



Agricultural Commodity Exchange for Africa



Capacity Support to the Agricultural Commodity Exchange for Africa Trust Quarterly Progress report



1stth April – 30th June

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Contents

1. Introduction
2. Where are we now
3. Summary of Activities / Achievements
4. Expectations
5. Other
 - Trade statistics
 - Esoko
 - Warehouse receipt system
 - Request on Software development
 - Other (ACE Staff Day)

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1. Background

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 79,126mt of commodities worth USD 19,885,831 million 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 generated trade commission's of USD 5,596.25 in 7 months. WFP regional procurement continues to grow and have since registered new members in Kenya, and Tanzania. With prospective delivery points in Lesotho, Mombasa, Cameroun. ACE expects the regional membership to grow beyond Southern and eastern Africa.

2. Where are we now

A further Capacity support funding has been remitted to ACE for Feb 2011 to Jan 2012; this has also proved critical as ACE welcomed four new commercial traders in Malawi and one in Zimbabwe. CP Feeds (probably the largest processors in Malawi indicated their intention in buying more than 30,000Mt through ACE BVO systems closing every Tuesday within 3 to 4 months. Ace ran a press release as well as radio to promote CP feeds BVO, our first session was largest yet, welcomed more than 100 farmers and traders most of them eager to learn the new Agri procurement tool (BVO). Weekly BVOs provided a platform for price discovery which was key to CP Feeds procuring required amounts in a season with less harvest expectations. Previously CP Feeds was slow in adjusting their prices to fit with current market price and hence found themselves procuring late in the season at inflated prices. 9 contracts were signed for a two week delivery period mostly to supply Soya. The aftermath was unfortunate, prices of Soya increased significantly some to more than contracted prices and most contracts were defaulted. To offset such effects ACE resorted to contracting smaller tonnages with 3 days validity to ensure only traders with ready commodity can accept the bids. The month of June has been phenomenon ACE welcomed Rab processors, Farmers World, Nasfam as the next big commercial traders procuring through ACE, to date more than \$1 million value of commodities has been procured since April 2011 with contracts generated daily. Food products Limited a subsidiary of a Kenyan company has also procured commodity through ACE trade platform for export into Kenya.

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 is at testing stage and has been fully integrated with BVO and trade platforms.

3. Summary of Activities / Achievements

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)	1) 10000 MT of commodity contacted for regional procurement through the BVO system 2) USD 7000 in commission and fees to ACE	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. USDA Procurement still in paperwork progress. More than \$5500 in total has been derived from 2011 trades	65%
Integration of BVO system, trade platform and warehouse receipt system	1) Fully integrated trade system utilized by ACE and	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	45%

	ZAMACE	Tanzanian. Members are now able access login integration and resolving system errors before uploading.	
Warehouse receipt system will start implementation in 2011. ACE will manage the registry and the first receipts will be financed and traded	1) Rural and Urban Warehouse receipt financed 2) Rural and Urban Warehouse receipt traded on ACE	The system can now issue warehouse receipts, after successful negotiations with banks we expect first receipts to be issued within 3 weeks. There is a need to renovate most rural storages to adhere to conditions necessary for insurance hence Warehouse receipt. ACE expects rural receipts to be issued next harvest season.	40%
Expanding the reach to farmer organizations	1) 30 farmer organizations to participate on ACE	10 Farmer organizations participated in one or more trade sessions in the past Quarter.	33%

4.0 Expectations

The month of June is a peak harvest and marketing season; we expect a lot more transactions and even greater trust and improvements in the system as we launch warehouse receipts.

5.0 Observations

5.1 Trades on ACE updated on 7/12/2011

Period	Trades		Other BVO		WFP BVO		Total	
	Volume Mt	Value \$	Volume Mt	Value \$	Volume Mt	Value \$	Volume Mt	Value \$
2006 - 2009	28,379.90	9,475,298.00					28,379.90	\$9,475,298.00
2010	7,368.50	2,306,686.99	2,000.00	683,360.00	10,107.55	4,010,820.66	19,476.05	7,000,867.65
2011	6,033.95	1,842,865.96	468.00	222,316.00	24,769.06	6,943,687.30	31,271.01	9,008,869.25
Total	41,782.35	\$13,624,850.95	2,468.00	\$905,676.00	34,876.61	\$10,954,507.95	79,126.96	\$25,485,034.90

Ace is now averaging a contract a day from smallholder farmers as well as smaller traders supply various commercial traders. With the use of Esoko explained below, farmers are now able to use ACE prices as a reference price for bargaining. The trade statistics above include 12000Mt defaulted in June 2011 due to mis-understanding on terms of delivery by the two sellers. The sellers had misinterpreted FOB as FCA or ex Warehouse, they later unsuccessfully negotiated with WFP to change their delivery term or change price on the contract. This was unfortunate event for both WFP and ACE however it brings to us the need to educate future participants on terms of trading on each particular BVO in order to avoid similar circumstances in the near future.

5.2 Effect of ESoko

Esoko MIS system launched in March 2011, with the aim of increasing market information systems distribution in Malawi. ACE quickly moved in to use the system to disseminate price information to its registered farmers and farmer groups via Cell phone push notifications. Now ACE information (Offers and bid prices) are disseminated to more than 250 traders and farmers including TOTs trained in this AGRA project. These prices are now being used as Farmer referral prices in rural areas disseminated and recently used as a contract bargaining price by Some WFP registered Farmer groups (Kaso and Mgwirizano Cooperatives). Traders are using these prices to their own bargains in several market places as well as to plan ahead. The next step is to profile these traders and farmers so that they only receive information that directly involves them, for example Ground nuts traders will only receive information on groundnuts unless otherwise requested other information.

Esoko has helped ACE capture a large number of small traders and farmers, and we have since experienced a huge boom in number of contracts to supply larger traders from much smaller farmers or traders with tonnage ranging from 1.5mt to 40mt. The contracts generated from using ESOKO: Since inception of Esoko MIS ACE has facilitated 2233mt of commodities at a value of USD 913,700. Some traders will not have known of the opportunities if it was not for the ESOKO MIS and hence could have sold at lower prices. There are some reports that some traders are using these opportunities sent on Esoko MIS as a bargaining reference price in negotiating supply deals. Esoko is helping farmers and traders to have a choice in a market that usually lacked price transparency and benefitted the buyers most on lack of price knowledge. This amount of activity in a little over 40 days with only 250 farmers registered on ESOKO is incredible. For the first time ACE is trading on a daily basis generating reliable up to date and timely market information. ACE is working to profile and include more farmers, the bottleneck will not be profiling the farmers, but to enable ACE is handle the many requests 1 SMS generates. The phone literally starts ringing seconds after the SMS is sent out. ACE is conceptualizing to start a call center to manage these expressions of interest.

Summary of Esoko Contracts since June 2011

BUYER	COMMODITY	CONTRACTS	VOLUME	AMOUNT (MK)	VALUE (USD)
NASFAM	Maize	11	380.00	9,880,000.00	65,866.67
NASFAM	Groundnuts	1	15.00	195,000.00	1,300.00
CP Feeds	Soya	9	93.50	11,911,625	79,410.83
CP Feeds	Sunflower	1	150.00	11,700,000	78,000.00
Food Products	Soya	3	503.65	65,440,000	436,266.67
Farmers World	Maize	35	836.85	24,060,500	160,403.33
Farmers World	Soya	2	7.00	880,000	5,866.67
		62	1,986.00	124,067,125.00	827,114.17

5.3 Warehouse Receipts System

Our vision is an integrated, structured, agricultural marketing system. That is, a farmer can deposit grain in a warehouse in one place and the WHR issued by that warehouse is accepted throughout the regional marketing system. These regional WHR allows the smallholder farmer to participate in multi-country markets and grain buyers as purchasers WHRs should be able to take delivery from any warehouse choice, provided they pay any differential premiums covering transportation and handling. The effect of this will be that a small farmer's association can deposit 300 MT of maize in a Lilongwe storage facility and that an international buyer can buy this receipt (and maybe many more) taking delivery on a vessel in Beira port. The system will then transport the maize from the Malawi warehouse to Beira port where it will be loaded onto an ocean vessel. The farmer's association has in effect done a deep water export ensuring the best possible price for the smallholder – an option that has never been available to smallholders before. Farmers get access to proper storage, financing, international markets and the best prices. This, in turn, drives the incentive to increase crop production very high. And rather than selling at the bottom of the market right at harvest, the farmer is now selling at a time and location of his choosing. International buyers can access producers directly with transparent pricing and a performance guarantee. The market will be open, transparent and fair, but most importantly smallholders will be able to benefit directly from rising world prices and increasing demand.

The progress so far is:

Software:

The warehouse receipts software has been integrated with the ACE trade system. ACE will start with a fairly simple version and build more functionalities as the system develops. Warehouse operators and banks have an account where they can manage and monitor the warehouse receipts. The system enables the warehouse operator to register depositors, issue receipts, merge and split receipts, send receipts to banks for financing, send receipts to ACE for ownership transfer and send receipts to brokers for trading. The banks can log in and see receipts pending financing and receipts they have financed. ACE is finalizing two components on the receipt: 1) Tracking of outstanding lien on the receipts so any party always can see how much storage cost and financing a receipt holds. 2) A complete audit trail (transfers, splits etc) of the receipt since it was issued will be stated on the receipt. When these last functions are done the first trainings of warehouse personnel, urban and rural, banks and ACE members will begin.

Rural Approach

Sites inspections and refurbishment/upgrade drawings for Balaka, Ntendje, Ntchisi and Kufulu are complete. The Bill of quantities will go for tender end of July and work will begin in September. All facilities should be completed by year end. The USAID Market Linkages Initiative has provided the Mwandama site with a grant and that site is fully operating now with an independent warehouse manager. ACE is aiming at including them at the first trainings so we can issue receipts of the stock they already have in place.

Urban Approach

Everything is in place to start issuing receipts, except for some final additions and changes to the procedure and rules. However, Farmers World, NASFAM and OIBM are happy to get started and finalized details as we get an operational feel of the issues. Both NFRA and Farmers World wanted the moisture levels to be 12,5% before they took deposit which is the Malawi standard. This developed into an unforeseen unfortunate problem as that level only is achieved now. This year prices have already risen from 15 to 19 kwacha to 30 kwacha which was the conservatively predicted rise for the whole season. If we had been able to deposit and issue receipts straight after harvest, then it would have been a very favorable position with great gains to the farmers. Now, when the moisture levels are acceptable to the warehouse operators, the price is relative high and therefore it is not so attractive for the farmers to get a warehouse receipt. Some prefer to sell now.

A realistic prediction of the prices is that they will rise even more and we have recommended that farmers still participate and get the receipts, anticipating prices to reach 40 to 45 in the lean season. Even though some farmers reconfirmed their commitment, it is doubtful that we will get the volumes first envisaged this year. We are however organizing the first trucks as this report is being written.

Financing

OIBM has provided us with two finance options.

- 1) 60% of the value, determined by the price maize is traded on ACE, at 20% interest; or
- 2) 70 of the value at 22% interest

For the small farmers and traders this is attractive rates, as they would normally be offered 25 or even higher rates. ACE views this as a good beginning, but aim at getting the interest rates down to 16 to 18% as the system gains confidence. ACE requested that the depositors could choose between the two options, but OIBM only wanted to offer one. ACE consulted the operators who had pledged to participate and not surprisingly, the farmers preferred option 1 and the small traders option 2. ACE has yet to decide, but we will likely go with option 1. Standard bank have confirmed their participation, but we have not received their financing options.

Storage cost

This table illustrates the storage cost at the Farmers World site and the NASFAM using NFRA silo. (Moisture loss not included)

Cost	Farmers World			NASFAM		
	1 month (USD/MT)	6 month (USD/MT)	12 month (USD/MT)	1 month (USD/MT)	6 month (USD/MT)	12 month (USD/MT)
<i>Fixed</i>						
Bags	5,25	5,25	5,25	5,20	5,20	5,20
Bagging	5,00	5,00	5,00	4,77	4,77	4,77
Weighbridge	0,66	0,66	0,66	0,66	0,66	0,66
Handling	2,00	2,00	2,00	1,64	1,64	1,64
<i>Variable</i>						
Fumigation	0,33	0,66	1,32	0,30	0,60	1,20
Storage	2,05	12,30	24,60	1,94	11,64	23,28
Total per MT	15,29	26,18	39,13	14,51	24,81	36,75
Total per MT per Month	15,29	4,36	3,26	14,51	4,14	3,06

Initial procedure

The farmers will aggregate 30 MT and notify ACE when it is ready. ACE will facilitate and pay for transport; be present at loading and issue the receipt with the warehouse operator. The electronic receipt will be send to the bank with a funding request (min transport cost and max 60% of the value), a paper receipt will be printed and given to the depositor to serve as proof of deposit. ACE will verify the deposit to the bank and they will transfer financing (minus transport cost) to the warehouse receipt holder's account. (Chance would have, that all the association we are working with have accounts with OIBM)

As we develop the system and the bank becomes more confident the procedure will be simplified and more automated.

5.4 Further Request on Software Development

The Dutch IT professional we had included in the budget to oversee and train the IT developers didn't go as planned. He was too busy and was not able to commit the time we needed to gain significant impact. ACE decided to end the collaboration after just a month. We subsequently tried finding another expert, but that was not possible. In a last attempt we posted a notice on an IT expert forum on the internet and an expert responded that he was interested in assisting ACE with the software development. (Please see CV attached.)

ACE would have to pay his travel, accommodation and cost of living here, but he has agreed to waive any professional fees. This is a great opportunity for ACE, He would stay here 1 to 3 months and after that we would find a model for assistance when needed through the internet. He is perfect for the job as he actually do trainings in the programming language (ASP.NET) that we sure, and he also do development himself. ACE would not need to allocate more fund for this, we just need permission to use the already committed funds for travel, accommodation and cost of living rather than a consultant fee.

5.5 Other

ACE had a fantastic staff day on the 15th of July making an 8min video of ACE profile. All ACE Staff had to explain their role and how it directly promotes the exchange activities. It included where we are now and what we hope to achieve in the near future. We later invited all stakeholders that have been involved with ACE before to a cocktail to wind up the day. We were proud to have received applause for our efforts in promoting structured trade in the market from more than 50 attendees on the day. Ian Goggin (ACE) has a copy of the Video.