

Striking a better deal at grass-root level

There is a flurry of activity in Lilongwe's Agricultural Commodity Exchange (ACE), as numbers flicker on a large screen projected onto the wall of the on-line auction room. Everyone watches as the prices of maize fluctuate with sellers gearing up to land a deal in the last seconds of the auction.

This online auction is one of many services offered at ACE to link smallholder sellers and traders with big buyers. By becoming an ACE registered trader, anyone can buy and sell their commodity in a transparent environment.

What's more, smallholders can get market information and notification of auctions via SMS through ESOKO, a mobile phone-based system to connect smallholders with national and regional market opportunities.

Andrew Kachete - a small trader who used an online ACE trading platform to sell his maize to one of the country's major grain buyers, Senwes Malawi - said it will not be the last time he uses the system.

"It's exciting. It's a real eye opener to compete with big sellers for buyers like the World Food Programme. We thought the market was exclusive to bigger players," he said.

Too often, small holders are unaware of current market prices for their commodities and end up selling off large volumes for little profit when prices are low, which they usually are when markets are flooded after the harvest season.

In 2010, ACE traded 20,000 metric tonnes of farm commodities valued at US\$ 7 million, earning smallholders a premium.

But Kachete is part of a much bigger project gathering steam in the central region of the country. Known as the warehouse receipt system, it could change the way small scale farmers and traders do business forever.

It allows deposited grain to be stored in professionally operated warehouses, where it will be cleaned, graded and protected against pests.



Andrew Kachete, a small trader, believes that the online auction at the Lilongwe's Agricultural Commodity Exchange (ACE) has opened up markets for his produce.

Kristian Schach Moller, principle advisor at ACE, explained: “The receipts increase profits and liquidity in the market and maize is a deficit crop in this region so there will always be a time when the price will go up. There is no doubt about that,” he said.



Aida Malamulo, who lives near the Kafulu Farmer's Association, shows maize stored in a small room outside her house. She welcomes the idea of using warehouse receipts as currently she struggles to buy enough pesticide to protect her produce.

A depositor can keep ownership of the grain and reclaim it at any time by showing the warehouse receipt.

In addition, the receipts act as an asset guarantee against which the depositor can get a bank loan to the value of 60 per cent of the commodity – currently only maize.

So immediately after the harvest season the next harvest – especially if all the produce is in a warehouse for safekeeping until prices go up – depositors can get money in their pockets.

According to Eran Wilson, managing director of Senwes Malawi, the system has benefits for buyers too.

“The biggest issue in Malawi is that about 90 per cent of those who enter a contract will default. People will sign a contract without having the quantity of grain with them,” he said.

And, as the harvest season moves on the quality of grain deteriorates in traditional store houses, with moisture and pest infestation. A warehouse receipt will guarantee the quality and quantity of maize.

“The best thing about this system is this peace of mind and it's absolutely fantastic that the small scale farmer is also empowered,” he added. “For the first time we are bringing the market to the grass-root level and that's ensuring sustainability for us as well.”

Johannes Tobias Flämig, country coordinator at the WFP in Malawi, agrees that the warehouse receipt system offers huge potential for smallholders to trade on a larger market platform, allowing them to bulk produce.

“Our prime mandate is to feed vulnerable poor,” he said. “If we have an emergency and it takes too long for smallholders to supply produce then we have a problem. One of the biggest advantages of the warehouse system would be to have the volumes already there,” he said.

“It’s a bit of a chicken and egg situation,” he noted. “On the one hand you would like to be open to markets and encourage wider participation that might also include small scale farmers. On the other hand, we have to get guaranteed performance.”

If smallholders can compete on price and volume against larger suppliers then they will be supported by buyers, especially using the receipts where the storage provider – in this case the well reputed Farmers World – also guarantees quality, he said.

The warehouse receipt system is already up and running in Lilongwe, with four rural warehouse facilities either under construction or being renovated to include 500 metric tonnes of storage each, funded by the Common Fund for Commodities.

There is no doubt that demand for better storage facilities among communities is there. The Kafulu Farmers’ Association of 1400 smallholder farmers lost about 60 tonnes of maize during the last harvest. Chairman of the group, Alikipo Ndata, explained:

“We have traditional storage facilities but there is little knowledge in the community about how to treat maize and protect against grain borers. Also, money for pesticides is not there,” he said.

The group expressed excitement about the warehouse receipt system – particularly because deposits are insured against damage or theft – sometimes a problem when it’s kept in the house.



Alikipo Ndata, chairman of the Kafulu Farmer’s Association, shows pest infested maize currently stored in this temporary warehouse which will be renovated as part of the project.



Sweeping up treated maize in preparation for storage.

There are of course challenges ahead. Although it is expected there will be high demand once communities are convinced there is a profit to be made, widespread sensitization of the new scheme remains to be done.

And, depositors should expect to keep their produce in a warehouse for four to six months to earn maximum profits.

Back at the ACE auction room, Lawrence Chikhasu is the first smallholder entrepreneur to get a warehouse receipt. Although he didn't win this time, he's not going to let that stop him.

"As we are part of ACE we are trusted and bigger business is placed within our reach," he said. "With this system I can grow my business and wait for a better market. I'm the one who started it and I'll be here a lifetime."