

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



Figure 1 1st Warehouse Receipt Truck in Malawi Arrive Figure 2 Truck offloads at Grain Security Silo Kanengo Lilongwe



Cooperative in Nkhoma during one of the training sessions

1st October – 30th December 2011

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Project Abstract

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 81,392.66mt of commodities worth USD 25,639,137.25 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 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 activities 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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Briefing

ACE has spent most of December looking at areas in which we can improve or scale up warehousing receipting system,

- **Financial prospects:** The reserve bank of Malawi is setting up an export development fund partly to fund agricultural export initiatives. They are looking into putting in close to 200 million Kwacha to finance such initiatives in Agricultural export marketing through commercial banks. Ace is looking at way to collaborate with this fund in two ways, financing receipts which will be at a more favorable 10-15% interest rate on receipts marketed on the exchange for export locations, this will not only attract large traders who usually get finance at 20% but also encourage small holder farmers with limited critical margins. We are also looking at this fund to help solve some constraints that are faced with medium to small farming organizations to export grain including transport, provision of good quality sacks, and aggregation centers. Talks are already underway, with most major traders already invited to participate in the scheme, will report any future developments soon.
- **Storage:** We intend to approach Admarc (agricultural development and Marketing Corporation) a government subsidiary to lease of some of their strategic rural warehouses to increase our rural warehousing capacity up to 10000mt in various locations. We hope with the backing of reserve bank, Ministry of Agriculture and parliamentary committee on agriculture will help persuade Admarc to lease some of their warehouses. We finally got National Food Reserve Agency on board to issue warehouse receipts out of their Silos. Initially ACE intends to sign a 2500mt storage agreement, all depositors will deposit onto this space and receipts will be issued by ACE upon receipt of NFRA GRNs. The agreement could see a further 3000mt storage agreement signed depending on demand. NFRA storage charges are very low therefore creating more competition and higher margin to a depositor. NFRA will scale this up to national sites and issuing receipts in-house in 2013 depending on performance for the pilot phase in 2012.
- **Depositors:** ACE is talking to various partners in an effort to sensitize communities and traders of the warehouse receipt system. ACE will sensitize Farmers Union of Malawi (FUM) members in five central region districts, through market linkages program implemented by FUM. ACE will continue to work with current registered cooperatives to strengthen their ability to participate in warehouse receipts system, and structured trade in total including export markets.
- **Software development:** Warehouse receipt system has been fully integrated with the exchange platforms (trade platform & Bid volume only platforms). The software is designed to allow operators to issue warehouse receipts in-house as well as electronically request finance from the banks. The software automatically calculates finance charges, storage charges according to profiles chosen by the depositor.

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)	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 stalled.	100%
Integration of BVO system, trade platform and warehouse receipt system	1) Fully integrated trade system utilized by ACE and ZAMACE	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	1) Rural and Urban Warehouse receipt financed 2) Rural and Urban Warehouse receipt traded on ACE	116mt of Receipts issued and financed at 60% market value. The first receipt is now on sale from 4 th October and expecting to fetch a higher price than at the time of storage. 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. Further software development is taking place with the help of a specialist	90%
Expanding the reach to farmer organizations	1) 30 farmer organizations to participate on ACE	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 92 contacts of 2700mt derived from FOs and small to medium traders.	100%

Warehouse receipts in brief

October to December has seen successful sale of remaining warehouse receipts in Malawi, in December World Food Program bought 63mt of Maize on warehouse receipts giving us an idea on where we need to improve to make transactions faster and efficient. The first phase has shown that all stakeholders involved in warehouse receipting system gain value by doing so and therefore have an interest in its sustainability. The construction on three rural storage sites is well underway scheduled to open end April in time for 2012 season. Value calculation on the three receipts sold is summarized below

Profit calculations on first three warehouse receipts sold.

Buyer: UN World Food Programme				
	Value	UoM		
Volume	21.528	Mt	Market Value at Deposit (11.08.2011)	602,784.00
Price at Deposit	28.00	Mwk	Realised revenue at time of sale (06.12.2011)	828,828.00
Sold Price	38.50	Mwk		
	Cost		Added value	226,044.00
ACE commission	1,657.66	Mwk	Storage, Interest and ACE	103,964.56
Storage	32,391.46	Mwk		
Handling	9,343.15			
Bagging	35,198.28			
Interest p.a.	25,374.01	Mwk	Extra profit after cost	122,079.44
	Depositor	Storage	Bank	ACE
Percentage for added value to	54%	34%	11%	1%

Buyer: Senwes Grain Link				
	Value	uoM		
Volume	35.319	Mt	Market Value at Deposit (03.08.2011)	953,613.00
Price at Deposit	27.00	Mwk	Realised revenue at time of sale (05.10.2011)	1,271,484.00
Sold Price	36.00	Mwk		
	Cost		Added value	317,871.00
ACE commission	2,542.97	Mwk	Storage, Interest and ACE	127,029.14
Storage	102,598.17	Mwk		
Interest 20%	21,888.00	Mwk	Extra profit after cost	190,841.86
	Depositor	Storage	Bank	ACE
Percentage for added value to	60%	32%	7%	1%

Buyer: UN World Food Programme				
	Value	UoM		
Volume	41.503	Mt*	Market Value at Deposit (18.08.2011)	1,162,084.00
Price at Deposit	28.00	Mwk	Realised revenue at time of sale (06.12.2011)	1,597,865.50
Sold Price	38.50	Mwk		
	Cost		Added value	435,781.50
ACE commission	3,195.73	Mwk	Storage, Interest and ACE	194,840.41
Storage	59,777.60	Mwk**		
Handling	18,012.30			
Bagging	67,857.41			
Interest @ 20% p.a.	45,997.38	Mwk***	Extra profit after cost	240,941.09
	Depositor	Storage	Bank	ACE
Percentage for added value to	55%	33%	11%	1%

Software Development Expectations

The I.T guys are finalizing the administration page of the three platforms, they are due to upload the new website and web based platform end January 2012.