



Agricultural Commodity Exchange for Africa



**Capacity Support to the  
Agricultural Commodity Exchange for Africa Trust  
January 2012 Progress report**



Chairman and manager of Chiyambi Cooperative in Madisi



Chairman of Kafulu Cooperative showing us how he has managed to keep good clean Maize for six months.



Common Village aggregation Centers stores up to 20mt



Common Rural household storage

**1<sup>st</sup> January – 31<sup>st</sup> January 2011**

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## Abstract

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The Agricultural Commodity Exchange for Africa (ACE) was established in July 2004, with a grant from USAID through NASFAM who identified a need to bring more order to the market place. ACE has operated a live exchange trading platform since late October 2006 and has since then facilitated trade of 81,812.83mt of commodities worth USD 25,937,940.14 across the exchange.

ACE had been struggling for a long period with very limited funding and lack of support from the market. COMPETE awarded ACE bridging funding to help it set up necessary processes or baselines to generate agricultural commodity market access, encourage transparency and hence commodity price discovery. This bridging funding also enabled ACE to stay operative and only after a couple of weeks this proved to be very important. WFP decided to test procurement through ACE, which generated a much needed pull in the market. ACE is now enjoying the benefits of last year's pull with 6 registered traders now procuring through ACE, and has since generated trade commission's of more than USD 8,000 in 11 months. WFP regional procurement continues to grow with prospective delivery points in Zambia, Lesotho, Mombasa, Cameroun. ACE expects the regional membership to grow beyond Southern and eastern Africa, with recent membership representation in Kenya, and Tanzania.

Compete funds further enhance farmer organization outreach, integration and expansion of BVO, Trade and warehouse receipting systems, and efforts to facilitate more regional procurement. The COMPETE funds, continue to enhance ACE capacity to undertake increasing procurement demands as well as means needed to develop the software applications necessary to fully harness benefit WFP and other commercial operators is bringing to the market. Strides have been taken to complete the warehouse receipt system software; the system has been fully integrated with BVO and trade platforms, the new developed web based software should be fully operational early 2012.

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### Month in Brief

Software development is at testing stage and is expected to be online and fully functional on the 15<sup>th</sup> February 2012. This is a key year for ACE operations as we integrate Market information systems, Bid Volume Only platform and the normal trade platform whilst introducing warehouse receipt system in the Market. This is a key step towards a full effective structured trade in the market, thereby formalizing grain industry which was transparent, unfinanced, and offered unreliable contracts.

Our goal is to see a smallholder farmer depositing his commodity in a registered warehouse gets finance and sells the maize to an overseas importer together with thousands of other warehouse receipts from multiple farm group deposits. ACE quickly realized the need to attract more commercial warehouse operators to maximize registered warehouse storage.

In January, 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 conceptualising. 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.

Three incentives will be given to exporters;

- 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.
- 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.
- 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 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.

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 capacity. ACE anticipates that the total registered capacity for the WRS will reach 200,000 MT before the 2012 season starts.

ACE is working towards bringing the warehouse receipting system closer to the rural areas. 3 rural sites for warehouse receipt system will be completed early March, and in time for this year's harvest. 3 banks have already agreed to finance receipts this year and we hope to get more by the start of the season.

Farmer organization participants have slowed down as planting season begins, we do not expect more farmer participation in trade sessions till May 2012 after harvest.

## Software Development

ACE is developing the trading software locally with the assistance of an international IT expert. The local developer is doing much of the coding with technical support from the expert. Advantage functions and version management is done by the expert. The setup is working well with the local developer working full time and the expert on part time.

The input screen where a storage operator issue a WR

The ACE trade system has three components:

- i) The normal bid/offer matching functionality;
- ii) the Bid Volume Only (BVO) auction system; and
- iii) the warehouse receipt system.

The system is integrated and working on the same database. The warehouse receipt registry is also integrated into the system and keeps control of WR ownership and outstanding storage costs and financing.

The basic functions such as issue a WR; finance a WR; and trade a WR are complete and working.

More advanced functions such as splitting a WR or merging two receipts into one still has to be done manually. The automatic calculation of finance and storage cost and the listing of the WR audit trail are also still manual.

Work is progressing on the advanced functions, but the priority is to ensure that the basic functions are fully operational and working with the contract generation and BVO system.

Please see an actual WR in **annex 03**

Type	WHR	Group	Commodity	Variety	Grade	Bid volume	Bid value	Offer volume	Offer value	Incoferm	Location	District	Currency	ReqNo
Select	Offer	WHR	Grain	Maize	White	MW1		28.12 MT	220.00	FCA	Plot no 28/168 Railway yard behind sobo	LILONGWE	USD	2012/8
Select	Offer		Grain	Maize	White (non GMO)	FAQ		200.00 MT	170.00	DAP	kanengo	LILONGWE	USD	2012/9

Screen shot from an offer screen. There are 2 offers to sell maize and the top one is a WR. If the "WHR" link is pressed then the actual WR can viewed with all the details. If select is pressed then a broker can buy the WR.



## Summary of activities

Result	Verifiable indicator	Remarks	Level of Achievement
First regional procurement through ACE with Delivery in Zimbabwe. ACDI VOCA / World Vision application to USDA to procure food aid to ZIM has been finalized. (Please see cover letter attached)	<ol style="list-style-type: none"> <li>1) 10000 MT of commodity contacted for regional procurement through the BVO system</li> <li>2) USD 7000 in commission and fees to ACE</li> </ol>	12,039Mt of commodity has been contracted for deliveries in Maputo, Tete, Beira, Harare, and Bulawayo through regional WFP BVO system in direct competition with Closed tender system in more than 3 countries. Generating USD 2,429 exchange commission. Please see trade statistics below.	100%
Integration of BVO system, trade platform and warehouse receipt system	<ol style="list-style-type: none"> <li>1) Fully integrated trade system utilized by ACE and ZAMACE</li> </ol>	All platforms are integrated using one main database, can now be fully utilized on ACE & Zamace, Further talks are now on to integrate part system with the Tanzanian. ACE website designed to incorporate trade scrolling screen.	100%
Warehouse receipt system will start implementation in 2011. ACE will manage the registry and the first receipts will be financed and traded	<ol style="list-style-type: none"> <li>1) Rural and Urban Warehouse receipt financed</li> <li>2) Rural and Urban Warehouse receipt traded on ACE</li> </ol>	116mt of Receipts issued and financed at 60% market value. All 4 receipts have now been traded on ACE at a profit <i>see annex 1</i> . ACE expects rural receipts to be issued next harvest season. Software development is under testing stage and expected to be live online on the 15 <sup>th</sup> February 2012	90%
Expanding the reach to farmer organizations	<ol style="list-style-type: none"> <li>1) 30 farmer organizations to participate on ACE</li> </ol>	12 Farmer organizations participated in one or more trade sessions in the past Quarter. There were fewer BVO sessions in August; however farmer organizations have traded through ACE scrolling screen by accepting bids to buy from larger traders. A total of 96 contacts of 2700mt derived from FOs and small to medium traders. <i>See annex 2 for contracts summary</i>	100%

## ANNEX

### 1. Warehouse receipt Transactions

Receipt No	WRS/2011/02	WRS/2011/03	WRS/2011/01	WRS/2012/04
Buyer	Senwes	UN WFP	UN WFP	C.H.Linde
Date Deposited	08/08/2011	11/08/2011	18/08/2011	18/08/2011
Date Contracted	08/10/2011	06/12/2011	06/12/2011	03/01/2012
Date Delivered	08/10/2011	15/01/2012	15/01/2012	03/01/2012
Volume (MT)	35.319	23.558	39.442	4.136
Amount financed	614,550.60	395,791.20	749,510.80	
Price at Deposit (MWK/MT)	29,000	28,000	28,000	28,000
Price Disbursed at (MWK/MT)	36,000	38,500	38,500	52,000
Sales Value before WRS	1,024,251.00	659,624.00	1,104,376.00	115,808.00
Sales Value after WRS	1,271,484.00	906,983.00	1,518,517.00	215,072.00
<b>Added Value</b>	247,233.00	247,359.00	414,141.00	99,264.00
<b>COSTS</b>				
Storage Period (in days)	65	137	137	125
ACE commission (0.2%)	2,542.97	1,813.97	3,037.03	430.14
Storage (12.86 MWK/MT/Day)	29,523.15	41,504.96	69,489.70	6,648.62
Handling (434 MWK/MT)	15,328.45	10,224.17	17,117.83	1,795.02
Bags/Bagging (1635 MWK/MT)	57,746.57	38,517.33	64,487.67	6,762.36
Interest (20% pa)	21,888.10	29,711.45	56,264.65	-
<b>Total Cost</b>	127,094.23	121,908.87	210,533.88	15,761.15
<b>Profit after cost</b>	120,138.77	125,450.13	203,607.12	83,502.85
<b>Added Value in %</b>	24.14	37.50	37.50	85.71
<b>Added profit in % after cost</b>	11.73	19.02	18.44	72.10
dis price - depos price / depos price * 100				
<b>% of added value goes to</b>				
Depositor	49%	51%	49%	84%
Storage operator	41%	36%	36%	15%
Bank	9%	12%	14%	0%
ACE	1.03%	0.73%	0.73%	0.43%
	100%	100%	100%	100%

## 2. Smallholder farmer groups and Small trader Contracts

Summary of contracts					
BUYER	COMMODITY	CONTRACTS	VOLUME	AMOUNT (MK)	VALUE (USD)
NASFAM	Maize	26	852.80	24,015,000.00	159,176.30
NASFAM	Groundnuts	4	25.50	3,532,500.00	22,654.19
CP Feeds	Soya	9	93.50	11,911,625.00	79,410.83
CP Feeds	Sunflower	1	150.00	11,700,000.00	78,000.00
Food Products	Soya	5	517.15	67,195,000.00	447,966.67
Farmers World	Maize	41	1,007.15	28,959,200.00	193,061.33
Farmers World	Soya	2	7.00	880,000.00	5,866.67
Rab Processors	Groundnuts	8	99.30	13,849,500.00	91,572.63
		<b>96</b>	<b>2,752.40</b>	<b>162,042,825.00</b>	<b>1,080,285.50</b>

#### 1) Depositor Details

Entity: Dr. Andrew Muhire  
Contact: Dr. Andrew Muhire  
Physical Address: Lilongwe  
Postal Address: P/Bag 365, Lilongwe  
Tel: 0999257281  
Fax:  
Email: drmuhire@yahoo.com



Dr. Andrew Muhire



#### 2) Warehouse details

Warehouse Name: Farmers World Kanengo Silos  
Contact: Amin Edhi – 0999830172  
Warehouse Owner: Farmers World  
Warehouse Number: LLW/FWO/1  
Location: Lilongwe Kanengo  
Fax:  
Email: farmersworld@farmersworld.net

#### 3) Commodity Details

- a) Commodity Name: Maize  
b) Variety: White Maize  
c) Grade: ACE 1  
d) Quantity: 23.559mt

#### 4) Outstanding Charges

Charges	Outstanding (MwK)	Effect Date
Storage	41,504.96	15 <sup>th</sup> January 2012
Handling	10,224.17	15 <sup>th</sup> January 2012
Bags / Bagging	38,517.33	15 <sup>th</sup> January 2012
Financed	395,791.20	11 <sup>th</sup> August 2011
Interest	29,711.45	15 <sup>th</sup> January 2012

5) This Warehouse Receipt is subject to the terms and conditions stipulated in:

- a) The ACE Warehouse Receipt Rules  
b) The parties acknowledge themselves to be familiar with and to be bound by the defaults terms and conditions if applicable as stipulated generally by the Regulations of ACE.  
c) ACE Arbitration Rules - Any dispute arising under this or in relation to this Warehouse Receipt shall be submitted to Arbitration in terms of regulation 38 of the regulations of ACE.

#### 6) Audit Trail

Date	Action	Owner	Volume (MT)
11/08/2011	WRS/2011/03 issued	Dr. Andrew Muhire	23.559
06/12/2011	Sold to WRS/2012/01	WFP	23.559