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Report of the expert meeting on trade and development implications of financial services and commodity exchanges

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A. Introduction

1. The Commission on Trade in Goods and Services, and Commodities, at its eleventh annual session (March 2007), decided to convene an expert meeting on the trade and development implications of financial services and commodity exchanges. Paragraph 100 of the São Paulo Consensus stated that UNCTAD should "analyse and promote exchange of information on commodity markets… analyse and support the development of appropriate and effective mechanisms and capacity to respond to commodity price fluctuations… in particular by improving the capacity to apply modern commodity price risk management and financial instruments."

2. The expert meeting on trade and development implications of financial services and commodity exchanges: trade and development implications of commodity exchanges was held in Geneva on 3 and 20–21 September 2007. Part I of the meeting considered the development role of commodity exchanges within the context of developing country commodity sectors that had been subject to the macro-trends of liberalization and globalization.

3. Part I of the meeting had the following main tasks:

(a) To review the potential development role of commodity exchanges in national and regional commodity sectors;

(b) To appraise the regulatory requirements for overseeing the activities of commodity exchanges; and

(c) To define the role commodity exchanges can play in stimulating regional integration and South-South trade.

4. The ensuing discussions informed UNCTAD member States about the types of exchange that existed, the services that could be provided, and the developmental benefits that could arise as a result, including among other things the facilitation of regional integration and South-South trade. Extensive reference was made to the experience of practitioners from across the developing world. The discussions also served to highlight the challenges developing countries typically faced in commodity exchange development, of which devising an appropriate regulatory framework was arguably among the most critical.

5. In his opening statement, the Secretary-General of UNCTAD emphasized that, despite an apparent commodity boom, there still remained significant challenges to translate positive trends into sustainable development gains and poverty reduction. It was noted how structural transformations to commodity sectors in the developing world had led to the gradual reduction of government support to many agricultural producers. Consequently, producers' access to markets on favourable terms had diminished, along with access to support services such as pricing support, market information, storage and logistics infrastructure, finance and extension services. Within that context, it was thought that commodity exchanges could play a useful role in delivering some of these services where Governments no longer did. An exchange might thus be considered as one potential but dynamic element within a market-oriented policy strategy for commodity sector development.

6. The Director of the Division on International Trade in Goods and Services, and Commodities presented the UNCTAD secretariat paper. She emphasized that a large proportion of the world's poor and hungry depended on commodity production for their livelihoods. Therefore, addressing the commodity problematique lay at the heart of global efforts towards poverty reduction.

7. A commodity exchange was defined as a market in which multiple buyers and sellers traded commodity-linked contracts on the basis of predefined rules and procedures laid down by the exchange. Commodity exchanges could serve to reduce the high transaction costs that disadvantaged commodity producers in developing countries by enhancing market access and providing information about counterparties, prices and product grades. Attention was also drawn to the risk management services a commodity exchange could enable – services that could protect commodity chain participants exposed to high levels of price volatility that might otherwise undermine livelihoods. The Director further set out how development benefits from commodity exchanges might arise not just from direct use of the exchange, but also through positive externalities such as improved transparency, dissemination of market information, enhancements to trade-supporting infrastructure and better access to commodity finance.

8. It was shown that a significant proportion of the world's major exchanges were located in the developing world, where they conducted a substantial and growing proportion of the world's commodity futures trade. However, it was acknowledged that a commodity exchange was neither a panacea nor an easy solution for a developing country. Instead, due consideration was required about applicability to the local context, including the nature of the enabling environment and regulatory oversight. Consequently, commodity-dependent developing countries were encouraged to form institutional partnerships between the public sector and commodity exchanges to ensure market transparency and efficiency for bringing welfare gains to commodity chain participants.

B. Panel 1: Commodity exchanges – experience of development impacts

9. In the first informal session, experts considered the development impacts arising from commodity exchanges. It was generally agreed that exchanges could enable markets to function more effectively and efficiently for commodity chain participants, upgrading sector performance and enabling better management of risk. Economic effects arising from exchanges were identified to include improvement of the business environment and the possibility for a country to build an "ecosystem of synergies" between market participants, exchanges, financiers and warehouses, to expand marketing possibilities. The generation of a more level playing field through technology-enabled information dissemination also acted as a catalyst to empower small-scale farmers.

10. Experts evaluated how commodity exchanges offered a market-based alternative to direct government intervention. With reference to the South African experience of market liberalization, there were pros and cons associated with free as opposed to regulated markets. Participants in regulated markets would typically not face price risk, and required information would be provided by the Government. However, that could come at a cost to the economy in the form of market distortions, export subsidies and resource stockpiling that could depress prices. The free market had price risk. Competition could be unfair to the weakest. However, efficiency might increase – in particular, production, consumption and investment decisions could be driven by a realistic appraisal of the market supply and demand situation.

11. In the aftermath of the liberalization wave of the 1990s, the economic and technological trends at the base of globalization had transformed world markets, thereby expanding the potential role for commodity exchanges. Experts agreed that exchanges had transformed from passive transaction hubs into dynamic entities that could facilitate supply chain integration and allow for greater producer pricing power. Many commodity exchanges had demutualized to become profit-driven organizations looking to expand their services to a broader customer base. The expansion of electronic trading had fostered greater accessibility, openness and transparency.

12. It was noted how the operation of a commodity exchange brought about new possibilities. Farmers could make informed selling and withholding decisions, benchmark their produce to established standards, and reduce the dominant position of traders in commodity supply chains. Input providers could respond to higher product grade requirements and banks could provide financial intermediation as new agricultural marketing activities were created and formalized.

13. Experts were presented with an example from India illustrating the kind of economic benefits that could occur when a marketing cooperative transformed from government procurer into a sophisticated marketer through engagement with commodity exchanges. A cooperative in Haryana State, India, profitably aggregated the marketing and hedging needs of small farmers to provide benefits including price stabilization, avoidance of distress sales, an auditable record of transactions and warehouse-facilitated quality assurance.

14. Another illustration was provided with reference to an initiative in Ethiopia, where an exchange was being promoted by the Government and private sector. The initiative was seen as an important accompaniment to commercialization of smallholder agriculture in the country, with a range of anticipated benefits for farmers:

(a) Empowerment: farmers were better able to negotiate prices given market and price transparency;

(b) Quality: farmers were able to obtain a premium for value added product;

(c) Market access: farmers could access the national market and were no longer restricted to local markets;

(d) Risk management: farmers could lock in prices through forward contracting; and

(e) Planning: farmers could use futures prices to guide planting decisions.

15. Similar benefits were anticipated in Ghana as part of a general strategy to transform the country's agricultural environment from its current array of atomistic, non-industrial production and storage elements into a coherent network of commercialized production and accredited warehouse facilities. The exchange would upgrade sector performance, including through trade of locally-produced commodities in standardized lots, properly graded, shelf-life certified and insured. In turn, that would enable commodity production to be financed "sight unseen".

16. Experts highlighted the importance of effective infrastructure for the functioning of commodity exchanges. That included efficient information supply, exchange-accredited warehouses and warehouse receipt systems, and infrastructure related to the financing, trading and clearing aspects of exchange operations. The importance was emphasized of taking an approach seeking to upgrade the entire commodity "ecosystem". In India, an example was cited of an

exchange developing an efficient system for polling of spot prices from markets around the country to provide an authentic national price reference. In Ghana, a commodity-backed warrant schemes was seen as a precursor to trade in cash and forwards markets.

17. Experts considered the situation of countries with underdeveloped capital markets such as those in sub-Saharan Africa. Such markets typically featured poor market information, low levels of transparency, unenforceable contracts and the absence of product grading. Agriculture was often severely underfinanced despite a contribution to the economy often over 50 per cent of gross domestic product (GDP). Experts agreed that non-traditional commodities produced in those countries might not be traded on existing international exchanges. However, a recently-introduced commodity exchange in Malawi offered the potential to expand from food marketing to coffee, minerals, and financial and risk mitigation services, tapping into alliances and linkages within Common Market for Eastern and Southern Africa (COMESA) markets and the more mature economy of South Africa.

18. Experts agreed that a critical development challenge was how to ensure subsistence farmers could benefit from commodity exchanges. As a starting point, it was suggested that to reach rural populations, which were often poor and uneducated, commodity exchanges should be simple to access and use. Commodity exchange activities should be coupled with extensive education campaigns to promote inclusiveness. Representative bodies such as farmer cooperatives were seen as essential in aggregating the needs of small producers, increasing their capacity and bargaining power.

19. A further emphasis was placed on the transformative power of technology, which should be harnessed to extend access and services to the rural poor. An example was provided of how an Indian commodity exchange had partnered with various institutions with an extensive rural infrastructure, including the national postal organization, to provide technology-enabled market information systems. Such partnerships extended information and services to parts of the country that even roads did not reach.

20. Finally, experts reviewed hybrid models involving public-private partnerships for exchange governance and development. Such a model had been adopted in Ethiopia, and included (a) a demutualized structure with separation of ownership, membership and management; (b) a State-owned physical entity; (c) member-owned permanent trading seats; (d) a joint owner-member board; and (e) a national exchange actors association and a strong regulatory body reporting to the prime minister.

21. Other recommendations made by experts during that session included (a) an effective interface between national and regional exchanges; (b) integration of commodity risk management and finance; and (c) further sharing of information and ideas so that developing countries could learn lessons from each other’s experiences.

C. Panel 2: Perspectives on the appropriate regulatory framework for commodity exchanges in developing economies

22. In the second informal session, experts discussed regulation as a prerequisite for the successful development of a commodity exchange, with a focus on commodity futures exchanges. Experts addressed regulatory challenges from a range of perspectives: (a) national regulators in both the developed and developing worlds; (b) an exchange as a self-regulatory organization; (c) an

industry intermediary representative body acting in a self-regulatory capacity; and (d) an institutional investor that participated in exchanges in the developing world. A case study was also provided of the regulatory framework and challenges faced by countries in the Commonwealth of Independent States (CIS).

23. Futures exchanges were described as rule-driven, regulated markets that depended on the integrity of contracts and required reasonably predictable correlation between spot and futures prices. In a futures contract based on a physical commodity, it was seen as essential to have robust regulations that supported the two components of a physically deliverable futures contract – the commercial contract for the underlying commodity and the financial instrument linked to it.

24. It was emphasized that there must be an appropriate legal system that provided the certainty the market needed. The legal components required to ensure the proper functioning of an exchange were said to include:

(a) Commercial law relative to enforcement of contracts;

(b) Insolvency law permitting the transfer of positions;

(c) Adequate safekeeping of deposited margin and accruals;

(d) Appropriate tax treatments;

(e) Protection on pre-release of market-sensitive information; and

(f) No unexpected interventions from the Government.

Other important aspects to a robust regulatory framework were identified as transparency, confidence in the contract specification and delivery process, security in the credit enhancement process, reliable processes for clearing and settlement, the financial quality of market participants, prevention of market abuses, and continuity (and expectations of continuity) in the market.

25. Examining the regulatory structure in India, it was explained how the activities of the regulator served to ensure that markets performed their intended price discovery and price risk management functions, and upheld the integrity of the financial system. Critical tools to meet these objectives included:

(a) To uphold market integrity: the use of audits, surveillance and monitoring, as well as limits on speculative open positions;

(b) To maintain financial stability: an effective system of margining, and minimum capital requirements to participate in markets;

(c) To protect investors: checks on unscrupulous practices by intermediaries, and ensuring fair treatment of market participants by exchanges; and

(d) To maintain alignment between futures and spot prices: ensuring there is a threat of delivery, and final settlement based on accurate spot prices.

Further regulatory imperatives included sensitization of policymakers and opinion-makers about the benefits of the commodity futures market, and education and awareness-raising to promote responsible participation in the markets.

26. Experts highlighted how the exchange itself was an important component of the regulatory framework, acting in a self-regulatory capacity to provide oversight of its markets in a number of dimensions:

(a) Clearly defined contractual terms;

(b) The financial robustness of market participants; and

(c) Markets free from manipulation.

By trading standardized contracts, exchanges could create certainty about product quality and terms of settlement which were readily accepted by the market. Financial stability was ensured through a central clearing house that acted as the buyer to every seller and the seller to every buyer, effectively insulating the market from the collapse of any one market actor. Preventing market abuses was critical for sustainability, as an exchange would not be used if its trading environment was perceived to be unfair.

27. A global institutional investor outlined how exchanges could provide a critical path to economic development by enabling commodities to be correctly priced and integrated into global trade. It was suggested that in setting up exchanges, it was necessary to create rules that allowed easy access from a broad spectrum of market participants, including national and international institutions. Among key requirements identified were instilling clear and practical risk management guidelines, creating timely and manageable reporting frameworks, creating a culture of principles-based market supervision, and composing a clear and concise exchange rulebook. Moreover, micro-regulation should be avoided as a substitute for a well-built and clearly-directed market infrastructure.

28. Another potential pillar of the regulatory framework was a body that represented and oversaw the activities of market intermediaries, such as brokers. All intermediaries involved in United States futures transactions were mandated by law to take membership with the National Futures Association, a self-regulatory entity with four core services: (a) screening firms to ensure quality standards of service provision were met; (b) checking compliance with rules and taking disciplinary action when violated; (c) dispute resolution for members; and (d) education of members about regulatory responsibilities, trading opportunities and risks.

29. The experience of the Russian Federation, Ukraine and Kazakhstan revealed how early attempts to establish commodity exchanges during the 1990s supposedly failed due to lack of well-developed clearing and delivery systems, symptomatic of regulatory deficiencies. The regulatory frameworks in these countries had had to evolve in order to facilitate exchange emergence. This enabled CIS exchanges to develop more robust trading environments, including for agriculture and energy commodities.

D. Panel 3: Regional integration, South-South trade and commodity exchanges – experience and possibilities

30. In the third informal session, experts demonstrated how commodity exchanges were facilitating regional and South-South commodity trade linkages in diverse ways. Three examples were presented.

31. The first was an initiative seeking to create a pan-African commodity exchange. A hub based in Botswana would establish branches in other African countries. The potential was recognized of the proposed initiative to address the endemic problems facing African commodity sectors – disintegrating supply chains, low value added and a declining share of international trade. The potential opportunities were compelling:

(a) Harmonizing regional producer and trading communities;

(b) Providing a uniform trading system as a mechanism for regional trade;

(c) Extending Botswana's regulatory framework as a benchmark for other countries; and

(d) Offering education and training to African commodity chain participants.

However, many challenges would first need to be overcome: (a) differences between financial and regulatory frameworks; (b) divergence of national trading, payment and clearing systems; and (c) a lack of cooperation among countries.

32. A case study was provided of how exchange-enabled market instruments were used to manage food deficits and surpluses in an African least developed country (LDC), Malawi. In each situation, commodity-linked financial contracts – options and repurchase agreements – were customized, based on prices referenced from a commodity exchange in South Africa, with intermediation from private sector banks and traders, coordination by the international community.

33. The importance of the established South African commodity exchange was emphasized in its capacity as a price and product quality benchmark for the southern Africa regional market. In this respect, it was highlighted how a commodity exchange enabled trade not just in instruments directly offered by the exchange, but also the possibility of structuring more complex solutions negotiated off-exchange, or "over the counter", between willing counterparties. Such solutions had to be highly customized to the individual country need.

34. Several advantages for Government were identified – effectively managing uncertainty, improving flexibility, reducing the fiscal burden and building trust in the efficacy of market-based solutions. Confidence to trade with regional partners was increased because trade was based on transparent exchange-generated benchmarks. However, some limitations were also identified, including the cost and complexity of the contracts negotiated, the need for strong planning and cash-flow management, and challenges in transportation and counterparty risk.

35. The third example outlined the regionalization of physical commodity exchanges in Africa. The importance was emphasized of reaching a critical mass, bringing together small domestic markets which suffered from fragmented, non-transparent and infrastructure-deficient commodity sectors, characterized by producers often lacking the capacity, resources and education to upgrade their performance.

36. The discussion highlighted how in South Africa, and increasingly in other African markets including Uganda, a national platform was being established across warehouse operators to "dematerialize" physical commodities into a negotiable, bankable financial instrument – the electronic warehouse receipt. Whilst in South Africa a vibrant futures exchange had also been established, in other countries there could be a need to first establish an "over-the-counter" system of trading and clearing based on the electronic warehouse receipt. In this way, farmer cooperatives could build the requisite capacity to act as an aggregator for small producers. An exchange could subsequently be introduced on this platform when the market was ready, and regionalization would follow as national exchanges linked with each other. A system of "parallel settlement" could foster regional trade despite the prevalence of foreign exchange controls. Such a system would route trade through third countries without such controls.

37. Experts representing institutions from Latin America and southern and eastern Africa emphasized the feasibility and importance of commodity exchanges as an instrument for stimulating regional integration and South-South trade. Argentina and Brazil recognized the importance of regional integration as

a means to establish greater producer pricing power in world soybean markets and stimulate South-South trade, particularly with fast-growing Asian economies. Commodity exchanges in the region were at the forefront of such integration, dealing with technical and regulatory challenges whilst interfacing with Asian exchanges in establishing modalities to address purchaser concerns about product quality, transportation and credit/payment flows.

38. In southern and eastern African, national and regional commodity exchanges could be a driving force in establishing integrated and efficient agricultural marketing systems in the region. Pursuing an approach at the regional level was an important means of expanding investment, enabling the region to tap unexploited resources, and reducing dependence on external actors. Some key challenges for regional exchange formation were identified. These included tariff reduction and harmonization, and overcoming quality concerns, especially pertaining to sanitary and phytosanitary standards.

E. Role of UNCTAD

39. Participants urged UNCTAD to continue to strengthen its work on commodity exchanges through the three pillars of its work – research and analysis, consensus-building and technical assistance – with a focus on the following areas:

(a) Examining the place of a commodity exchange within national and regional commodity strategies;

(b) Educating, raising awareness and building consensus among relevant stakeholders about the potential development role that commodity exchanges can play;

(c) Identifying new opportunities for exchange-based solutions to development problems;

(d) Providing technical assistance to developing countries looking to introduce or upgrade commodity exchanges; and

(e) Spearheading the work of the international community.

40. Recognizing that many issues could not be adequately discussed within the scope of a one-day meeting, experts also suggested that UNCTAD examine possible follow-ups to this meeting tailored to the requirements of various commodity sector stakeholders.

41. Participants recommended that UNCTAD keep its work on commodities – including commodity exchanges and associated issues – high on the agenda of UNCTAD XII. Specific mention was made about supporting the development of the Pan-African Commodity and Derivatives Exchange and the national commodity exchange initiative in Ghana, among other geographies and sectors where UNCTAD could provide support.

II. Chair’s summary part II: trade and development implications of financial services

42. Experts voiced their views on key financial services and their trade and development implications in the context of countries’ broader growth and development objectives. The meeting provided opportunities for actors from the public and private sectors to explore different facets of financial services in an open debate at the international level. Discussions highlighted policy options to

enhance the contribution of financial services to growth and development. Participants commended the UNCTAD secretariat for its excellent background document TD/B/COM.1/EM.33/2 and for the comprehensive and development-oriented approach of the meeting, which was well-timed in the light of the emerging financial crisis.

A. Global market trends in financial services

43. The meeting examined issues related to three main financial services subsectors: insurance, banking and securities. In the previous two decades, the diversity and volume of international trade in financial services increased significantly. Financial services exports amounted to $200 billion (2005), growing at an annual rate of 14 per cent (2000–2005).

44. Accounting for 91 per cent of all exports, industrialized countries dominated that market. However, some developing countries (particularly those with more developed financial markets) emerged as important exporters of financial services. Future globalization of the financial services industry would be driven from the market side (e.g. new asset classes, retirement/pension markets, emerging market economies) and the operational side (e.g. internal controls, offshoring, innovations, financial reporting and regulatory compliance).

45. The world financial services market became increasingly concentrated: concentration of banking assets among the top 25 banks rose over 40 per cent, and dominance of European banks among the top 25 increased 63 per cent. Developing country firms aimed to increase their share of the global and local markets. The penetration of foreign banks into developing countries and transition economies increased significantly: the number of foreign banks operating in developing countries increased by 58 per cent from 1995 to 2006, while the number of domestic banks in developing countries decreased by 24 per cent during the same period. While the percentage of foreign banks in the total number of banks grew in all developing countries, that growth was highest in low-income developing countries. The Russian Federation served as an example for transition economies: a consortium of European banks entered in 1989; another 13 foreign banks launched subsidiaries in 1993; altogether, 180 foreign banks were operating in the country.

46. The majority of foreign banks were from industrialized countries, but developing country banks were also becoming part of that trend. The share of banks from developing countries in the total of foreign banks operating in developing countries (South-South banks) was about 30 per cent. South-South banks were most strongly represented in upper middle-income developing countries in terms of absolute numbers, but their presence was proportionally most significant in low-income developing countries. However, in sum, they held only 1 per cent of all banking assets. South-South banks were mostly from upper middle-income developing countries (e.g. Brazil, South Africa and Turkey) and India, but banks from low-income countries (e.g. Benin) were also emerging. The number of South-South banks increased from 168 in 1995 to 256 in 2006; they tended to operate within the region and invest in smaller/poorer developing countries.

47. The meeting analyzed new ways of delivering financial services: (a) novel business models brought increasing linkages between subsectors (e.g. *bancassurance*); (b) conglomerations created financial holding companies, covering insurance, banking and securities; (c) mergers/acquisitions expanded across the tree subsector; and (d) innovative financial products/investment

instruments emerged (e.g. derivatives, swaps and highly complex, structured financial products). New products also developed in Islamic banking and microfinance, both important for many South-South banks. Islamic banking grew significantly in several developing countries, including Egypt, the Islamic Republic of Iran, Malaysia and the United Arab Emirates. Islamic banking was integrated (offering a wide range of credit and investment services) and governed by its own regulatory/prudential standards and institutions. Following the success of Grameen-Bank (Bangladesh), microfinance experienced dynamic growth in developing countries. Microcredit institutions increasingly offered integrated services, including micro-insurance, pension savings schemes, education loans and no-contribution life-insurance (for funeral costs). The Grameen-Bank model was replicated through a build-operate-transfer approach by Grameen-Trust (e.g. in Myanmar, Kosovo, Turkey, Costa Rica, Guatemala, Indonesia).

48. Participants discussed the main forces driving foreign banks' entry into developing country markets, including trade/investment liberalization, privatization of State-owned banks and technological advances. Financial services firms' interest in moving into developing country markets was motivated by relatively lower levels of competition (target market) and density/market saturation (home-country market). Yet some developing countries with open financial services sectors saw only limited interest by foreign firms. And when firms entered, they hardly offered the same ranges of services as in their main markets. Market openness was a necessary but not sufficient condition for encouraging foreign entry and subsequent increase in service quality.

49. Other factors behind foreign financial services firms' decisions to invest and diversify included (a) trade and foreign direct investment (FDI) links (banks following their customers); (b) geographical/cultural proximity; (c) profitability/risk diversification opportunities; (d) remittances-business associated with migrants; (e) political stability; (f) good governance; (g) an open, transparent investment climate; (h) macroeconomic stability; and (i) the quality of infrastructure and legal frameworks. The private sector emphasized the profit-making motive, suggesting that sufficiently high and dynamic demand and large markets were critical preconditions for market entry. From an investor's point of view, size and potential of markets could compensate for deficiencies (market access barriers and regulatory difficulties). Regional trade agreements (RTAs) involving small neighbouring developing countries might increase their markets' attractiveness to foreign firms.

50. For developing countries, there was a need to encourage and retain foreign participation. Banks/insurance companies exited national markets when business proved unprofitable, spurring economic dislocations, including unemployment.

51. Global insurance premiums lagged global economic growth, with developing economies struggling to increase insurance premiums. Regarding shares of global insurance premiums, Western Europe accounted for 37 per cent, followed by North America (34 per cent) and Japan and newly industrialized Asian economies (17 per cent). Africa, the Middle East and Central Asia accounted for 1 per cent each.

52. In world equity markets, globalization boosted values of stock market capitalization. In percentage terms, this growth was particularly strong in large developing countries. Many small economies and LDCs also sought to develop their equity markets to attract foreign investment. Larger, successful firms in developing countries preferred to access capital in equity markets rather than

through bank credit. Access to finance through equity markets could dampen credit demand and was less stable than traditional bank credit.

53. Contagion from the United States subprime market and experiences of Northern Rock (United Kingdom) provided vivid examples of the fragility of world markets and the need for increased regulation to guard against speculative financial instruments. The need for developing countries to strengthen regulations to reduce vulnerability to external shocks was highlighted, as was the need for central banks to intervene in financial markets and cooperate.

B. Financial services and development

54. Financial services were central to development: they were an infrastructural sector with strong backward-forward linkages, supporting greater economic efficiency, addressing supply-side constraints and improving living standards (through, e.g. insurance, pension funds and consumer loans). Well-functioning banking, insurance and securities sectors could support economic growth, offer financial protection for losses and induce investment in infrastructure. Countries pursued different strategies and policy designs – including privatization – for building competitive financial services sectors.

55. Competition and foreign entry could increase efficiency, encourage transfer of management skills/technologies and help recapitalize domestic firms. Opening securities exchanges to foreigners could increase inward capital flows, catalyzing economic growth. Growth and diversification in financial services could support development (e.g. attracting capital inflows, enhancing competition, improving product diversification/high-quality services). For example, in Kenya, liberalization triggered capital inflows supported by growing participation of foreign investors in the stock market. While the link between openness and increased stability was not clearly established, countries with more foreign banks tended to have fewer financial crises. Some suggested the contrary.

56. However, having more – and foreign – banks did not always mean increased credit availability. For developing countries' private sectors, obtaining credit was more difficult in countries with more foreign banks, indicating that foreign banks might engage in cherry picking. Empirical evidence suggested that foreign banks offered a more limited range of services in developing countries compared to their industrialized country markets.

57. Discussions raised development-related concerns. Foreign firms' entry could lead to declining profits, lower profit margins, pressure to reduce costs, financial distress or saturated markets, amongst others, constraining nascent domestic firms. Structural issues included domestic savings. Attention was drawn to difficulties of properly managing liberalization processes and mixed experiences with liberalization. Given concerns about effects of foreign financial services providers, some Governments wished to maintain presences in domestic markets.

58. The meeting found that reducing potentially negative impacts of financial services liberalization required an effective regulatory framework to precede liberalization. Liberalization *per se* was not sufficient to harness the development benefits of globalization; it needed to be appropriately sequenced and accompanied by effective domestic regulations. Flanking policies and macroeconomic conditions also played important roles in determining the effects of financial services liberalization.

59. Participants highlighted the importance of universal access to financial services for development, suggesting that this illustrated the need to complement market mechanisms. Credit was generally accessible for large firms with established credit histories and tangible assets to collateral loans. However, for small and medium-sized enterprises (SMEs), many in the informal sector, and most without a demonstrable credit history, access remained difficult. In Kenya, the Government implemented universal access policies helping farmers/rural inhabitants access credit/savings facilities. In Bangladesh, Grameen-Bank supported entrepreneurship, invigorating rural economies.

60. The case of Zambia illustrated the importance of integrated and well-sequenced policy reforms, and of having the right preconditions for reaping development benefits from liberalization. After financial services liberalization (1992), several banks entered; without sound regulatory frameworks, nine banks collapsed. Even after establishing regulatory frameworks, the sector confronted cherry-picking. Together with generally non-conducive macroeconomic conditions and enhanced bank borrowings, this resulted in little credit being available for private enterprises.

61. To enhance developing countries' policy design, there was need for better (a) understanding of the appropriate policy mix and reforms for building competitive financial services and domestic supply capacity; (b) knowledge about factors affecting foreign financial institutions' decisions to enter/exit developing markets and attendant development implications; (c) data-collection and methodologies; and (d) understanding of developing countries' export opportunities.

C. Experiences with regulatory reform

62. The importance of proper policy, regulatory, supervisory and institutional frameworks for assuring development gains from financial services liberalization highlighted the need to properly pace and design regulatory reforms. Financial sector reform included liberalization of trade in financial services and financial liberalization. Liberalization of trade in financial services formed part of a broader financial liberalization process. The latter included removal of distortions in domestic financial systems that impeded efficient allocation of capital. It included domestic deregulation, internationalization of financial services and capital-account opening. Liberalization of trade in financial services did not automatically mean capital-account liberalization, but linkages existed, as evidenced by footnote 8 of the General Agreement on Trade in Services (GATS). Experiences with capital-account liberalization emphasized the importance of preconditions for liberalization to generate benefits.

63. Many countries had undergone regulatory reform, frequently in dynamic and rapidly evolving domestic and international environments.

64. For Egypt, reform was a gradual, step-by-step process involving the institutional and regulatory fronts. Main principles included recognizing that financial services were a driving engine for the economy and that market forces played a role in improving the financial system's efficiency. Egypt's reforms covered all subsectors: foreign exchange, banking, capital markets, mortgage finance and insurance. Reforms also included the introduction of Islamic financial instruments (e.g. mudarba, takaful and Islamic mutual funds) and non-banking financial instruments (e.g. leasing and factoring). Next steps included the establishment of a single regulator. Remaining challenges related to hot money and shifting from compliance-based to risk-management-based supervision. Egypt aimed at attracting well-qualified professionals to upgrade

regulatory environments and move towards a single non-banking financial regulator.

65. After the 1997–98 Asian financial crisis, Malaysia undertook comprehensive regulatory reforms with a view to ensuring that its capital market became an efficient conduit for mobilizing and allocating funds. By 2007, the capital market had expanded from 200 billion ringgit (RM) in 1990 to 1.6 trillion RM in 2007, with foreign participation amounting to 34 per cent. The regulatory framework transitioned from a prescriptive, detailed approach to a principles-based/declaratory one. Malaysia had diversified sources of financing by expanding capital market products and services, and developing the bond market (hence reducing systemic risk); it considered that strong and facilitative frameworks were critical in boosting investor confidence (particularly regarding corporate governance, accounting standards, transparency and disclosure).

66. Kenya’s reform began in 1989 with structural adjustment programmes of the World Bank, including liberalization of interest rates, exchange rates and capital accounts. Further steps included regulations to attract foreign capital, granting autonomy to the Central Bank and establishing a capital market authority to oversee the development of an equities market. Since December 2006, banks had to share information on non-performing loans. Remaining challenges included (a) making financial services more affordable to the general public (especially in rural areas); (b) moving away from the current sector domination by a few institutions; and (c) privatizing publicly-owned commercial banks.

67. Argentina’s economic and institutional reforms of the 1990s included trade and services liberalization, capital-account opening, a new Central Bank charter, regulations for banking supervision and national treatment for foreign banks. After the crisis, new requirements were set on minimum capital and for registration of insurance companies. Amongst others, this enhanced concentration and favoured national capital-insurance companies. After six years of growth, the economy, the financial system and investment recovered, but access to financial services remained a challenge.

68. The experiences of the Islamic Republic of Iran with financial sector reform went from the nationalization of commercial banks and the prohibition of foreign banks (1979) to authorization of private banking (2001). Main reform objectives included improving the regulatory framework and fostering competition. Challenges remained in the transitional period: State-owned banking was still the major provider of lending and the public sector continued to dominate. Afghanistan reported on its regulatory reforms since 2002 with the key challenge being to move away from a fully informal banking sector. Afghan businesses faced almost complete lack of insurance, further complicating business/investment development. The Russian Federation’s comprehensive legislative/regulatory framework (a) granted national treatment for foreign investors in banking, including greenfield investments; (b) allowed for acquisitions of Russian banks; (c) allowed banks to own insurance companies/stock brokerages; and (d) had liberal foreign exchange legislation. The challenge was that high-quality legislation was combined with poor implementation and new laws sometimes lagged behind market developments.

69. Numerous other issues were raised regarding regulatory reforms: (a) methods to successfully develop a stock market (b) the informal sector, (c) measures to reduce the role of the State; and (d) the importance of moving from compliance-based to risk-based supervision. Lessons learned included the following: (a) market forces could bring benefits, but liberalization needed to be

complemented by efforts to prevent contagion; (b) complex international financial services transactions required strong supervisory bodies and quality financial institutions; (c) adaptability and pragmatism were essential in this process of regulatory development; and (d) the proper timing, pacing and sequencing between regulatory and institutional development and financial services liberalization were crucial.

D. Financial crises

70. The importance of proper pacing and sequencing of regulatory reform and liberalization as central elements for deriving development benefits from liberalization was underscored by experiences with financial crises, including crises centred in debt and equity markets and recent contagions emerging from industrialized countries. Participants found that crises highlighted the fragility of world markets and the need for increased – and better – regulation.

71. Financial crises highlighted the risks of failure of domestic/international legal/regulatory institutions. In developing countries experiencing currency crises/banking failures, these were often preceded by financial liberalization. Similarly, countries had financial crises due to premature capital-account liberalization. While the latter was an essential in economic development, small countries had to be cautious as markets were not always rational. More recently, industrialized countries also experienced problems/crises, with Northern Rock (United Kingdom) as an example.

72. Reasons for and lessons from financial crises were recurring topics. The fact that the recent lending crises in the United Kingdom and the United States subprime market emerged in two of the world's most regulated markets did not diminish the need for regulation. Instead, it called for more – and more intelligent – regulation. In a world characterized by major global imbalances, speculative trends and aggravating structural imbalances, financial crises were to some extent inevitable. Moreover, structural differences between financial and goods markets made the financial sector more vulnerable to crises. The financial services sector essentially dealt with the unknown future and lacked the systematic productivity increases typical for goods sectors. Hence, financial services providers pursued higher rates of return through excessively risky behaviour.

73. Lessons were drawn from earlier financial crises, including regarding dynamics characterizing the respective policy discourse: while crises in emerging markets tended to be labelled as such and attributed to mismanagement/misconduct in regulatory, institutional and policy settings, such negative connotations appeared absent with respect to crises emerging in industrialized markets.

74. The Malaysian financial crisis exposed excessive reliance on bank financing, excessive credit expansion to non-tradable sectors, translating into risk of insolvency and credit risk – requiring a rapid response. Lessons learned included (a) avoiding ad hoc/uncoordinated rulemaking as a response to crises; (b) using growth periods to carry out reforms; and (c) comprehensively and continuously monitoring potential risks. After the crisis, Malaysia embarked on a programmed approach to comprehensively developing its capital market.

75. In 2001, a twin (currency/finance) crisis hit Argentina, impacting the credit vs. GDP ratio. Responding to the crisis, the Central Bank accumulated international reserves to protect the local currency and set up a system of compensation with the State partially covering bank debts. Crisis consequences

included (a) lost confidence in Argentina's capacity to service debt, prompting foreign financial services firms to leave the country, leaving clients unserved/disappointed (foreign banks' market share decreased from 43.8 per cent (2000) to 30.4 per cent (2007) i.e. from 21 to 12 banks); and (b) social/economic consequences. Questions arose as to why foreign entities were not providing as much long-term credit to companies as local entities were. While the crisis hit everyone equally, foreign banks took longer to restart lending and remained reluctant to grant long-term loans.

76. In Thailand, rapid/premature autonomous liberalization of the domestic financial system, combined with capital-account liberalization, brought significant capital inflows, ultimately causing over-investment, vulnerability and abrupt reversals of flows. This was followed by a period of restructuring, strengthening legal infrastructures/supervisory regimes, increasing competition and entry of new players to improve efficiency (financial sector master plan). GATS commitments were used to enhance credibility of reforms.

77. Lessons learned from this and previous financial crises included the following: (a) an unrestrained and unregulated private financial sector could bring financial instability, effectively jeopardizing the rest of the economy; (b) more and better regulation was needed at both the national and international levels; (c) developing countries should build stronger linkages between banks, other financial institutions and central banks (the last as lender of last resort). While responses to crises should avoid ad hoc actions, flexibility was needed, hence the importance of maintaining the full scope of the GATS prudential carve-out.

E. Regulatory issues

78. Main roles of financial services regulation included controlling systemic risk, ensuring financial stability, protecting investors, preventing financial crime and enhancing access to financial services. When devising regulatory/institutional frameworks, regulators faced numerous challenges. The best-fit approach varied according to the country's stage of development.

79. Some warned about what they called a regulatory avalanche, suggesting that regulations were costly to implement, that complex regulations adversely affected the entry of smaller enterprises into the financial services sector, and that regulators should avoid hasty actions in the wake of crisis. Others emphasized that regulation might be costly but that it was also necessary, and that overall costs of regulation would be less than costs of crises they helped avert. Financial liberalization without proper regulation against external shocks could have far-reaching effects, particularly for developing countries. Hence, there was a need for effective/appropriate regulatory/institutional frameworks. A vibrant financial services market and effective regulation were two sides of the same coin.

80. Regulation could be principles-based or rules-based. Benefits of principles-based regulation (e.g. in the United Kingdom) included the flexibility to rapidly respond to the continuously changing financial marketplace. Focusing on outcomes rather than prescription was more likely to support development and innovation. Moreover, implementation of principles was supported by comprehensive and prescriptive rules. Benefits of a rules-based approach (e.g. the United States) included legal predictability, by ensuring that regulatory discretion was circumscribed by specific rules. In parallel, there were moves towards a principles-based approach. An effective regulatory system should combine the two.

81. Structural issues (e.g. related to choosing between one or multiple regulators, proliferating financial instruments, increasing convergence between different financial services activities (bancassurance) and rising numbers of conglomerates providing complex/related services) posed challenges for the traditional way of regulating financial services (subsector by subsector) in a coherent manner. Some countries established single regulators, where regulatory/supervisory functions for banking, insurance, securities and other financial products were undertaken jointly by one regulator. Egypt, for example, envisaged this. While this might be efficiently responding to conglomeration, it also raised challenges, particularly because of differences in the objectives pursued by regulation across subsectors: for a single regulator, discharging its functions could pose challenges, particularly in developing countries, which frequently lacked well-trained personnel. Countries might wish to assess benefits/costs associated with single or multiple regulators.

82. Another key challenge was the sharing of regulatory responsibilities between home and host country regulators and supervisors. The Basel Committee's 1983 Principles for the Supervision of Banks' Foreign Establishments (i.e. Revised Basel Concordat) provided two options for the host country in case of inadequate home country supervision: the host country could deny entry to banks or impose specific conditions on conduct of foreign banks. The key principle of "consolidated supervision" allowed host country authorities to gather information and impose restrictive measures, and encouraged host-home country agreement on how to address cross-border establishments. The Basel Committee also published guidance on home-host information sharing for effective implementation of the principles (2006). Basel II addressed home-host country cooperation, by establishing principles for potential conflict between the two. Although Basel II did not alter legal responsibilities of national supervisors, some host States applied Basel II to local operations of foreign banks.

83. Another challenge related to the increasing proliferation of regulation at the international level. Innovative international-regional coordination of regulation could help avoid a short-sighted race to the bottom, where countries tried to out-compete their neighbours. However, local elements would still be necessary and there were questions about the ideal combination of global and local elements. When looking for the right mix between global and local, ideally, principles should be international but they should be implemented locally – in different manners. The Basel Core Principles for Effective Banking Supervision represented a useful starting point.

84. Some argued that financial services standards were negotiated without adequate participation from developing countries or from civil society. Developing countries faced particular challenges with international forums, because membership fees impeded their participation; they thus had difficulties when introducing global elements into domestic frameworks. Regarding Basel II, there was an outreach/consultation process for its adoption and implementation. It was discussed whether developing countries should follow Basel II – which was voluntary – or the Basel Core Principles instead. The Basel Committee only stressed the desirability of implementing Core Principles. There was the suggestion that developing countries should not rush to adopt Basel II, as it represented a long road of commitments, designed for industrialized countries. Basel II might be appropriate for developing countries with more advanced financial systems or many internationally active banks, and which met the conditions of Core Principles. There was the suggestion that Basel II needed further updating accounting for conditions in developing countries.

85. The meeting addressed challenges arising from different pillars of Basel II. One came from the fact that for some banks in some jurisdictions, implementing Basel II required higher capital (e.g. for operational risk and because of new accounting standard which recognized losses), which could make bank operations more costly. State-owned banks in developing countries (those reluctant to privatize) might have problems raising capital. Another challenge was related to large proportions of unrated borrowers, possibly posing difficulties for Basel II implementation. Practically speaking, disincentives to be rated could arise and efforts to increase ratings penetration at national levels brought challenges. It was noted that, while preferential retail risk weighted for retail lending could provide more credit access for consumers, crisis history suggested caution (e.g. the Republic of Korea’s problems concerning default of credit card payments).

86. Developing countries’ challenges arose from needs to adapt international standards to local conditions, and shifting from external standards to interactive processes. For successfully implementing the latter, developing country regulators required technical expertise. Regarding Basel Core Principles and pillar 2, developing countries had varying degrees of success in addressing, e.g. strategies for effective supervision, lack of consolidated supervision, deficiencies in risk management, problems in measuring bank performance and inadequate remedial measures.

87. The International Association of Insurance Supervisors (IAIS) aimed to protect policyholders and promote well-regulated, stable insurance markets. This required well-developed legal, accounting and financial infrastructures, sound rules for market entry and competent regulatory/supervisory authorities with adequate power. Given the global nature of the insurance business, supervisors needed to cooperate in setting and implementing standards for supervision, and there was a need for convergence and mutual recognition of regulatory frameworks. Insurance supervision was built on three aspects: preconditions for insurance market development, regulatory requirements and supervisory action. Participants asked about developing countries’ involvement in IAIS activities. In its standard-implementation roadmap (2007–2009) IAIS aimed to enhance developing countries’ institutional capabilities (e.g. through training seminars, distance learning and exchanging experiences and skills among experts from different jurisdictions). Future standard-setting work addressed (a) standards in current development; (b) standards to be maintained; and (c) standards in the preparatory phase.

88. The meeting also addressed other development-related issues. Technical assistance/capacity-building (e.g. by the Financial Stability Institute) focused on incorporating standards into local frameworks (corporate governance) and the need for synergetic relationships between financial services firms and regulators. Questions arose regarding countries with federal structures or regional blocks, where suppliers had to deal with numerous regulators and regulations across the system (e.g. interstate trade in insurance services in the United States).

89. While the need for well-working prudential, regulatory and institutional systems was evident, implementing them generated challenges, particularly in developing countries. They lacked human resources/technical expertise for regulatory agencies and for participation in international standard-setting bodies. Enhanced technical assistance/capacity-building was needed.

F. Liberalization of financial services trade through negotiations

1. Multilateral

90. GATS covered three main financial services sectors: banking, insurance and securities. Some emphasized that GATS did not advocate liberalization for its own sake, but that liberalization was an ingredient for countries' financial services policies. They stressed that GATS did not interfere with regulatory authority (e.g. regarding transparency, entry or exit rules to the market, or any other regulations necessary to ensure a well-functioning financial services market), but instead would bring considerable benefits. Others suggested that commitments would amount to restrictions for regulations/policies, and pointed to the potentially problematic implications of certain GATS provisions and market-opening commitments (provisions in the "Understanding", e.g. on new financial products). In this view, some requests in GATS or in regional contexts asked to remove the impact of restrictions and limitations on domestic regulatory frameworks, including prudential regulations.

91. Participants examined experience with financial crises and impacts on GATS and other commitments. In Argentina, for example, measures responding to the crisis were passed without changing GATS commitments. In Thailand, GATS commitments were used to enhance credibility of government measures responding to the crisis. In parallel, developing countries expressed concern that committing to the "Understanding" would be too far-reaching and attempts to narrow the prudential carve-out would be inappropriate.

92. The Hong Kong Ministerial Declaration (HKMD) addressed modes/sectors of coverage and plurilateral negotiations. The interplay with negotiations on non-agricultural market access and agriculture made it difficult to gauge progress. Some flagged the need for political decisions to build confidence and enhance results, particularly in financial services. Others cautioned that there was no need for a new "services text", given that HKMD and GATS negotiating guidelines already provided modalities. If there were to be a "services text", it should provide dates for the submission of revised offers, but otherwise not go beyond HKMD and the negotiating guidelines.

93. The financial services sector was a priority. Members' financial services commitments in the extended post-Uruguay Round negotiations ranked second (after tourism). When concluding the extended negotiations, commitments were close to actual regulatory practices. However, some members, including industrialized countries, still maintained restrictions on, e.g. branching, number of entrants and foreign equity, with sometimes differing regulations at sub-federal levels. Some acceding countries had made far-reaching financial services commitments.

94. In February 2006, 10 members presented to 21 developing country members a plurilateral request on financial services, calling for (a) enhanced commitments on Modes 1 and 2 for all annex subsectors; (b) minimum cluster of commitments as per the Understanding in specific sectors; (c) elimination of certain Mode 3 limitations; (d) greater freedom for intra-corporate transferees/contractual services suppliers; and (e) modification of domestic regulations on minimum capital requirements.

95. Some countries received far-reaching requests despite extensive financial services commitments and recent crises. Scheduling suggestions to retain policy space for vital regulations included (a) using a positive-list approach (annex) instead of the Understanding; (b) carefully circumscribing commitments (e.g. Mode 1 and 2 interface); and (c) requiring concessions (also for status quo

commitments). While the GATS framework was flexible and development-friendly, this had to be operationalized through members' application and implementation of flexibilities.

96. Requests for far-reaching financial services liberalization were typical of WTO accession negotiations. Participants discussed challenges and impacts from accession. Direct branching tended to be central in accession negotiations; phased-in commitments were frequent solutions. In the case of the Russian Federation, different scenarios had been taken regarding possible impacts of accession. Some were optimistic (e.g. expecting enhanced capitalization, transparency and wider product range); others were neutral or feared "catastrophic" implications (e.g. that accession would reduce the autonomy and role of domestic financial systems and bring risks of losing lucrative market segments).

97. Prudential regulations and the prudential carve-out were recurring topics. While using prudential measures for protectionism should be discouraged, the role of prudential regulation in preserving services stability was recognized. The need for stable/effective regulatory/supervisory structures made regulators reluctant to fully liberalize financial services. Members' schedules contained numerous market access restrictions referring to regulatory or prudential requirements, despite the prudential carve-out. The prudential carve-out represented a fine balance – it could be interpreted broadly or narrowly.

98. The meeting discussed the relationship between the prudential carve-out and possible future disciplines on domestic regulation negotiated under the GATS article VI:4 mandate. A necessity test and limitations on domestic regulation could limit national sovereignty. According to some, the prudential carve-out was an exception (tantamount to GATS article XIV) which would override any other GATS provision, including any future domestic regulation disciplines. However, the legal nature of future disciplines remained to be determined and regional experiences with industrialized countries narrowing the scope of the prudential carve-out suggested caution. The 2006 Thai bat crisis (highlighting inadequate market mechanisms requiring temporary currency controls), suggested that reliance on the prudential carve-out could be crucial.

99. Discussions addressed issues related to capital-account liberalization. GATS contained provisions relating to those payments and capital transfers essential to the implementation of commitments (e.g. the case of market access commitments in Modes 1 and 3. GATS article XI aimed to ensure that commitments were not frustrated where capital transfer was essential. There was a need to understand the extent of GATS footnote 8 regarding capital transfers. Particularly, accession countries faced the question of whether footnote 8 and article XI required liberalizing current-account transactions. Several acceding countries maintained restrictions to movement of foreign exchange.

100. Lack of understanding persisted regarding implications of GATS commitments on trade and development, including investment (e.g. whether they effectively enhanced credibility, altered market structures or impacted on other sectors). Questions also remained regarding technicalities of trade rules applying to financial services (e.g. linkages between modes, future disciplines and prudential carve-out, commitments and capital-account liberalization).

101. Many developing countries stressed the need to carefully circumscribe commitments, particularly given the importance of regulation, as evidenced by recent financial crises. Caution was warranted to not unduly narrow the prudential carve-out or expand provisions on access for new financial products. Better coordination between regulators and trade negotiators (involving all

stakeholders) could help ensure well-informed/coherent commitments. Moreover, there was need to ensure pro-development sequencing between autonomous liberalization and GATS/RTA commitments.

102. Attention also had to be given to Mode 4-related issues, which were of prime importance for developing countries. For financial services, the "Understanding" contained provisions for certain types of temporary movement, notably senior managerial personnel and specialists.

2. Regional

103. Regional approaches included liberalization of financial services and cooperative mechanisms. Regional monetary and financial cooperation complemented deepening regional trade integration. Free trade agreements (FTAs) tended to be GATS plus-plus, with more liberalization and more regulatory commitments (e.g. necessity test for prudential carve-out), sometimes asking for liberalization of capital movements. All this directly touched the financial services regulation.

104. Financial services chapters in FTAs varied depending on whether the RTA was North-South or South-South. South-South RTAs seldom included substantive financial services commitments. North-South FTAs tended to include far-reaching financial services commitments, particularly when involving major trading partners. Negotiations of RTAs tended to follow two standard models: countries less confident in making commitments chose a positive listing (GATS), whereas others chose a negative listing (North American Free Trade Agreement (NAFTA)). For some, new liberalization commitments were important (effectively removing existing restrictions), while others might use FTAs to lock in unilateral liberalization or commit to less than the status quo.

105. In Latin America, Mexico (NAFTA) was the early pioneer of financial services, followed by Chile and more recently FTAs involving countries in Central America and the Andean Community of Nations. The Association of South-East Asian Nations (ASEAN) discussed whether financial services commitments should be more open than those in WTO; the roadmap for financial services integration aimed at strengthening regional self-help and support-mechanisms. Africa exhibited several (not always fully operational) initiatives for regional integration of financial markets. For example, the West African Economic and Monetary Union (WAEMU), the Central African Economic and Monetary Community (CEMAC), and the South African Development Community (SADC) identified financial services as a priority sector. Integrating national financial structures was an explicit goal of the Common Market for Eastern and Southern Africa (COMESA). Participants frequently referred to Economic Partnership Agreement negotiations, which experienced a push for further services commitments and liberalization, even though LDCs were not required to make commitments in GATS.

106. Progress on financial services remained absent in customs unions (e.g. the Andean Community, the Central American Common Markets and Southern Common Market (MERCOSUR)); common markets tended to have wider mandates than financial services. Frequently, there was caution when moving towards a single market (Caribbean Community) emphasizing instead cooperation, sometimes without liberalization.

107. There was a question as to whether market opening in FTAs attracted foreign investors. It was suggested to look beyond liberalization, to address issues such as market structure and characteristics, legal environments and

institutions. Regional cooperation in institution-building for financial services supervisory, regulatory and institutional structures was considered important.

108. Regional financial integration could generate regional players able to compete internationally. RTAs involving small neighbouring developing countries could help increase small markets' attractiveness for foreign firms. Regional cooperation on regulatory/institutional issues could help address developing country capacity constraints. Regional approaches, particularly South-South, could show sensitivity to local conditions and effective ownership, helping reconcile different national needs and objectives, as well as international opportunities and constraints. There was a need to ensure pro-development synchronization between regional liberalization on South-South and North-South bases and coherence between multilateral and regional approaches. .

G. UNCTAD's work

109. The meeting discussed numerous challenges – pros and cons - regarding liberalization of financial services, and respective negotiations on financial services in trade agreements. Questions addressed multiple issues, with numerous suggestions for UNCTAD to continue and strengthen its work in the areas of financial services in a number of areas. With a view to contributing to ensuring the viability and stability of the financial system, UNCTAD should, for example:

(a) Contribute to strengthening developing countries' financial services sectors and supply capacity, including by identifying policy frameworks for strengthening supply capacity and realizing export potentials (e.g. Islamic banking, microfinancing and outsourcing);

(b) Assist developing countries undertaking policy reviews of financial services sectors and strengthen their analytical capacity, including through assessments (e.g. regulatory, economic and social) of financial services trade liberalization;

(c) Support developing countries in institution-building, developing regulatory frameworks and international standard-setting, to prepare their domestic financial services sectors for challenges from liberalization and ensure that liberalization generated development benefits;

(d) Assist developing countries in reaping benefits from the international trading system and trade negotiations, including by enhancing common understanding and awareness about implications of international trade rules covering financial services and attendant challenges at regional and multilateral fronts, and by providing technical assistance/capacity-building (demand-driven, needs-based and sustained) to developing countries, particularly LDCs and vulnerable economies involved in trade or WTO accession negotiations;

(e) Support developing countries in harnessing regionalism for development, by assisting with financial services-related liberalization and cooperation (e.g. regulatory/institution-building) under RTAs and regional frameworks comprehensively dealing with these issues.

III. Organizational matters

A. Convening of the expert meeting

110. The expert meeting on trade and development implications of financial services and commodity exchanges was held at the Palais des Nations, Geneva, on 3 and 20–21 September 2007.

B. Election of officers

(Agenda item 1)

111. At its opening meeting, the expert meeting elected the following officers to serve on its bureau:

Chair:	H.E. Ambassador Kwabena Baah-Duodu (Ghana) (replaced by Ambassador Yonov Frederick Agah (Nigeria) for the second part of the meeting)
Vice-Chair-cum-Rapporteur:	Mr. Patrick Catania (United States)

C. Adoption of the agenda and organization of work

(Agenda item 2)

112. At the same meeting, the expert meeting adopted the provisional agenda circulated in document TD/B/COM.1/EM.33/1. The agenda for the meeting was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Trade and development implications of commodity exchanges
4. Trade and development implications of financial services
5. Adoption of the report of the meeting

D. Documentation

113. For its consideration of the substantive agenda item, the expert meeting had before it a background note by the UNCTAD secretariat entitled "The development role of commodity exchanges" (TD/B/COM.1/EM.33/2).

E. Adoption of the report of the meeting

(Agenda item 5)

114. At its closing meeting, the expert meeting authorized the Rapporteur to prepare the final report of the meeting under the authority of the Chair.

Annex

Attendance*

1. Experts from the following States members of the Trade and Development Board attended the meeting:

Afghanistan
Algeria
Angola
Argentina
Azerbaijan
Bahamas
Bangladesh
Barbados
Belarus
Benin
Bhutan
Bosnia and Herzegovina
Botswana
Brazil
Bulgaria
Cambodia
Cameroon
Canada
China
Congo
Côte d'Ivoire
Cuba
Dominican Republic
Ecuador
Egypt
El Salvador
Ethiopia
Finland
Gambia
Ghana
Guatemala
Guinea
Haiti
Honduras
India
Indonesia
Iran (Islamic Republic of)
Iraq
Jordan
Kenya
Lao People's Democratic Republic
Libyan Arab Jamahiriya
Madagascar
Malaysia
Mali
Mauritania
Mauritius
Mexico
Morocco
Nepal
Nigeria
Oman
Panama
Poland
Russian Federation
Samoa
Saudi Arabia
Serbia
South Africa
Spain
Sri Lanka
Sudan
Swaziland
Switzerland
Syrian Arab Republic
Thailand
The former Yugoslav Republic of Macedonia
Turkey
Uganda
United Republic of Tanzania
United States of America
Venezuela (Bolivarian Republic of)
Viet Nam
Yemen
Zambia
Zimbabwe

2. The following intergovernmental organizations were represented at the meeting:

African Union
Common Market for Eastern and Southern Africa
League of Arab States
Organization for Economic Cooperation and Development
Organisation Internationale de la Francophonie

* For the list of participants, see TD/B/COM.1/EM.33/INF.1.

3. The following United Nations agency was represented at the meeting:

Economic Commission for Africa
International Trade Center

4. The following specialized agencies and related organizations were represented at the meeting:

International Monetary Fund
United Nations Industrial Development Organization
World Bank

5. The following non-governmental organization attended the meeting:

General category:

BPW International
Christian Aid
Third World Network
World Council of Churches

6. The following panellists attended the meeting:

Mr. Alexis Aning, Executive Director, Commodities Clearing House, Ghana
Ms. Ann Berg, Independent Consultant, United States
Ms. Eleni Gabre-Madhin, Programme Leader, IFPRI/Ethiopian Commodity Exchange (ECEX), Ethiopia
Mr. Ian Goggin, CEO, Agricultural Commodity Exchange for Africa (ACE), Malawi
Mr. Rod Gravelet-Blondin, Head, Agricultural Products Division, JSE/SAFEX Ltd, South Africa
Mr. Lamon Rutten, Joint Managing Director, Multi Commodity Exchange (MCX) of India
Mr. Alexander Belozertsev, Project Manager, the Canada-Ukraine Grain Project, Russian Federation/Ukraine
Ms. Andrea Corcoran, Managing Director – Promontory Financial Group, United States
Mr. B.C. Khatua, Chairman, Forward Markets Commission (FMC), India
Mr. John Mathias, Director, Financial Futures and Options, Merrill Lynch, United Kingdom
Mr. Diarmuid O’Hegarty, Executive Director: Regulation and Compliance, London Metal Exchange (LME), United Kingdom
Ms. Karen Wuertz, Senior Vice President – Strategic Planning and Communications, National Futures Association, United States
Mr. Anthony Adendorff, CEO, Pan-African Commodities Platform (PACP), Botswana
Ms. Julie Dana, Technical Specialist, World Bank Commodity Risk Management Group, United States
Mr. Kevin Potter, CEO, Sandbox Comdaq, South Africa