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Market Access Project Report

Project references

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Acronyms

ACE	Agricultural Commodity Exchange for Africa
USAID	The United State Agency for International Development
AGRA	Alliance for Green Revolution in Africa
GoM	Government of Malawi
GTPA	Grain Traders and Processors Association
GDP	Gross Domestic Product
TOT	Training of Trainers
MIS	Market Information System
MLI	Market Linkages Initiative
MoAIWM	Ministry of Agriculture, Irrigation and Water Management
WO	Warehouse Operator
WR	Warehouse Receipt
WRS	Warehouse Receipt System
NRC	Natural resources College
BVO	Bid Volume Only
PA	Per Annum

1. Executive Summary

Back ground: As food prices soar to an all-time high, agriculture is, more than ever, an important industry for many developing nations. The aspect of arable land in Africa being able to feed the world is theoretically right but seems far off on the ground. Most developing countries like Malawi face various policies, financial and market deficiencies or barriers that undermine the prospect of feeding the world. The economic value of agricultural sector in Malawi leaves a lot to be desired with 80% of the population depending on agriculture but producing only 39% of the country's GDP.

The Agricultural Commodity Exchange for Africa (ACE) was formed with an objective to facilitate trade between domestic and regional stakeholders. The exchange provides a platform for trade open to all interested parties within the auspices of a commodity exchange. Grain traders and processors association with over 100 organizational members was formed among others as policy advocate for all traders and processors in the country.

Together ACE and GTPA formulated a two year market Access linkages intervention that was aimed at among others increasing smallholder farmer incomes through reduced post-harvest losses, increased access to markets, finance & information, improved quality of grain therefore premium price, and removal of key policy barriers in agricultural trade. The intervention relied upon training and workshops to teach farming organizations and small traders various ways they can bulk grade and market their commodity at a better price. The training was combined efforts to actual link farmers to buyers and finance, sought active participation in trade sessions, integration in the ACE trading system and participation in the warehouse receipts system. The project would show that structured trade systems can benefit famers and this requires a clearly defined approach and close communication with the target farmer organizations.

Activity: 14 farmer organizations represented by 314 farmer trainers and 193 trader trainers were trained in various techniques including post-harvest loss prevention , grading and standards, marketing, group dynamics, warehouse management and receipting system, Commodity Exchange and business proposal for finance. 365 trainers (men & Women) others were briefly trained or sensitized on one or more of the techniques above. Other activities included sensitization meetings, policy advocacy, trade sessions and dissemination of market information system.

Results:

Beneficiaries of this project account for 6328.5mt of various commodities facilitated by Agricultural Commodity Exchange for Africa over the period valued at USD 2,169,019.37 during the project period. This represents about 12% of trades on the exchange in the last 2 years.

Beneficiaries were trained on how they can access warehousing receipting system to encourage secure and affordable way of finance to various beneficiaries. 4 warehouse receipts were issued in August, a total of 116mt of commodities were deposited and accessed 70% finance at 22% pa in comparison to 26% pa they used to get before. This access also allowed the small traders to sale their produce at a better price 4 to 6 months after harvest.

Esoko MIS was implemented by Market Linkages Initiative (MLI), (a USAID funded project) during our project period to address lack of market information in the industry. Our project beneficiaries were quickly linked and trained on its access and benefits. ACE continuously sent market information and opportunities during the marketing season to our registered project beneficiaries. Esoko market information system enabled ACE to disseminate market opportunities that generated 96 contracts of 2,752.4mt of commodities valued over USD1m. ACE prices disseminated through Esoko are now considered as a reference price for bargaining; critical to most rural farmers were price takers before the project intervention.

Quality of grain across project beneficiaries improved significantly, this was evident by more than 400mt sold to World Food Program's P4P (quality conscious buyer) over the project two years. Farmers who sold to WFP were generally paid a premium price for the quality of grain supplied, in some cases the prevailing price was 40 -70% higher than local market price.

GMAC council an agricultural trade advisory council to top government officials was formed and successfully negotiated some key policy issues. Among others the council successfully managed to lure government to lower minimum farm gate price paid for various commodities in 2010 in line with perspective export markets. This change enabled traders in Malawi export more commodities in 2011 (about 380,000mt 24,000mt more than last year) as the farm gate price was reasonable to export parity prices. GMAC council is in continuous liaison with Government on future policy direction in the sector.

Challenges: There are several challenges in implementation of the program including the deteriorating storage centers and lack of banks interest in financing commodities stored under such conditions. Volatile prices in the market made it difficult for parties to adhere to contracts however this was beneficial to farmers fetching higher earnings but detrimental to long term relationship with buyers.

Recommendation: The project has shown that with effort in building up structured trade systems small holder farmers' benefit from increased access to information, competitive environment, affordable access to finance and more. ACE recommends that the project is extended to reach out to more beneficiaries, sensitize communities, and small traders on warehouse receipt system.

In general the next phase could include strengthening of existing Farm groups with focus on 'warehouse receipt system', facilitating trade among cooperatives and traders, and possible upgrading of storage facilities where applicable.

2. Timeline: Major Achievements on ACE

16 Feb
2010

May &
June
2010

9
July
2010

9
DEC
2010

ACE Invites Farmer Groups to BVO Trade sessions

6 trained farmer groups 12 representatives (9 Men & 3 women) under the AGRA market access program visit ACE for their first BVO trade sessions.

4 Cooperatives participate in a live BVO session competing against a foray of large and medium traders in a tender to buy Maize.

First BVO Session

ACE **Bid Volume Only (BVO)** is an auction platform where clients can express a desire to buy a specified commodity with specified grade and delivery location. ACE hosts the virtual and physical trade BVO session where suppliers can make offers against commodities, by competing on price. This acts as a reverse auction with prices starting high then reducing towards the end in a bid to win the tender.

Farmers Win a BVO Session - WFP Awards AGRA beneficiaries to supply Maize

WFP awarded Agra beneficiaries at a BVO the trade session to supply a total of 239mt of White Maize valued at USD 55,687.00 . This made them USD 66/MT more selling to their local vendor.

See Bester Mora's case & objective 2

ACE Bid / Offer Match

Dec 2010 ACE trading platform (Bid offer match), reaches 40,000 MT commodity trades valued at USD 13.2 Million

ACE operates a transparent online trade platform that allows various clients to offer commodities for sale or place a bid to buy various commodities. The platform acts as a matching instrument, continuously matching different bids and offers therefore generating contracts between clients. This online based system has allowed clients to market their commodities both nationally and internationally.

Case Study Profile: Bester Mora's story



Back in the 1990s I used to buy and sell fish in the markets where I live in a place called Midisi. I made some good money, and with the profits I bought some land, but I

wanted to find a better price for my other produce – especially maize.

I didn't have any storage at all and if I had ten bags of maize I would keep them in the house, which was not reliable because of pest infestation, and I couldn't find a good price for it anywhere.

Then I looked in the telephone directory and I found the number for the Agriculture Commodity Exchange based in Lilongwe. I was spoke to them and became the first small scale trader to use the commodity exchange.

I registered with ACE as a trader and put five tonnes of maize on the market. Within three weeks they found me a buyer from the Southern region of the country. Now I have supplied the World Food Programme and used the profits from my maize to reinvest in my shop in Midisi.

As an ACE registered trader I get market information through the phone and it's easier because now I know what the market price is. Before I just used to sell it even if the price was low because I had to. I am very happy I have found this system.

02
JAN
2011

05
MAR
2011

06
May
2011

07
JUL
2011

03
AUG
2010

9
OCT
2010

WFP Regional Procurement BVO Session

ACE bid volume only system was integrated with ZAMACE to allow USAID or WFP and similar organizations to procure at regional competitive level. ACE hosted first regional procurement BVO session. A WFP bid to buy 4033mt of Maize. 3267.17mt was awarded to ACE offers in competition with whole regions suppliers. WFP Regional headquarters has since procured a total of 17205.72mt of Commodities valued at USD4, 483,545 .00 through the exchange.

ACE welcomes CP FEEDS on BVO Platform

ACE welcomes a very large domestic buyer on ACE. CP Feeds a livestock Feed processor decides to procure through ACE BVO system. CP Feeds procured 243mt valued at USD 157410 in the first 2 months.

Esoko

200 sms of various offers and bids on the exchange are sent via Esoko market information system generating 60 smallholder farmer contracts in the first month.

Esoko is a marketing information system developed in Ghana used by ACE to push market opportunities and information to mobile phones.

'See objective 3'

GSL Silos Certified

12000mt of silo space is registered in Kanengo for third party storage.

GSL to issue, Guarantee quality and quantity of commodities on receipts

Life of a Warehouse Receipt

- 1) A Commodity is deposited in a WRS registered storage facility, certified to store that commodity
- 2) The storage operator issues a WR and thereby guaranteeing the quantity and quality.
- 3) The Depositor requests financing from a preferred bank and immediately receives the funds
- 4) The Depositor follows the prices and may put the receipt for sale on ACE.
- 5) A buyer accepts the offer and ACE generates a contract.
- 6) The Buyer deposits fund into the ACE settlement account.
- 7) ACE settles the finance and storage cost and transfers ownership of the WR
- 8) ACE transfers the balance to the seller
- 9) The new owner can either collect the commodity or request new financing from a preferred bank.
- 10) The WR is cancelled in the Registry if the commodity is collected. If not, the sequence starts again.

First Warehouse receipt is issued & financed

Mr Chikhasu a small holder farmer in Mchinji deposits 14.5mt of Maize at GSL silo and gets an immediate 60% finance.

First Warehouse receipt is sold

Andrew Kachete's 35.01mt receipt is sold to Senwes a subsidiary of a large South African grain link company.

'See objectives 1, 2 & 4 and A. Kachete's story'

Case Study Profile: Andrew Kachete's story



I haven't been so long in the business of trading; usually I transport maize, soya beans and groundnuts. I buy maize from small scale farmers, and with current fuel problems, sometimes I have to wait for weeks before I can transport the maize.

Even then there are long queues at the silos. I have spent the night outside the silo before. I decided to use the receipt system to help me find a market. I was the second person to use the system and ACE found me a contract for 30mt of maize.

There are positives and negatives to the warehouse receipt system. Those who can store their maize in large quantities for longer periods of time will benefit more because of other charges involved – for example there is a tax for storing the maize.

In terms of storage, the warehouses will take care of the maize and the money from the deposit can be reinvested – if farmers can afford to have their money tied up in the maize deposited in the warehouse then they can benefit.

I was able to buy another load of maize through the receipt system. It's a real eye opener to compete with bigger sellers for buyers like WFP. We thought the market was exclusive to bigger players.

In terms of capital, my advice is for those who can deposit large volumes to be patient. If I had kept my maize in the warehouse I would have made more but I don't have any regrets. I made a nine percent profit, I was going to be forced to sell at 27 kwacha but I sold it at 36, and if I had waited longer I could have made more.

3. Project Briefing

Agriculture is the most important sector of the economy, employing over 80% of the workforce, and contributing over 80% of foreign exchange earnings. The agricultural sector accounts for 39% of gross domestic product and contributes significantly to national and household food security. Development strategies and policies in Malawi, since Independence, have been heavily biased towards agricultural development, but the implementation of these policies has not yet yielded sustainable outcomes.

The agricultural sector in Malawi remains confronted with the problems of low yields, over dependence on rain-fed farming, low level of irrigation development, and, despite a seed and fertilizer subsidy programme, low use of improved farm inputs. As a result, smallholder agriculture remains largely unprofitable. This low profitability has been exacerbated by weak links to markets, high transport costs, and few functioning farmer organizations at grass roots level, poor quality control and lack of information on appropriate technologies, markets and prices.

ACE and GTPA sourced a combined total of \$541,395.35 from AGRA to implement a 2 year Market access program to improve or ease the burdens outlined above. The Project in summary had specific activities designed to achieve 5 major Objectives. The first objective was to reduce post-harvest losses among the beneficiaries specifically through training and identification of warehouses where possible rehabilitation of some storage facilities. The second objective was to increase incomes as a result of improved efficiency in grain marketing, especially through formal structures like use of a commodity exchange. The third objective aimed at reducing transaction costs as a result of collective action and dissemination of accurate and timely market information to stakeholders by setting up or linking beneficiaries to available market information system. The fourth objective included increased access to affordable credit especially through goods received note later revised to warehouse receipts.

The fifth objective involved policy advocacy to improve grain trading environment in Malawi to the benefit of all stakeholders. And the last objective was to improve dissemination of market information to stakeholders by setting up or linking beneficiaries to available market information system.

4. Project Baseline Study

A base line study was conducted to institute situation on the ground before Agra market linkage intervention. The assessment revealed a number of constraints faced by producers, traders and processors. The constraints range from institutional set up, economic, technological, policy related. Some of the constraints identified in the study include; low productivity due to poverty and low capital base, unorganized production and marketing systems, production confined to traditional grains of maize, sugar beans with no diversification into other potential commodities; poor access to markets; inefficiently managed farmer organizations; individualistic approach to production and marketing leading to low bargaining power; noncompliance to grades and standards; difficulties in accessing loans from financial institutions; High interest rates on loans and too many middlemen leading to high commodity prices as the commodity moves from the producer to the final consumer. The study also noted the absence of comprehensive database within GTPA on demand, supply and prices for various commodities. There is also



Fig 1 Chiyambi Cooperative Madisi, Malawi. 50mt

inadequate statistics or market information on smallholder grain and legume production at government level which makes it difficult for informed decision making related to grain production and trading. Problems on database and inadequate statistics are compounded by absence or in some cases insufficient records at various levels (producer, trader and institutional). Policy related constraints include; the contentious minimum commodity prices set by government which often above export parity prices making Malawi's commodities uncompetitive; absence of mechanism to enforce the minimum prices resulting in most traders offering lower prices; Unregulated operations of traders with respect to their designated geographic location and bureaucracy in issuing of export permits resulting in loss of business

opportunities; no regulation on commencement of marketing season for smallholder crops unlike the tobacco market resulting in smallholder farmers selling their commodities prematurely and at prices far below both government's minimum prices and producers' breakeven prices; importation of commodities from sister companies thereby stifling local and juvenile upcoming companies that do not have a similar competitive edge; noncompliance to conventional grades and standards due to inadequate capacity by the Malawi Bureau of Standards to enforce internationally accepted grades and standards; Porous borders that provide a conduit for informal cross border trade thereby affecting efficiency of formal trade due to uncounted volumes of commodities crossing through the borders leading to fluctuations in both quantities and prices of the various commodities; unreliable crop estimates and deficiencies in database on most smallholder crops especially grains and legumes making it

difficult for producers and traders to make informed decisions on demand and supply of various commodities; new trading modalities making it inevitable for government to invest in information and communication technology especially in rural areas to facilitate easy access to market information by smallholder farmers; unreliable supply of utilities and difficult condition imposed by financial institutions.