchange (number of standardized agricultural contracts, number of instruments, IT technologies, marketing activities to agricultural sector) and/or assist the planned umbrella exchange.



Ukraine

Product: Establishing derivatives market, electronic warehouse receipts (including a system for trading such receipts), regional contracts (wheat and sunflower seeds and oil)

Issues: A draft project plan for commodity exchanges did not go through in 2005. State intervention in terms of export control and state operated Agrarian Exchange (private sector initiatives become disagreements between parts of the State and government, and are thus prevented from moving ahead)

Recommendations: Investment in storage facilities, delivery procedures, grading, improved warehouse receipts system, marketing of commodity derivatives, new legislation on derivatives.

Uzbekistan

Product: Improvement of main commodity exchange by introduction of repos, forward and futures markets, viable electronic warehouse receipts, regional integration (with Kyrgyzstan and Tajikistan), improving the links of Uzex with global buyers.

Issues: Government policy which discourages private sector production and marketing, and use of exchange as tool for export controls

Recommendations: Expand operations of Uzex clearing house to underwrite forward and futures contracts; introduce system for trading cotton warehouse receipts, accessible to local as well as international entities.



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THANK YOU

**"Services dedicated
to Risk Management"**

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