Feasibility Studies on Futures Exchange for Agricultural Commodities in Kosovo

CBK Award to Young Economists

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Problem Statement

The aim of this paper is to study the possibility of Kosovo to develop an agricultural futures market. The paper will analyze three main agricultural products: cereals (wheat, corn, and maize), fruits (pears and apples), and vegetables (potatoes), with the main focus on vegetables, respectively potatoes. Those three main categories were chosen because based on economic data, Kosovo has comparative advantage on producing those goods. Furthermore, Kosovo exports potatoes, which means that it already has some experience on trading such commodities.

The main role of futures contracts is to contribute toward the economic development of Kosovo. The main countries Kosovo exports potatoes are Western Balkan countries, with Albania being the leading country. Based on historical prices, Kosovo exports potatoes at 20-25 cents per kilogram (Statistical Agency of Kosovo). In March 2009, as a mean to protect their local producers of potatoes, Albania introduced an import tariff of 20% in the imported potatoes from Kosovo. This 20% import tariff was put on the estimated price of 50 cents per kilogram, which was determined based on the Albanian local demand price for potatoes. However, this price did not present the real market price of potatoes. It meant that Kosovar producers needed to pay 20% import tariff in a price of 50 cents, adding 11 cents for transportation and carrying costs. In other words, costs for Kosovo potatoes doubled, driving Kosovar producers out of the Albanian market. Potatoes that were meant to be exported in Albania ended up in Kosovo market. With huge supplies of potatoes in Kosovar market, the price per kilogram of potatoes decreased, causing huge losses to potato producer in Kosovo. The case of potato exports in Albania is only one example how Kosovar producer can encounter unexpected losses. If futures contracts were existent in Kosovo at that time, Kosovar producers would agree in advance for the amount of potatoes that would be sold and the selling price.
**Forward and Futures Contracts**

Forward contracts were the first contract used on the trade of commodities. A forward contract is an agreement to sell or buy an item for a certain price at a future time. A futures contract is a contract to buy or sell an asset at a price in a future time, with the only difference from forwards, the standardization of the contract (Hull, p.6). Whereas forwards use usually one date when the commodity must be delivered to the buyer, futures have many delivery dates, meaning commodities can be delivered based on buyer and seller agreement. The losses and gains from forward contract are collateralized at the end of the contract, while for futures they are calculated on daily basis. Futures contracts are usually closed before the contracted day of expiration. Because futures contracts are exchange traded they have margins, which protects the buyer/seller from other party default; however, forward contracts are private contracts, therefore, they contain some default risk. Main differences between forwards and futures contracts are summarized in the table below:

<table>
<thead>
<tr>
<th>Forwards</th>
<th>Futures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private contract between two parties</td>
<td>Exchange traded</td>
</tr>
<tr>
<td>Non-standard contract</td>
<td>Standard contract</td>
</tr>
<tr>
<td>Usually 1 specified delivery date</td>
<td>Range of delivery dates</td>
</tr>
<tr>
<td>Settled at the end of contract</td>
<td>Settled daily</td>
</tr>
<tr>
<td>Delivery of final cash settlement usually occurs</td>
<td>Contract usually closed out prior to maturity</td>
</tr>
<tr>
<td>Some credit risk</td>
<td>Virtually no credit risk</td>
</tr>
</tbody>
</table>

*Table 1: Comparison between futures and forwards contract. Source: Hull, John C. Options, Futures, and Other Derivatives*
Futures Fundamentals: Strategies

Going Long

When an individual or entity goes long, it means that he/she has entered in an agreement to buy agriculture commodities with a specific price at a specific time. This means that the buyer is anticipating that there is going to be a price increase of that commodity, so that they can sell the commodity with a higher price than initially agreed to buy it.

When an individual goes long, it means that the price agreed for purchase of commodity is at $K_1$ price for a specific time in the future. If at the end of the contract the commodity price is at $K_1$ the buyer is going to lose by the difference between $K$ and $K_1$. If the price is going to be exactly $K$, then the buyer is going to break even. The buyer is going to gain only if the price is more than $K$; meaning if the price is at $K_2$ the buyer is going to gain by the difference between $K_2$ and $K$. Thus, the payoff for a long position is $S_T - K$.

Going Short

When an individual or entity goes short, it means that they have entered in an agreement to sell agriculture commodities with a specific price in a specific time. This means that the seller is anticipating that there is going to be a price decrease on that commodity, so that the commodity can be sold at a higher price than that of the market.

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1. Strike price – the price the buyer and seller agreed to pay in the future
2. Spot price – today’s price in the market
When an individual goes short, it means that they have agreed to sell at \( K \) price for a specific time in the future. If at the end of the contract the commodity price is at \( K_1 \) the seller is going to gain by the difference between \( K \) and \( K_1 \). If the price is going to be exactly \( K \), then the seller is going to break even. The seller is going to lose if the price is more than \( K \), meaning if the price is at \( K_2 \) the seller is going to lose by the difference between \( K_2 \) and \( K \). Thus, the payoff for a short position is \( K - S_T \).

**Futures Market Participants**

**Hedge/Hedgers**

Hedgers are people who use futures to reduce a particular market risk that they face. This risk might be related to the supply of a particular commodity, price, foreign exchange rate and other market factors. The argument behind hedging is for investors to protect themselves against variables they do not have control over (Hull p.50). There are two types of hedge: long and short hedge.

**Speculation/Speculators**

Contrary from hedgers, speculators seek to take price risk and benefit from future decline or increase in the price of underlying commodity. Speculators usually do not own the commodity; they enter in futures market with the aim to buy and sell commodities only for profit purposes. Two core functions of the speculators are that they keep the market active and they influence the market price for futures commodities.
Arbitrage Opportunity/ Arbitrageurs

“Arbitrage opportunity involves locking in a riskless profit by simultaneously entering into transactions in two or more markets.” (Hull p.14) Arbitrage opportunity happens when the same asset is traded with different price in different countries; same asset futures price is estimated differently in one country and differently in another country; and there is no same price movement between countries (How to Use Arbitrage Opportunities in Commodities).

Economic Background of Kosovo

Exports/Imports of agricultural products

Kosovo exports most of its agricultural products with western Balkan countries. As it can be seen from the table below, in 2008, Kosovo exported €6.4 million value of agricultural products in Albania, and €4.6 value in Macedonia (Economic Report Kosovo 2013). The biggest categories of agricultural products exported are vegetables, followed by cereals, and beverages (Agricultural Household Survey 2005).

<table>
<thead>
<tr>
<th>Name of the product</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vegetables</td>
<td>3,010,785.04</td>
<td>3,634,802.03</td>
</tr>
<tr>
<td>Cereals</td>
<td>2,112,641.05</td>
<td>2,846,438.30</td>
</tr>
<tr>
<td>Vegetable Processing</td>
<td>3,108,593.07</td>
<td>3,030,694.13</td>
</tr>
<tr>
<td>Beverages and alcoholic drinks</td>
<td>2,964,316.00</td>
<td>5,606,464.01</td>
</tr>
</tbody>
</table>

Table 2: Biggest agricultural categories exported. Source: Shkëmbimi Tregtar I Produkteve Bujqësore, Ministry of Agriculture, Forest, and Rural Development in Kosovo

3 Because of the lack of recent data, 2008 was used so the audience could have an understanding of what agricultural products are exported in Kosovo.
Methodology

The paper uses descriptive-qualitative data in attempt to conduct feasibility studies for futures exchange in Kosovo. Available data on futures exchange were used in order to explain them and study the possibility of implementing them in Kosovo. Since futures exchange is a new topic discussed in Kosovo, the paper starts with an explanation of key terms used in futures exchange. At the same time, those terms need to be specified in Kosovo futures contracts. Since futures exchange in Kosovo have the main purpose the economic development of the country by increasing exports, export data have been analyzed for each sector in Kosovo, focusing especially in agriculture sector. Several developing countries that have already established or are in the process of developing agricultural futures market have been analyzed in order to see what methods they have applied for the futures contracts to be successfully launched. Those three countries were chosen because they had similar agriculture indicators with Kosovo, namely, agriculture land, dependency in agriculture, arable land, percentage of population that works in agriculture, and economic benefits from agriculture.

Literature Review

Commodity futures exchange was the first futures exchange initiated by countries around the world. Two countries were chosen to be analyzed and see what Kosovo can learn from them: South Africa and India. Given the similar problems of those developing countries, such as low economic output, high trade imbalance, low value of exports, poverty, high unemployment, low macroeconomic development, and environmental problems, the development of futures market in one of these countries can serve as a reference point for another developing country.
South Africa

Agricultural commodities exchange was first established in South Africa in 1990. This exchange was initiated to raise the agricultural output in Africa, to improve the market transparency, price formation, and country trade, as well as to incentivize farmers to produce more agricultural goods and export them (Onumah p.1). At the beginning, several initiative bodies were created to support the futures exchange. Some of those initiatives were: Comprehensive Africa Agriculture Development Programme (CAADP) and New Partnership for Africa's Development (NEPAD) (Rutten Zhang, and Nekati). This practice of initiative bodies could also be applied in Kosovo, where those bodies would provide information for futures contracts to farmers and everyone who wants to trade in futures exchange. The challenges of African economy were price volatility and high food distribution margins, high storage and transportation costs, lack of quality and quantity standards, lack of transparency and rule of law (Rashid, Winter-Nelson, and Garcia). However, they managed to get a very efficient and successful futures trade, by addressing each one of those problems. Kosovo as a developing country might also face some of the same problems, such as high storage and transportation costs and lack of rule of law which by the willingness and ability of the state to help might be diminished and contribute to the development of this kind of trade. Africa lacked a credible delivery system. One way to fix this problem is by building a credible warehouse receipt system. The same system could also be built in each place where Kosovar farmers are located, and provide to them warehouses so that they can storage their products.

According to Onumah, the development of the exchange market would incentivize farmers to produce qualitative crops, apply productive-enhancing methods of production, and develop better
crop practices. In turn, farmers could increase the yield crops but at the same time increase their household income up to 25% (p.20).

Based on these arguments, as well as successful and unsuccessful examples of futures exchange in different countries of Africa, prerequisites for successful futures exchange in Kosovo are: reliable market information system, transparent trading system (which includes trading platform and brokers), clearing and settlement system, and rules & procedures for contract enforcement (Onumah p.12).

India

India is a commodity-based economy, with more than the half of the population depending in agricultural output. The futures market in India was first established in 1875 with the purpose of hedging against price fluctuations. The government established a committee, which evaluates the work of futures market on yearly basis, and changes the policy based on the market requirements. Kosovo could also establish such committee, whose job would be to evaluate the work done through futures market and also create awareness among farmers for the importance of agricultural futures contracts. Some of the issues India faced in successfully developing such market were: legal challenges, poor management, regulatory challenges, lack of logistic organization, poor infrastructure, and lack of awareness created among investors and producers (Kaur p.5).

Some of the India’s problems with futures market were lack of rule of law, lack of financial institutions involvement in trade, and lack of strong monitoring system. In order to address this issue, Indian Government has created the Forward Market Commission, which has
the important function of creating awareness to farmers for the benefits of such market. FMC\textsuperscript{4} held more than 800 awareness programs in different places in India, where half of them were dedicated to the farmers since farmers were the most important factor for the market (Challenges to Commodity Markets in India). Knowing the preparation and information of agriculture producers in Kosovo and their possible opposition to such system, Kosovo might also establish such commissions on creating awareness. Same as in Africa, the warehouse and standardization system did not work efficiently. Quality, grade, and quantity testing labs did not function in each region, which disabled the opportunity of creating one standard contract that would abolish potential shocks for the ultimate buyer. In order to address the problem of warehouse, the government of India has created the Central Warehousing Corporation of India that operates with more than 500 warehouses across different places in India (Challenges to Commodity Markets in India), which is another example of how Kosovo could establish the warehouse system. India stands as a very successful example of agricultural commodities futures market. With its economic factors of a developing country and with its dependence on agriculture India has managed to attract investors and develop the futures market. Through this market, India has achieved to manage price fluctuations, has increased the trading volume, and has played the function of price discovery (Inoue p.10).

**Main Findings**

Kosovo, as a developing country, shares about the same economic factors of other developing countries. Kosovo is an agricultural-based country, which imports most of the goods citizens use. In order for the country to be developed, it needs to increase its exports, so that it

\textsuperscript{4} Forward Market Commission
can decrease the trade imbalance that currently Kosovo faces. Even though Kosovo currently
exports metals as the main category, another sector that has high comparative advantage is the
agricultural sector. With its percentage of arable land (39%) and with 22% of population
employed in agriculture, and 2/3 of population living in rural areas, Kosovo has good
possibilities of increasing economic output by developing agriculture sector. The agricultural
land in Kosovo is considered to be of high quality. The continental climate creates very good
conditions for agricultural production. Because of it fragmentation, the agricultural land in
Kosovo suits best the cultivation of high value crops, such as vegetables and fruits.

**Hypothesis Testing for Establishment of Agricultural Futures Market in Kosovo**

An assessment of hypothesis is going to be applied toward Kosovo ability to develop
futures market. It is not mandatory for a country to satisfy all hypothesis presented; it varies from
country to country based on their specifications.

**Hypothesis 1: Macroeconomic Stability**

Given the fact that Kosovo is going to start trading futures contracts for the first time, it is
important to have data on macroeconomic stability in Kosovo. Traders, who want to buy
agriculture products from Kosovo need to have clear information on macroeconomic data. This
would provide security to the traders that the price of the contract will not frequently fluctuate,
leading to trader’s loss, demotivating them as such to trade again in Kosovo.

Macroeconomic stability is measured through GDO fluctuation, exchange fluctuation, and
unemployment. Kosovo’s GDP did not fluctuate that much during the last five years, meaning
that it was on average 4.5 million euro. However, Kosovo has high unemployment of 40%,
which presents a serious burden to Kosovo’s economy. The biggest advantage of Kosovo is that it does not have exchange fluctuations, because it uses euro which is administered from another country. Thus, Kosovo does not have the right to provide money supply, which in turn restricts inflation. This means that Kosovo depends on European Union for money supply, which in one hand creates stability, but in the other hand it does not have a decision making authority.

**Hypothesis 2: Contract that is different from other existing contracts**

The aim of the entire paper is to develop future market for agricultural products in Kosovo, focusing particularly potatoes in Kosovo. As mentioned before, agricultural production in Kosovo includes vegetables, cereals, and fruits as major production categories. The implementation of the futures contracts for agricultural products is quite similar, but the focus is to establish potatoes futures exchange. The reason behind this is that currently there is no potato futures exchange contract in world. This means that Kosovo, besides being the center of futures exchange in western Balkan countries, could also be the first place in the world offering such commodity.

**Hypothesis 3: Presence of sufficient large domestic market for the underlying product**

Liquidity is one of the main conditions for futures contract to function in a country. A threshold level of liquidity serves as fundamental condition to make the exchange viable. Kosovo produces 210,247 tons of potatoes on yearly basis with which tries not only to meet local demand, but also to export them. This is another exception that puts Kosovo on advantage to develop domestic as well as regionally-integrated futures contracts. When the physical market is large enough, the launching of the local exchange enables the generation of speculative and hedging interest, which are two main pillars of the futures contracts.
Hypothesis 4: Presence of committed actors

Besides demand for futures market, it is also necessary to have the willingness and ability of committed actors to support the exchange market. The presence of committed actors, such as financial institutions (including banks and non-banks institutions, such as pension funds, insurance companies, and micro-financial institutions), private enterprises, farmers, and government, is vital when the profitability of the trading is not certain. Traders and interested candidates to engage in futures markets want to be sure for the liquidity of the market, so that they will not incur losses. The presence and well-function of financial institutions is the most important, since the futures trade, the payment of the products happens through financial intermediaries. At the beginning of the futures market, when there is not enough liquidity, the committed actors can artificially engender liquidity enough to enable allow the exchange to start up. It is important to state that Kosovo has a very strong financial system and stable financial institutions.

Hypothesis 5: Low level of industry integration

Industry integration is the cooperation of different development stages that increases the efficiency of the production. Agricultural products entail the production, processing, and retailing of commodities between they reach the final market. If this production and selling process is well integrated, then the main pillars of futures market, hedging and speculation would not be of much importance. In fact, Kosovo lacks such industry integration. Small farmers plant their fruits, cereals, or vegetables and process them into further goods. If their crops are successful then they personally distribute their products to the retail industry and distribution channels, or sometimes they personally become the sellers of their products. Even though this system is not well integrated, it provides a risk gap that hedgers and speculators each of them to secure themselves from losses or take risks for higher profits, respectively.
Hypothesis 6: Established institution – well-functioning clearing house and regulations

One of the most important conditions for the well-functioning of the futures market is the existence and obedience of futures contract regulation and institutions. If traders and farmers are not secured for their money and their commodities, then they will not be engaged in the exchange market.

The first step Kosovo should take is to establish a regulatory office, called clearing house that will clearly specify all the regulations that need be followed for futures market to start functioning. The clearing house acts as a third party which enables the entire functioning of the futures market. They act as sellers to clearing brokerage buyers and act as buyers to cleaning brokerage sellers. The regulatory office should serve as the trading point where farmers are connected with traders around the world. Since Kosovo is the first time implementing such market, it will be necessary for Kosovo to first establish physical trade. This means there will be a building where traders and farmers will meet, either online or in person, and agree for the terms of contract. The disadvantage of this form of trade will be time, as it will take more time than the exchange market. However, after some years of functioning, Kosovo can switch to exchange, online system of trade, where everything, prices, regulations, contracts, amount traded, delivery months, delivery day, etc. will be posted on the webpage of the clearinghouse office. Since the focus of the paper is potatoes, then Kosovo needs also to create a Potato Board, which will serve as a controller for potato price in the market and for marketing channels. The job of the Board would be to establish a single-price system, which would then be used from the regulatory office for commodities exchange. What is more, the regulatory office should always cooperate with the Potato Board for the settlement of the regulations. The Potato Board should address the challenges and difficulties of Kosovo farmers when the exchange begins, so that there is always
someone who will know what was done until now and what needs to be done so that the futures exchange keep functioning.

**Why is important for Kosovo to develop futures market?**

**Reduce Price Volatility and Risk**

Farmers who know that next year they are going to produce potatoes and investors that want to buy potatoes they can engage by their own in futures market and make trade arrangements as specified in the contract. In this way, interested people drove by their self-interest, work freely by creating demand and supply in the market. If there is more supply than demand in the market, excess supply of potatoes will be created in the market, which will drive prices down. If there is more demand than supply in the market, excess demand will drive prices of potatoes up. This reduces price volatility by bringing the market into balance as the market continually adjusts itself to the market situation. Even in times when supply and demand do not work perfectly, commodity futures market provides the perfect system where farmers and traders can virtually or physically meet and use exchange market information to set the price. This is done by all participants of futures market who altogether determine the futures price for potatoes.

**Provide Liquid Market**

Traders and farmers can engage in the futures market by opening and closing trading positions even when they do not want to hold the commodity until expiration. The potato futures market provides profits also for people who want to engage in the exchange with the only mean to buy and sell in order to make profit. A trader might buy potatoes from a farmer in Kosovo. The trade might be contracted in year 2014 (for example), for the exchange to happen in 2015.
However, the first investor who agreed to buy potatoes from the farmer in Kosovo can sell the contract to another investor; now in 2015 the trade will happen between the farmer in Kosovo and the second trader. In this way, futures contract can be rolled from one investor to another, until the time of expiration comes where the actual delivery of goods should happen.

**Provide Security and Transparency**

The most important fact of futures market is the security they provide to both, farmers and investors. Each farmer and investor that wants to trade futures market needs to open a margin account, which has the function of a deposit account. Market participants deposit an amount specified by regulatory office regulations, which in case of default will be delivered to the harmed party of the trade. Even though agriculture has more risks than other contracts because of weather conditions, the margin account helps Kosovo mitigate this risk.

Each investor and farmer that wants to engage in trade has the possibility to see prices. Furthermore, when the exchange system will be established in Kosovo, each person that needs information on commodity prices can visit the webpage of Kosovo clearinghouse and have just the exact information on how commodities are being priced. This contributed to price transparency, where no one can complain about price differences in the futures market.

**Information**

The reputation and information about Kosovo on the entire world will increase. Furthermore, with potatoes being the first futures contracts in the world, Kosovo will gain attention faster than imagined. Futures market in Kosovo will not only present information for agriculture products in Kosovo, but they will also give insightful information about the economy
and prices of Kosovo. Investors will have the exact information about prices in Kosovo and market conditions. So, futures market can also be used to attract investments in Kosovo.

**Taxation System**

The establishment of futures market requires the willingness of many actors to collaborate and enable the well-functioning of such market in Kosovo. Throughout the paper several time has been stated the fundamental role of the government in helping this market. Here again, Kosovo government might use its power to provide incentives for people to be engaged in futures market.

The regulatory office in Kosovo will be created as a private corporate that brings together farmers of different places of Kosovo. With this legal connotation, the regulatory office needs to be taxed with corporate tax. If it achieves a yearly turnover of more than €50,000, then it also needs to pay the VAT tax. However, government might exempt the regulatory office from paying corporate tax for the first five years of operation. If government notices potential and has interest for futures market to be developed in Kosovo, then it should provide incentives for individuals or companies to initiate this process.

**Conclusion**

Based on the analysis conducted throughout the paper and the data presented, Kosovo has the possibility to establish agriculture futures exchange. Given the fact that Kosovo is endowed with agricultural land, where 53% of the land is agricultural land, the aim is to start futures exchange with agricultural products and then based on the demand and supply factors, continue also with manufacture products. The main factors that a country should possess in order for the
futures market to be established are: macroeconomic stability, well-functioning of financial system, and special contract that differs from the others in the futures market. Because Kosovo uses euro as country’s currency, it does not have the possibility of printing money. This means that inflation in Kosovo has lower probability of reaching high rates, which is an advantage for Kosovo. In one hand this restricts the central bank’s possibility to affect money supply, but it allows more time to focus on the control of financial banks. Due to this fact and to the favorable conditions supplied by the Kosovo government, financial sector in Kosovo is one of the most developed sectors that contribute to the economic development of our country. The purpose for Kosovo to develop futures contracts on potatoes, gives Kosovo another advantage. Currently, there is no such contract on potatoes traded in world futures exchange. This will attract the attention of other countries toward Kosovo, giving greater possibility to the well-functioning of the futures market.

As with any other development, Kosovo needs to follow a model of futures exchange in order to know that difficulties it may encounter in the market and know how to fix them. Based on what other developing countries have done, such as Africa, Iran, and India that has already established agriculture futures exchange, Kosovo needs to focus on: rule of law and legal challenges, margin settlements, price fluctuation and price-risk, warehouse establishment, quality standards, and farmer’s awareness on the importance of futures market.

The lessons taken from other developing countries, that Kosovo needs to follow when it starts the process of implementing futures contracts, are:

- Creation of initiative bodies to support futures exchange
The role of the initiative bodies in Kosovo would be to inform people in general about the importance of futures exchange. They need to work simultaneously with the regulatory office of futures exchange and keep people updated with any regulation or activity that regulatory office takes.

- **Build a credible warehouse receipt system**

  The creation of warehouse system will have the duty to build warehouses in different places in Kosovo, where farmers are located and farm their products. The functioning of the warehouse system is really important since it serves as storage for agricultural products. If warehouses are built with quality, they ensure that the agricultural products also deliver quality. Furthermore, warehouses reduce transaction and financial costs for the farmers.

- **Establish a committee that evaluates the work of futures market**

  Each time there should be a committee that updates the regulatory office about challenges and difficulties encountered in the market. It has the role to inform the regulatory office about changes they need to make in order to be successful. What is more, their role is going to be to create awareness to farmers for the importance of futures markets. Given that farmers in Kosovo do not have adequate information about the functioning of futures market, they might oppose to be part of it. Thus, this committee needs to hold awareness programs in different cities of Kosovo, often times, so that they inform farmers about everything related to the futures market.

- **Establish strong monitoring system**

  The monitoring system should be established in Kosovo at the same time the regulatory office is established, so that it can evaluate the work that is done from this office and also
the entire process. It needs to see if each participant is obeying the rules and if the futures market is functioning according to the Kosovo law.

- Build quality testing labs

In order for investors believe in the futures market in Kosovo, quality testing labs should be created which ensure that each commodity traded from Kosovo has the quality specified in the contract. This is of high importance, because it created trust to investors that no default is going to happen. The quality testing lab should also be monitored from the monitoring system.

**Recommendations**

*Sensitize people on the importance of regulatory office for futures contract*

In order for Kosovo to have agricultural development, it needs to open a regulatory office that will develop the futures market. The aim of this paper is to sensitize people on the importance of futures market in economic development. For Kosovo it is of high importance to inform farmers particularly about the benefits of the futures market. If farmers, as well as the entire population are aware and willing to invest in such markets, then the well-function of futures market will be a fact.

*Create a practice platform for farmers in Kosovo before launching futures exchange*

In order for farmers to be familiar with futures exchange, it would be helpful to launch a practice platform so that not only farmers, but everyone who wants to engage in futures market could first practice and learn the process and then engage in agricultural futures exchange.

*Make Kosovo the center of futures market in the region*
The aim is to ensure well-functioning of futures market, which will make Kosovo the center of futures exchange. Currently, only Macedonia has such futures exchange established in the regional countries. Kosovo can have the futures market, through which all other regional countries can trade. In this way Kosovo would benefit more from people who not only spend money for contracts but also spend money to come here, live, and eat here. So, other businesses will benefit as well.

**Strengthen the implementation and protection of consumer rights**

Currently, Kosovo has the perfect law on consumer protection. This law is of fundamental importance for futures market. Each investor that wants to invest in Kosovo and buy products from Kosovo, they need to be insured that in case of any default they will have a place where to complain. Thus, through consumer protection law, Kosovo can protect its farmers and investors. The focus is for Kosovo to restrict the implementation of consumer rights, and seek the functioning of this law not only for futures market, but also for other businesses.

**Foster economic development of Kosovo**

If agriculture sector is developed in Kosovo, then the entire economy of Kosovo will benefit. The 22% of population employed in the agriculture sector highlights the importance of this sector on Kosovo development. By using futures contract on agriculture commodities, farmers will hedge their products by the time they plant them. In this way farmers are going to avoid the loss on their unsold products. This will increase the farmer’s profit, which at the same time will contribute to the enlargement of agricultural sector. More job opportunities will be created, which means that the unemployment rate will be reduced in Kosovo.
References


### Appendix I

<table>
<thead>
<tr>
<th>Contract Size</th>
<th>5,000 bushels (~ 127 Metric Tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliverable Grade</td>
<td>#2 Yellow at contract Price, #1 Yellow at a 1.5 cent/bushel premium #3 Yellow at a 1.5 cent/bushel discount</td>
</tr>
<tr>
<td>Pricing Unit</td>
<td>Cents per bushel</td>
</tr>
<tr>
<td>Tick Size (minimum fluctuation)</td>
<td>1/4 of one cent per bushel ($12.50 per contract)</td>
</tr>
<tr>
<td>Contract Months/Symbols</td>
<td>March (H), May (K), July (N), September (U) &amp; December (Z)</td>
</tr>
<tr>
<td>Trading Hours</td>
<td>CME Globex (Electronic Platform)</td>
</tr>
<tr>
<td></td>
<td>Sunday – Friday, 7:00 p.m. – 7:45 a.m. CT and Monday – Friday, 8:30 a.m. – 1:15 p.m. CT</td>
</tr>
<tr>
<td></td>
<td>Open Outcry (Trading Floor)</td>
</tr>
<tr>
<td></td>
<td>Monday – Friday, 8:30 a.m. – 1:15 p.m. CT</td>
</tr>
<tr>
<td>Daily Price Limit</td>
<td>View Daily Price Limits for initial and expanded price limits. There shall be no price limits on the current month contract on or after the second business day preceding the first day of the delivery month.</td>
</tr>
<tr>
<td>Settlement Procedure</td>
<td>Daily Grains Settlement Procedure (PDF)</td>
</tr>
<tr>
<td></td>
<td>Final Corn Settlement Procedure (PDF)</td>
</tr>
<tr>
<td>Last Trade Date</td>
<td>The business day prior to the 15th calendar day of the contract month.</td>
</tr>
<tr>
<td>Last Delivery Date</td>
<td>Second business day following the last trading day of the delivery month.</td>
</tr>
<tr>
<td>Product Ticker Symbols</td>
<td>CME Globex (Electronic Platform)</td>
</tr>
<tr>
<td></td>
<td>ZC</td>
</tr>
<tr>
<td></td>
<td>C=C=Clearing</td>
</tr>
<tr>
<td></td>
<td>Open Outcry (Trading Floor)</td>
</tr>
<tr>
<td></td>
<td>C</td>
</tr>
<tr>
<td>Exchange Rule</td>
<td>These contracts are listed with, and subject to, the rules and regulations of CBOT.</td>
</tr>
</tbody>
</table>

Source: Chicago Mercantile Exchange Group.

The table shows an example of contract specifications in Chicago Mercantile Exchange Group. As it can be seen from the table, the contract size is for 5,000 bushels and the price is quoted cents for bushels. Delivery months are March, July, September, and December. It also specifies trading hours and daily price limits.