

## A New Strategy for the Uganda Commodity Exchange

- USAID requested COMPETE's guidance on developing a strategy to improve the Uganda Commodity Exchange (UCE) that has not been trading grain since its inception and has been struggling as its new role as regulator of the WRS system in Uganda.
- Some of the most evident problems based on COMPETE's experience working with the UCE include:
- UCE does not have a membership base nor does it have an active Board of Directors. There is no private sector support for the exchange at present.
- The UCE has been entirely dependent on donor funding and appears to have no concrete plan for becoming sustainable in the medium term.
- The UCE to all intents and purposes is operating as a parastatal organization, currently relying on funding through the Government of Uganda.
- The UCE has shifted focus from a Commodity Exchange institution itself to the warehouse receipt system, as a means of providing "comfort" to buyers and sellers that the other party will perform on the contract, based on the fact that the goods to be traded are in fact available in the quantity and of the quality on the warehouse receipt.
- The UCE has been appointed the government regulator for the WRS program as well as responsibility for handling the commodity trades.
- UCE has 40,000 metric tons of storage at its disposal, but since 2008 has handled only 4,333 metric tons for the WFP and 7,005 metric tons for other market participants. The volume of storage available will soon be increased by a further 3,000 metric tons. However, storage is vastly underutilized.
- UCE indicates that it requires additional 50,000 metric tons of storage space in order to make the WRS viable, but seemingly has no plans to use the exchange floor to conduct sufficient grain trading to make optimum use of this space.
- Commercially viable WRs involve complex institutional and market infrastructures, including: adequate legislation, limited government intervention in markets, a reliable regulatory agency, transparent licensing and inspection services, grades and standards in place, access to reliable market information, critical volumes and/or products to cover administrative costs (*Economies of Scale and Scope*), and financial institutions committed to developing WRs product policies, procedures and commit financial resources.
- All these components involve transaction costs, therefore a new approach / strategy should consider a systemic approach to solve UCE's sustainability challenges.