

## 5. Summary of Implementation Status

The table below summarizes the status of each deliverable. For detailed results please see narrative for each

Objectives	No	Activity	Deliverable	End Status	Remark	Responsible Implementing Organization
<b>Reduced post-harvest losses as a result of improved post-harvest handling and storage facilities.</b>	1.1	Identify and certify additional storage facilities as bulking centers in strategic areas in the country.	10 FOs with storage identified and link to ACE and GTPA	complete		GTPA
	1.2	Conduct post-harvest handling training for storage facilities' operators and grain grades & standards.	24 training seminars are held over project period	complete		GTPA & ACE
	1.3	Develop grain inventory system at storage facilities.	24 periodic storage facilities audits undertaken	Revised	See objective 4	GTPA
	1.4	Link cooperatives and agro dealers to the identified transport operators.	40 cooperatives agro dealers linked to transport operators.	complete		GTPA & ACE
<b>Increased incomes to farmers as a result of improved efficiency in grain marketing.</b>	2.1	Link all cooperatives and agro dealers to GTPA grain purchasers (university of Malawi, World food program p4p, donor agencies with grain procurement programs).	30 existing cooperatives are strengthened	Complete		GTPA & ACE
	2.2		40 cooperatives are linked to grain buyers	Complete		ACE
	2.3	Develop a training Manual for Farmer Organizations combining all trainings conducted in the duration of the project	A compilation of trainings to be used for community training.	Completed		ACE
<b>Reduced transaction costs as a result of collection and dissemination of accurate and timely market information</b>	3.1	Profiling of farmers and include them on the SMS list for market information and trade opportunities	2500 farmers profiled and included in the distribution list	Partial complete	1246 farmers remaining.	ACE & GTPA
	3.2	Reduced transaction costs as a result of collection and dissemination of accurate and timely market information	150 contracts completed and settled	Partial complete	58 contracts remaining	
<b>Increased access to affordable credit through WRS</b>	4.1	Link Cooperatives and traders to Warehouse receipting system for affordable credit and access to markets at reduced transaction cost.	1700 MT of commodity on warehouse receipts from small traders and 300 MT from Farmer Organizations with an option to finance.	Partial complete	1584mt on warehouse receipts remaining	ACE & GTPA

Objectives	No	Activity	Deliverable	End Status	Remark	Responsible Implementing Organization
Improved grain trading environment in Malawi through removal of key policy barriers	5.1	Set up Grain advisory Council comprising key stakeholders in the grain sector to advise government on matters of grain trade.	Grain advisory council is set up.	Complete		GTPA
	5.2	Identify and prioritize policy issues affecting smallholder farmers access to markets	12 National grade trade policy discussion forums convened.	Complete		GTPA
	5.3	Convene regular forums to discuss policy issues affecting the grain sector in the country.	Policy action plan is published. 24 dialogue meetings are held with government to discuss priorities policy issues affecting smallholder farmers.	Complete		GTPA
	5.4	Develop action plan to address identified policy impediments	24 Follow ups conducted and report produced on the implementation of agreed policies.	Complete		GTPA

## 5. Project Objectives and Results

Objective 1	Period	Detailed Results under this objective
Reduced post-harvest losses as a result of improved post-harvest handling and storage facilities	24 months	<ul style="list-style-type: none"> <li>14 farmer organization training sessions (covering a total of 348 TOTs), trained in post-harvest handling techniques, and grading &amp; standards.</li> <li>114,040mt Certified storage space identified 37,500mt available for third party storage.</li> <li>2 trader training sessions a total of 68 trader organizations in post-harvest handling techniques</li> <li>Reduced post-harvest losses in targeted cooperatives</li> <li>2 business plans and request for finance from two cooperatives put up and under review.</li> <li>2 sessions were conducted to train 43 small to medium traders in grades and standards.</li> <li>4 transport operators were linked to Agra Beneficiaries in their respective WFP delivery at place (DAP) contracts.</li> <li>13 transporters were successfully profiled and registered in our database for future contract links with various cooperatives when need arises.</li> </ul>

### Write up: Objective 1

The objective aimed at implementation of activities that improve or reduce post-harvest losses, encourage improved quality and therefore higher sales proceeds potential amongst smallholder groups. Activities to achieve this objective included seminars and trainings in post-harvest handling techniques targeting the resourceful small traders in urban areas and limited resourced farmer in the rural area. ACE Identified storage facilities in various strategic areas for third party access so small operators can utilize secure and safe storage (see table of identified storage under Objective 4)

Kafulu Cooperative one of the project beneficiaries had reported a loss of 60mt in 2009 season due to post-harvest losses; Chiyambi cooperative with a 50mt maximum storage have had recent post-harvest losses of up to 20mt in 2008 to 2009, recent studies indicate the country losses up to 30% of its harvested crop due to lack of proper storage techniques.

A total of 348 trainers of trainers (ToT) were trained in post-harvest handling techniques targeting the 16 selected farming groups. The ToT's were largely Zone chairmen and committee members of the various targeted farming groups. The training provided farming groups with cost effective techniques of storing grain as well as, ways of improving their storage facilities both at home and cooperative level. The groups have learnt different techniques they can use to improve or prevent grain loss through traditional mudded storage see fig 4 and grade deterioration during storage including traditional test of moisture content. Since the trainings we have had improved postharvest handling among the 16 farming groups notably, Kafulu, Cheka, Chiyambi who used to lose more than 30% of grain within 3 months after harvest due to pest & moisture and more than 20% of the grain deteriorated in quality due to improper handling.



Fig 4: Traditional mudded storage



Fig 5: Kafulu Chairman showing us quality of his Maize

Rural Agro dealers also play an important role in storage of grain, as well as being an input supplier, they are also grain buyers during the harvest season providing a market for the same rural farmer that bought inputs a couple of months before. A total 68 agro dealers & small traders (23 women and 45 men) were trained during the project period. The idea was to reduce post-harvest losses across the value chain so more can reach to consumer hence higher revenues.

The introduction of Warehouse Receipt System (WRS) is also aimed at reducing post-harvest losses by providing small operators access to professional operated storage facilities. 2011 season 116 MT of grain was deposited and this grain has had less than 1% loss in quantity. See results of WRS below.

Cooperative representatives underwent a 3 days' workshop on business planning, to enhance the capacity of cooperatives to not only plan for future activities but business proposal for financial access. 2 proposals from the cooperatives have since been handed to Malawi entrepreneur's development center for fine tuning and finance. However the cooperatives lacked collateral for security of the loans they wanted to get, and have since been referred to warehouse receipts as an alternative route to financing cooperatives.

In January 2011 commercial operators have registered 114,040mt and 37,500mt available for third party storage to be certified under the warehouse receipt system. Some of the storage centers are closer to rural farmers hence bringing the market closer to the farmer. These storage centers also provide storage for multiple varieties of commodities including ground nuts, Pulses, Soya bean.

ACE identified 12 plausible transport operators to help facilitate contracts when need arises. In 2010 ACE facilitated transport on credit on 5 Cooperative contracts, allowing farmers who normally could not afford advance payment on transport to smoothly complete their contracts.

Table of ACE registered transporters

Table of registered ACE transporters

NAME	CONTACT	MAX VOLUME	RATE	SOLID
ADMSON CHINYAMA	Box 40480,Lilongwe 4	15	K25 per tonne	K1200 per tonne
GANIZANI NYANGU	Box 67, Nambuma, Dowa	24	K113 per tonne	
BITIEL KALINGA LIMUNGA	Box 188, Lilongwe, 0999127524/099180528	33	K111 per tonne	
Emanuel Mkali	Box 30034, Lilongwe 3, 0888870363/0999566575	60	K22 per tonne	K1100
M. Kanongodza	Box 30477, Lilongwe 3, 0999306960	10	K24 per tonne	K1500 per tonne
S.D Mpho	Box 1888, Lilongwe, 0999969661	2000	K6000 per tonne	
George Chikuse	Box 30140, Chichiri, 0888851450	15	K25 per tonne	
L.M. Mwalwanda	Box 30672, Blantyre, 0888167990	7	K23.50 per tonne	
N& N General Dealers	Box 31226, Lilongwe, 01 204 214	3	K30	
Omeka TPT Logistic	Box 30764, Lilongwe, 0999954384	540	K27	
H.M. Kanyambo	Box 2830, Lilongwe, 0999256061	48	K121	
David Dymon	Box 30315, Lilongwe, 0999006125	31	K97.5	

## Challenges

**No or poor storage facilities:** Most of the cooperatives storage centers were very poor and too small for the size of the cooperatives. For instance Chiyambi cooperative with a membership base of 182 smallholder farmers each averaging 5mt harvest a year has a maximum storage capacity of 50mt. Most storage centers have no grading equipment, substandard weighing equipment, the condition of storage centers was also so poor that Certification and GRN financing was not feasible. We later sort to link them to warehouse receipting system which piloted mid-2011 and successfully created value to involved stakeholders. It is our recommendation that the few rural storage centers be rehabilitated to act as aggregation points before members deposit the bulk commodity into national certified warehouses. This will not only smooth the logistics of moving commodities from hundreds of farmer households to certified warehouses but also act as a grade checking center which is a critical step in ensuring successful warehouse deposits.

**Expensive equipment:** Platform weighting scales moisture meters are too expensive for ordinary smallholder farmers groups, it was suggested that such equipment is better bought by a project and lend to farming organization when need arises.

It was difficult to measure post-harvest losses for the year 2011 as most cooperatives didn't store their commodity for long, the prices at the beginning of the season were attractive enough for the smallholder farmers to sale their produce early. However most farmers reported to have successfully stored their Food grain better than the season before.

Objective 2		Results
Increased incomes to farmers as a result of improved efficiency in grain marketing	24 months	<ul style="list-style-type: none"> <li>142 contracts, 6328mt (7.73% of ACE trades over the project period) traded over the exchange by target smallholder farmer/ trader beneficiaries earning them a premium.</li> <li>2 training sessions in marketing skills, with a total of 59 TOTs participants.</li> <li>MOUs were signed between Maleza (cooperative representatives), Grain traders and processors association (GTPA), Agricultural Commodity Exchange (ACE) and Citizens Network for Foreign Affairs (CNFA) an Agro dealer representative.</li> <li>A total of 96 contracts, 2,752mt of commodities valued in excess of USD1m deriving from Esoko MIS platform during the four months of 2011 marketing season.</li> </ul>

#### Write up: Objective 2

The objective seeks interventions which improve efficiency in grain marketing therefore increasing farmer incomes. The best way to achieve this efficiency was to cut out the ‘middle men’ in order to improve proceeds to the producer.

Development in ACE trading platform took a swipe turn right at the start of the project when World Food Programme (WFP) had shown a keen interest in trying new ways of procuring food aid. Due to WFP regulations in procuring food aid in various countries we had to build a system or software tailor made to their needs. The facility used is called a “Bid Volume Only” (BVO) facility. A BVO is like a reversed auction, where suppliers have to compete on price. They can change their offers at will until the BVO closes. In “nutshell” ACE holds a physical session 2 hours before the close of the BVO, suppliers and brokers come to the trading floor and start offering to supply at competitive prices. As the session get closer to closing time the competition increases. To harness our objective of regional procurement ACE bid volume only system has been integrated with ZAMACE to allow USAID or WFP and similar organizations to procure at regional competitive level, ACE believes this will not only Improve efficiency and prices in two countries but also generate a regional price discovery mechanism. Traders in Zambia are now able to participate in WFP procurement in Malawi and vice versa.



6 cooperative under Agra were asked to visit ACE on a trade session day to cement their structured trade training. There were a lot of lessons let in their first session and for the first time they came face to face with large grain buyers in Malawi. One farmer wondered if a smallholder farmer can compete with the large traders.

Interestingly in June 2010 the farmers came to compete for a WFP tender and were successfully awarded 5 contracts. Smallholder farmers and small traders have since won 142 contracts, 6328mt thus 7.73% of ACE trades over the project period, earning a price premium by simply cutting out middle men, transparency and increased competition.

In May 2010, ACE welcomed SENWES Malawi, as the first commercial operator to test the “Bid Volume Only” (BVO) facility. WFP had paved the way with 8 successful BVO sessions over the past 3 months and the Malawi market participants were getting familiar with the concept. ACE knew that a potential supplier for SENWES would have to be found amongst the producer associations as the commercial operators were busy buying in the market themselves. It was therefore a priority to sensitize and invite as many producer organizations as possible to the trading session.

The SENWES BVO got 8 different suppliers ranging in price from 332 to 510 USD/MT. It was not as many as ACE had hoped for, but SENWES were happy with the lowest offer and a contract to supply 2000 MT Soya @ 50.5 kwacha per kg was given to a producer organization in Ntchisi. This success has encouraged other commercial operator’s interest in procuring through ACE and strengthened the much need for structured trade in the country. About 6 of 12 large commercial operators have since procured through the exchange.

The aftermath of the first phase of the trainings was phenomenon; a lot of effort had been spent training farmer associations, so they would be ready and able to participate in structural trade and use of the commodity exchange in regards to WFP P4P procurement, after the harvest. As anticipated some post-harvest contracts included small holder farmers; about 394.10mt of commodities from direct project beneficiaries was sold through the exchange at an average price of \$207 compared to \$130 they could have earned on their local market. This trend appeared the same across all beneficiaries with approximate 40% to 70% premium price in comparison to their local markets. Small holder contracts included purchases for 289mt of Maize from small holder farmers in Ntchisi, Nchinji, and Madisi, as well as 101.5mt of Maize procured from Mwandama farmer group under Millennium Village Project (MVP) a UNDP funded project in Zomba, generating an income of \$91,116.66 over 3 months of 2010 agricultural marketing period. ACE was delighted that we were able to link the small holder farmers in Lilongwe to markets; perhaps lack of storage facilities in rural areas prohibits farmers from grain markets long after harvest period.

A Mr. Chikhasu a farmer in Mchinji had this to say of the ACE and WFP open trade environment. [Translated] 'ACE has given us an opportunity to fairly compete with larger traders, a platform to build long fruitful relationships with buyers and most of all an alternative market to generate much needed income in our households'.

After the post-harvest and structured trade training in Ntchisi (Cheka Cooperative) July 2011, the group managed to secure a contract to supply Soya at Government minimum recommend price of \$266 per Mt. A month later the price for Soya beans on the market sky rocketed to \$562 per Mt in Local Ntchisi market, the group could not honor the previous contract and started searching for better prices on the market. A week later they managed to secure a contract to sell their 14mt of Soya at \$680 per MT, with a buyer happy to pay a premium for better quality and bulked commodity. This trend was also common among very small traders with 20 to 30mt contracts stressing the need to strengthen the benefit of honoring contracts, also perhaps warehouse receipts as a delivery guarantee.

Below is a table showing the increased incomes of some of the cooperatives trading through the exchange during the project period.

Period	Cooperative	Location	Commodity	Volume	Government Recommended Price per Mt	Rural Price of Soya per Mt	Sold Price Per Mt	% increased income frm Gov price	% increased income frm rural price
Jul-11	Cheka	Ntchisi	Soya	14	266	562	680	155.64%	21.00%
Jul-11	Kathyapu	Ntchisi	Ground nuts	7.5	384.615	650.88	798.81	107.69%	22.73%
Jul-11	Kathyapu	Ntchisi	Maize	8.9	147.92	149.5	177.5	20.00%	18.73%
Aug-11	Chowe	Ntchisi	Maize	22.5	147.92	159.6	177.51	20.00%	11.22%
Aug-11	Mkhula	Ntchisi	Ground Nuts	5	384.615	722.08	917.16	138.46%	27.02%
Aug-11	Gala	National	Ground Nuts	5	384.615	722.08	917.16	138.46%	27.02%
Aug-11	Gala	National	Maize	17	147.92	161	165.68	12.01%	2.91%
Sep-11	Malingunde	Lilongwe	Maize	10	147.92	142.01	233	57.52%	64.07%
Jul-10	Bester Mmora	Mponela	Maize	35	233.33	146.68	233.3	-0.01%	59.05%
Jul-10	Chiyambi Cooperative	Mponela	Maize	30	233.33	146.68	233.3	-0.01%	59.05%
Jul-10	Mwandama Cooperative	Zomba	Maize	101.9	233.33	142	233.33	0	64.32%

AGRA intervention has enabled these farmers to grade and bulk their commodity therefore attract a premium price on the market of \$680 per Mt rather than \$ 562 per Mt on local market. In 2011 the group successfully delivered 30mt of Maize to WFP demonstrating their trained ability to market their produce to quality conscious organizations.

In 2011, two training sessions were held training both agro dealers and small traders in agricultural marketing skills to enhance their commodity marketing potential. The sessions included how they can access markets through a commodity exchange (ACE), access to market information systems, and general bargaining skills. Soon after the trainings an influx of small traders became active on the exchange; this was further increased when CP feeds (largest grain buyer in Malawi) announced their intent to procure commodities through the exchange.

Nb. Detailed beneficiaries' earnings attached in appendix 1, 2, 3

## Challenges

**Contract Enforcement:** The commodity market in Malawi is subject to high price volatility, this was a major cause for concern in getting farmers or traders to adhere to contracts. The price for Maize for instance moved from USD89 per Mt in May to about USD359 per Mt in the lean season of January 2012. Such changes make it difficult for farmers to perform contracts as they always have elsewhere to sale at a better price. As a result ACE is still experiencing a high default rate on contracts linking small farmers to large buyers. This has encouraged spot markets which do little in developing trade or business relationships between a buyer and cooperatives.

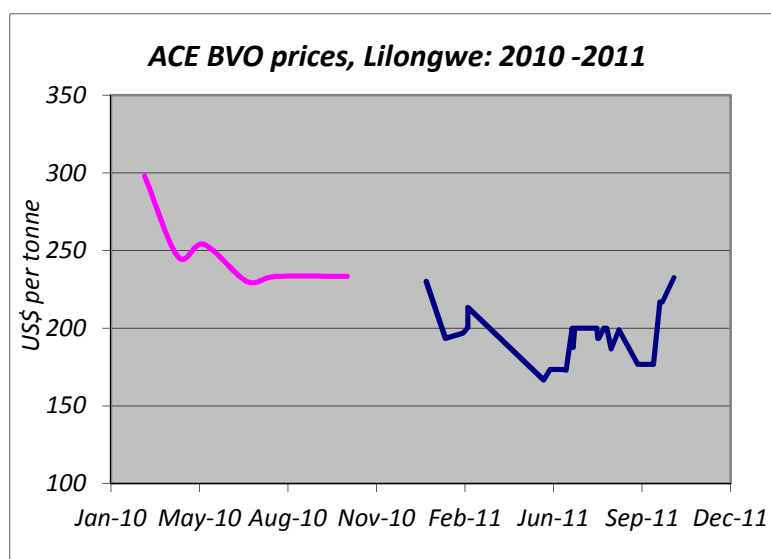


Objective 3		Results
<b>Reduced transaction costs as result of collective action and dissemination of accurate and timely market information</b>	24 months	<ul style="list-style-type: none"> <li>1256 members of farming groups met at various agricultural meetings and events have been profiled and registered under the ACE Esoko organization profile.</li> <li>Facilitation of Transport and Commodity bags at bulk prices.</li> <li>More than 31400 of trade opportunity SMS' sent to target beneficiaries.</li> <li>Daily Email of ACE trade opportunities (bids and offers) to various profiled organizations.</li> <li>A total of 97 BVO trade sessions conducted over project period creating price discovery of respective commodities at different periods of the season.</li> <li>95 contracts generated on ACE BVO system, trading over 38,000mt of commodities procured through 2010 to 2011 at a value of USD11,9801,434</li> <li>A total of 92 contracts, 2,752mt of commodities valued in excess of USD 1 million deriving from Esoko MIS platform during the four months of 2011 marketing season.</li> <li>A total of 213 contracts generated over ACE trading platforms facilitating trade for 53,432mt of commodities at a value of USD16,462,642.14</li> <li>Most beneficiaries report ACE commodity prices being used as reference price for bargaining in the rural community.</li> </ul>

#### Write up: Objective 3

ACE has convened a total of 97 Bid Volume Only (BVO) trade sessions over project period creating price discovery of respective commodities at different periods of the season. This information has never been easily accessible before; see price fluctuations of Maize in 2010 and 2011.

These prices have been disseminated to all ACE stakeholders. 95 contracts were generated on ACE BVO system, trading over 38,000mt of commodities procured through 2010 to 2011 at a value of USD11,9801,434. A combined total of 213 contracts generated over ACE trading platforms facilitating trade for 53,432mt of commodities at a value of USD16,462,642.14 see summary below



ACE partnered with MLI to use Esoko as a sms push tool for the ACE opportunities to smallholder farmers who normally would not have access to such information through other mediums. When the first SMS was pushed to 200 farmers and small traders a total of 62 contracts were derived within a month and subsequent 30 contracts 3 months later. Over time ACE linked traders and cooperatives to various market opportunities for grain commodities. The benefit of the information sent was not only used to facilitate trade but others used the prevailing prices to bargain against very low prices in their local markets. A total of 92 contracts derived through this MIS platform during the four months marketing season. These trade linkages were a result of the improved market information dissemination through linkages with MIS service providers. Small scale farmers, traders were linked to SENWES, CP feeds, Farmers World; Rab Processors just to mention a few.

ACE has since registered and profiled 1256 members of farming groups met at various agricultural meetings and events. The profiled farming groups have membership base in excess of 125,175 spread across the country. 92 contracts were facilitated in the months of May through to July, thus a total of 2,752mt of commodities valued in excess of USD1m derived from Esoko ACE profile Market information during the four months of 2011 marketing season.

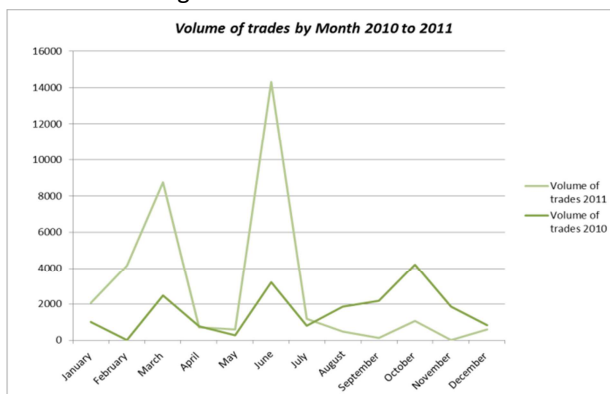
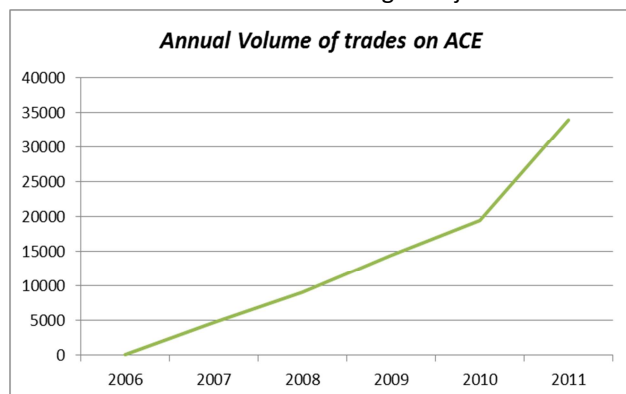
The Esoko systems which ACE uses to profile farmers and push market information through have been critical in getting information in the farmer's hands. ACE has also disseminated market information and opportunities to usually medium and large organizations via daily trade reports. ACE has 696 profiled organizations/individuals profiled from various stakeholders receiving daily trade information and opportunities. Some Non-governmental organizations have used such information to advise various groups of farmers on agricultural markets as well as what commodities are fetching high value on the market.

ACE facilitates procurement of commodity bags and transport as a way of reducing transaction cost to smallholder farmers. Commodity bags bulk price is sometimes up to 30% cheaper than retail price hence saving smallholder farmers a lot of money. ACE has an array of registered transport operators and their varying rates, usually these transporters are much cheaper than rural transporters. Farmers are also allowed to settle transport and commodity bags invoices after their contract has been paid up, this is critical to smallholder farmers who would not normally have money at the start of the season.

As a way of increasing their network, GTPA/ACE participated in the National Agriculture fair in Blantyre during the project period. More than 120 farmers across Malawi attended a 2 hr. session introducing the works of agricultural commodity exchange. The fair helped GTPA and Ace to interact with various stakeholders. Of interest were some cooperatives across the country. Furthermore, we gathered information on potential buyers for various commodities. All this information was shared with the rest of GTPA membership as well as farmer cooperatives

### ACE trade Statistics 26.01.2012

Ace trading volumes have increased over the past 6 years as more players come accustomed to the services we provide, however the trades on the exchange are just a scratch of the surface of total grain trade.



### Challenges

There was a lot of confusion from people hearing a marketing information platform for the first time, there is high need for education and sensitization of these new market initiatives. Commodity Price volatility in 2011 contributed to large defaults by some clients.

In 2011 unfortunately ACE experienced its highest default yet, a contract to supply 5000mt and 7200mt to World Food Program in Mombasa. Unfortunately the intended suppliers were not aware of the delivery incoterms highlighting the need to train as far as medium traders in these structured trade systems.

[For detail Contract details please see appendix 5](#)



Objective 4		Results
Objective changed to increased access to affordable credit through WRS June through to January.	24 months	<ul style="list-style-type: none"> <li>• 14 farmer organization training sessions (covering a total of 348 TOTs), trained in warehouse receipt system. 142 other farm groups and organizations sensitized in warehouse receipting system.</li> <li>• 4 warehouse receipts issued of 116mt of Commodity deposited</li> <li>• Depositors banked 54%, 60%, and 55% more income by using warehouse receipts.</li> <li>• Depositors accessed finance at 22% pa this is 5% to 8% lower than micro finance institutions in their locality.</li> <li>• 9 Cooperatives trained in writing business proposals to get finance, a total of 25 participants (18 male &amp; 7 female).</li> <li>• 14 FOs and 11 traders represented at a financial institutions workshop.</li> <li>• The national food reserve agency has committed to participate in the WRS and issue WR to third party owners.</li> <li>• ACE is communicating with the agriculture parliamentary committee on how we can enhance the system and putting up right legal framework that can eventually pass into law.</li> <li>• The Reserve Bank of Malawi under the Export Development Fund (EDF) initiative has committed to guarantee commercial bank's financing receipts for the purpose of export, some terms may also differ from normal loans to encourage more participants.</li> </ul>

#### Write up: Objective 4

Agriculture in Malawi is the least financed industry yet 80% of the population depends entirely on it, this objective sought to seek various ways smallholder farmers can access credit to advance their various business ventures.

Three representatives from each of 10 cooperatives met for a 5 day seminar on business plan and proposal. The objective was for cooperatives to understand how they can run their cooperatives as a business and hopefully obtain finance to scale up their businesses. 3 cooperatives have successfully written their business plans two of which are being fine tuned for financial proposals. This activity was followed by a seminar with financial institutions that included traders to learn available packages tailor made for smallholder agricultural sector.

12 Traders and 31 farmer representatives of 14 cooperatives attended the financial institutions meeting in September 2011; the objective was to introduce financial institutions requirements for loans to smallholder farmers or small farming businesses. Farmers familiarized with different packages the 12 institutions were offering to agricultural sector for producers as well as traders. Because most packages presented were targeting after harvest loans, we expect some of our traders and cooperatives to benefit from the seminar after harvesting in May 2012, when they are able to apply for such loans.

## The Warehouse receipt system

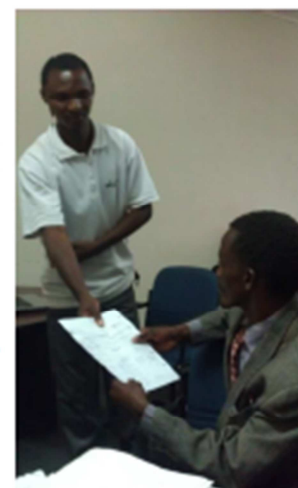
The 7<sup>th</sup> July 2011 ACE and GTPA certified the GSL 12,000 MT silos in Kanengo, Lilongwe for the WRS. The certification certificate is where GSL specifically verify that they are bound by the ACE warehouse rules and take full liability for any commodity stored under the warehouse receipt system. The document is the central document in the WRS and provides the necessary force of law for the whole contractual framework. Storage fees were set by GSL and advertised by ACE. The fees are covering everything and the depositor will have no additional costs.

The 2<sup>nd</sup> August 2011 GSL issued the first WR to Mr. Chikhasu of Bucow investment, Mchinji. The deposit was 14.5 MT, Maize, ACE Grade 1. Mr. Chikhasu was later to make more deposits and increased the WR to 44 MT. With the WR Mr. Chikhasu accessed financing and later split the WR in 2, one was sold to WFP and the other to a trader. GSL later issued another 3 WR, totaling 116 MT; all accessed financing and was later traded on ACE. After the first WRs were deposited ACE released an article – please see to right.

Malawi's first public warehouse receipt has been issued at GSL (a Farmers World Company) silos in Kanengo, Lilongwe. The Agricultural Commodity Exchange for Africa (ACE) and Grain Traders and Processors Association (GTPA) has implemented the system, which is still in the pilot phase, but all the fundamentals are in place. An owner of agricultural commodities can deposit grain and opt to get a warehouse receipt, which can immediately be financed by a bank. This provides buyers an opportunity to purchase more grain of a known quality and quantity, whilst at the same time providing the depositor the prospect of accessing funds to meet immediate needs, while at the same time, keeping ownership of the grain.

A consortium of donors, Common Fund for Commodities, EU, AGRA and USAID COMPETE are funding different components of the system, ranging from software development, rural warehouse refurbishment, training, linking farmers and actual implementation.

Mr Lawrence Chikhasu, owner of Bucow Investment, a small commodity trading company based in Mchinji was the first take advantage of the system. "I am a businessman and I need financing to keep buying maize from farmers. The storage cost is higher than what I am used to, but my maize is secure and the quality and quantity is guaranteed – I don't have to think about post harvest losses anymore." Mr Chikhasu deposited 14.5 MT and received 60% of the value, being MWK 261,000.00 at 20% interest per year. "The warehouse receipt system is making it possible for me to buy much larger volumes and keep the maize till the prices are good. I believe the price of maize will be 35 to 40 kwacha/kg early next year when I want to sell my maize; so I will earn a good premium after paying storage and interest cost."



Mr Chikhasu receives the first warehouse receipt



Maize about to be offloaded at the GSL silos

The second warehouse receipt was issued to Mr Andrew Kachete, who also operates a small trading business. Mr Kachete deposited 35 MT of Maize and received nearly MWK 600,000 in financing. "This is a very good opportunity for small operators", he said.

Mr Kristian Schach Moller, Principal Advisor at ACE said "The level of financing and interest offered by OIBM is a good beginning, but I hope to see 80% of the value at 16% to 18% interest per year when more banks are included in the system." "The warehouse receipt is a very secure document, the banks have very little risk in financing these receipts; and, buyers know they will get what they pay for when they buy a receipt – the receipt is a form of performance guarantee". Mr Moller continued, "Delivery on a contract is made when transfer of ownership is done on the receipt; the maize doesn't even have to move for delivery to take place. Trade will be very easy and secure and this should attract more buyers and give Malawi a much more liquid and vibrant agricultural market."

ACE advised the depositors to wait till January before offering the WR for sale, but the depositors insisted on selling. The reason for this is not known, but it could be because they still perceived some risk with the system, or they simply did not think that the price would increase more. Still, all depositors gained an added income from the WRS. An unexpected result was that the WRS could provide a 12 % added income after only 65 days of storage, as was the case with WRS/2011/02. The fixed storage costs are quite high and charged to the WR at intake. This means that it is not anticipated that profit gains can be made on short term deposits. It is also evident from the profit calculations that gains are higher the longer the WR is kept.

WR Profit Calculation

	WRS/2011/02	WRS/2011/03	WRS/2011/01	WRS/2011/04
No. of days on receipt	65	95	95	125
Buyer	Large Trader	WFP	WFP	Small Trader
Market price at deposit (MWK/kg)	29.00	28.00	28.00	28.00
Market price at contract date	36.00	38.50	38.50	52.00
% added value	24	38	38	86
% added profit after cost	12	19	18	72

ACE had anticipated more depositors and bigger volumes of WR in the first season. ACE had sensitized the farmer groups trained under this project and they had pledged participation. The problem was moisture content. This was the first season GSL operated their silos and they were not comfortable storing high moisture third party maize. This was a big problem as acceptable moisture level only was reached end of July. This proved to be too long and all sensitized farmers had sold their maize before they could deposit for a WR. It was not all bad as prices were reasonably high this year.

However, high moisture could undermine the whole system. ACE managed to negotiate new terms for the 2012 season. GSL were now confident that they can manage high moisture content and have agreed to do so for third party depositors this coming season. Moisture will be measured on intake and excess moisture will be deducted so the WR will state the quantity that can actually be collected. The ability to deposit earlier in the season will also mean that there will be greater benefits. The price the farmers sold their maize at last season would have been 20 to 26 Mwk/kg compared to the 28 to 29 Mwk/kg which was price at last year's intake.

### Expansion

A priority for ACE was to scale up activities; to register more facilities in other areas and to ensure more volumes. First efforts were challenging; traders utilize their storage space for trading activities and have, understandably, no interest in offering storage space to third parties at fewer profit margins. The National Food Reserve Agency (NFRA) has for some years taken deposits from some selected large traders, and occasionally the banks called NFRA to ask for confirmation about a physical stock before approving finance. In effect, an unstructured WRS and NFRA were therefore quick to confirm that they would participate and issue WR from the Kanengo silos. NFRA has storage sites in more locations and also confirmed that they will include them when procedures have been implemented and tested in Lilongwe.

To attract attention from the commercial sector ACE received unexpected help from the Reserve Bank of Malawi (RBM). The WRS had caught the RBMs attention because of good synergies with a policy they are conceptualizing. The Reserve Bank of Malawi (RBM) will deploy an Export Development Fund (EDF), capitalised with 80 billion Malawi Kwacha aimed at increasing Malawi's export and foreign currency earnings. The RBM has shown interest in the WRS because the structure can be used to incentivise and promote export, on the large scale needed to significantly increase foreign currency earnings.

### How to access EDF financing, export permits and 100% foreign currency from export earnings

- 1) Request ACE to register a storage facility for one or more commodities.
- 2) Meet the conditions in the ACE Warehouse Receipt Rules and sign the certification paper provided by ACE.
- 3) Senior staff at the storage facility will be trained in the WRS and get access to the ACE trade system where they can issue WR.
- 4) Deposit the commodity in the registered storage facility.
- 5) Issue a WR and request EDF financing from a preferred financial institution.
- 6) Promote the WR for export on ACE or sell it to a traditional off taker.
- 7) The buyer will deposit into the ACE settlement account and ACE will transfer ownership of the WR to the buyer.
- 8) ACE will confirm that all finance and storage costs have been settled and transfer all the foreign currency to the exporter's FCDA account with the financing institution.
- 9) The commodity is either collected or exported (transport can still be done by the seller) or refinanced.

Three very significant incentives will be given to the exporters:

- 1) The RBM and financial institutions make very competitive financing available to finance commodities on WR for export. The level of interest rates has not been determined yet, but it will be below the current lending rate.
- 2) Any commodity financed under the EDF must be exported. If GoM implement an export ban or other restrictive policies on a commodity it will not affect the export of a WR financed under the EDF. If the commodity for some reason is not exported, then a penalty will be imposed on the WR owner. ACE proposes that the penalty should be to increase the cost of financing to equal that of a similar WR not financed under the EDF.
- 3) The foreign currency generated by export of a WR financed under the EDF will 100% benefit the exporter. The 40/60 will not apply. The Buyer will deposit the contract

Location	Capacity	Commodities	Open to third party storage
[location of storage facility]	[MT]	[Commodities that can be stored in the facility]	[capacity that could be promoted to third party against storage fees - MT]
Lilongwe	54000	Maize, Soya, Pigeon Peas, Ground Nuts, Sunflower	25000
Blantyre	52000	Maize, Soya, Pigeon Peas, Ground Nuts, Sunflower	11000
Mtsundu	6400	Ground Nuts	Only excess capacity
Kafulu	500	Maize, Soya, Groundnuts	500
Mchinji	500	Ground Nuts	N/A
Balaka	500	Maize, Soya, Groundnuts	500
Natenia	500	Maize, Soya, Groundnuts	500



value into the ACE settlement account. When ACE has confirmed that all outstanding finance and storage costs have been settled, all the foreign currency will be transferred to the exporters FCDA account with the financial institution who financed the WR.

ACE quickly realised that this would spark the interest of the commercial sector. RBM and ACE agreed that ACE would investigate whether the commercial sector would register and issue WR to access the EDF, ACE submitted the finding to the RBM in a WRS strategy paper. Please see annex 8.

The commercial sector was as anticipated very interested. Within a few days ACE received commitment from most of the commercial traders and ACE will, in the coming months look to register 114,400 MT storage capacities. ACE anticipates that the total registered capacity for the WRS will reach 200,000 MT before the 2012 season starts.

Objective 5		Results
Improved grain trading environment in Malawi through the removal of key policy barriers to grain trade	24 months	<ul style="list-style-type: none"><li>• GTPA/ACE regularly on various policy meetings organized by its partners.</li><li>• GTPA a member of the GMAC (grain marketing council)</li><li>• GTPA in liaison with CISANET and RLEEP have had policy dialogue on Agriculture commercialization.</li><li>• ACE is a member of National Agriculture Radio Agenda committee</li><li>• GTPA &amp; ACE is a member of strategic grain reserve</li></ul>

Write up: Objective 5

#### Commercialization

Grain Traders and Processors Association of Malawi (GTPA), The Civil Society Agriculture Network (CISANET), and the Rural Livelihoods and Economic Enhancement Programme (RLEEP) organized commercialization policy workshop. The workshop attracted participants from various government departments, civil society networks, NGO community and private sector. This workshop had two presentations from policy experts focusing on Policy analysis and Policy environment analysis. The emphasis was on the general picture of the available policies that could either be pro or anti agricultural commercialization in agriculture.

The workshop recommended that for agricultural commercialization and industrialization to be achieved, there is need for the country to have a defined strategy and timeframe for the commercialization and industrialization process. The government also needs to put in place an operational, effective and efficient institutional framework to coordinate the various activities on agricultural commercialization. In addition to this, there is need for effective linkages between and among various stakeholders and for all stakeholders to fully understand the existing policy environment in which they are operating.

The country also needs to focus on commodities on which it has a comparative economic advantage in production and in addition to this, the country should be encouraged to join regional and international economic groupings and align its development agenda with development frameworks that promote collective agricultural productivity within the groupings. Policies that enhance access to productive resources/services such as land, capital assets, human capital and financial and risk bearing (insurance) services should be promoted in addition to provision of reliable infrastructure such as roads, efficient energy and water services; good marketing and communication and processing/value adding infrastructure. Finally but not least, political will and commitment is paramount to the process of agricultural commercialization.

The workshop also assigned CISANET to take the leading role in following up with relevant government ministries.

#### Grain Marketing Advisory Council

Grain Marketing Advisory Council is a group of various organizations both government and private sector representatives. The council was formed following the State President's directive at a meeting held on 27<sup>th</sup> April 2009 at Sanjika Palace in Blantyre. The body was formed in order to advise the State President on a number of issues concerning grain marketing especially maize including logistical information regarding the movement of maize both into and out of Malawi.

Members of the council are Ministry of Agriculture, ADMARC, CISANET, Grain Traders and Processors Association, Farmers Union of Malawi, Poultry Industry Association of Malawi, Rice Milling Company and Rab Processors.

1. Following the set-up of the GMAC, members have held nine meetings as of beginning of April 2010. Among the issues discussed in the meetings was the emphasis to set floor prices based on cost of production analysis. As a result of this has been that since 2009/2010 season farm gate prices, have been formulated based on the cost of production analysis with the

involvement of all stakeholders. GMAC through a sub-committee of Price monitoring, consulted widely to come up the farm gate prices.

2. Furthermore the Council has been able to advice on possible exports of maize by the private sector. This was done based on evidence of the stock levels in the country. As a matter of fact the government through the Ministry of Agriculture and Food security allowed the private sector to export 75,000 metric tonnes of maize in 2009 and also 300,000 metric tonnes of maize in 2010/2011 season. However the exports may not have been fully done because Malawi maize was quite expensive as was the case in 2009. While transport issues marred the movement of commodities in 2010/2011 season.
3. The Ministry of Agriculture and Food security has been able to enforce the licensing of traders to buy produce through the Grain traders and Processors Association. This was a result of the Council making recommendations to the Ministry of Agriculture and Food security.
4. Major policy issues so far are government unpredictable policy shift in terms of export/import permits. As of January 2012, government has restricted exportation of maize. The second major policy issue is the setting of minimum farm gate prices on agriculture produce. GTPA continues to liaise with government on all these policy issues.

## Challenges

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Unpredictable Government policy shifts: The government of Malawi through the ministry of Agriculture and food security keep on changing policy on import and export of commodities more especially maize. Maize has been declared a protected crop in Malawi as a result is become political sensitive.

Minimum farm gate prices on commodities sometimes hamper trader's competitiveness in grain trade. What has been noted is that there are instances that farm gate prices set are much higher than the regional trends.

## 6. Challenges and lessons learnt

### General challenges

There were several implementation problems including the lack of Petrol that limited the number of times we could travel to beneficiaries to assess progress in their respective businesses. This did not only cause implementation problems but was also challenging to smallholder farmers to satisfy contracts as transporters were neither willing to move commodity or simply too expensive to do so. Several defaulted contracts were directly caused by limited fuel, which pushed transport prices through the roof.

There are huge problems in record keeping and feed back to cooperative management, when farmers sale their produce individually. For instance most of the trained cooperatives are not able to tell us individual trading levels done at farmer household level. The records in this report are limited to Cooperative formal sells volume and values however there is evidence that some members may have individually traded more than 70% of their commodities privately. There is a need to strengthen cooperatives trust and the value of economies of scale when they negotiate contracts from larger traders.

General lack of trust among cooperative members making it difficult for farmers to bulk commodities in hope for a future better negotiated contract.

Some small holder farmers had forward contracts with some traders at a promised set price, however such commitments were not fulfilled by the FOs as the price of the commodity moved up to the benefit of the end farmer. In some cases market price went up more than 60%, however even though this was good for the end farmer, it is not advisable for long term business as clients lose trust in the contracts and can be detrimental to future business. There is a need to educate smallholder farmers the importance of adhering to contracts, or simply a way to negotiate better contracts that takes into account changes in market price or time value of the contracted commodity.

Low capital base for smaller traders remains a challenge to enable bulking for better negotiated prices. The introduction of Warehouse receipting system will help this group to access finance for more bulk buying. It was extremely difficult for cooperative executive committee to convince members of the cooperative to bulk commodities without any payment made, accessing finance in order to offer this payment would go a great way in increasing bulked commodities. There is a need to sensitize communities on warehouse receipts and how they can benefit from the system, the ability to access finance and later sale it for a higher profit will attract farmer deposits.

High volatile prices caused contract under performance as some traders were unable to fulfill their contractual agreements as cost prices rose higher than selling prices on respective contracts. There is need to sensitize stakeholders on the benefits of buying or selling warehouse receipts as they protect both parties against under performance on various contracts.

## **7. Recommendations**

Esoko / MIS: ACE recommends increased efforts in dissemination of market information to the rural masses that normally would not access this information; equally farmers must be sensitized on how to use that information. ACE continues to profile farmers in different sectors that they come in contact with us. The growth of small holder farmer trades on ACE grew significantly after the introduction of Esoko; perhaps this is a key component in getting more and more farmers into structured trading system to increase their income.

Rural trade facilitation centers: It is ACE wish to establish rural facilitation centers in strategic areas of Malawi as focal points for Agricultural trade closer to the farmer. The rural facilitation centers will offer trade facilitation services, focal point personnel for any contracts, transport facilitation, call center services, in a sense all facilitation services provided by head office miles away from most farmers walking distance, will now be at their door step.

Warehouse receipting system: ACE warehouse receipt system has proven very successful with more stakeholders coming in to utilize this opportunity. ACE is striving to strengthen the credibility of the system using legal framework this is one key activity for ACE this year. However it is generally noted that the establishment of a warehouse receipts is not duly known across the country, there is a huge need for sensitization and training were necessary to all stakeholders including banks, warehouse operators and surrounding communities. More Grades and standards training is required to satisfy required grades for warehouse receipting systems

Community farmer group sensitization: Most farmer groups lacked leadership skills training as well as a clear direction of where they want to be in the near future. It's ACE recommendation that such Farmer groups are strengthened and trained in various techniques to take an effective part in structured trade systems.

Capacity building: ACE recommends continuing to strengthen farmers in various aspects of structured trade to enhance their ability to participate fully in formal trades and increased incomes.