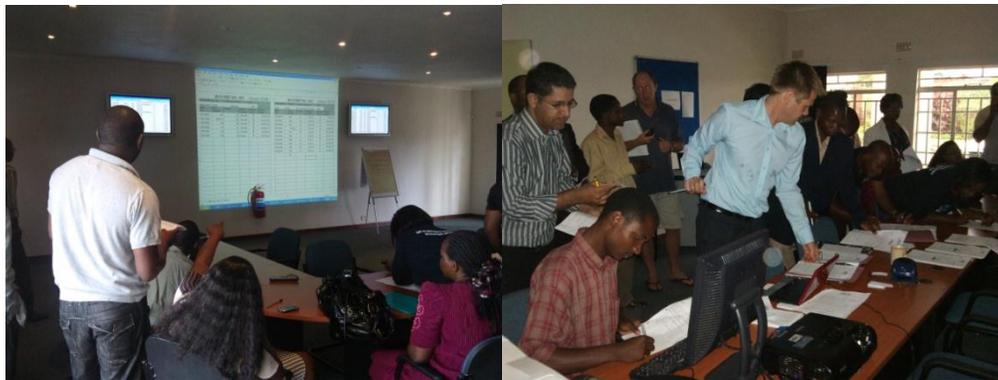




Agricultural Commodity Exchange for Africa



**Bridging funding for the Agricultural Commodity Exchange for Africa Trust
Quarterly Progress report**



15th April – 15th July

Prepared By Daniel Chilima

Name of Organization:	Agricultural Commodity Exchange for Africa
Mailing Address:	P O box 40139 Lilongwe
Physical Location:	Kanengo Light Industrial Area 28/251
Phone:	+2651710204
Fax:	+2651710258
Email:	agriculturalcommodityexchange@gmail.com
Organization's Contact Person:	Kristian Schach Moller / Daniel Chilima
P F Tracking Number:	
Title of Activity:	Bridging funding for Agricultural Commodity Exchange for Africa
Start Date of Reporting Period:	15 th February
End Date of Report:	15 th July
Date Report Submitted:	14 th July

Contents

- 1. Introduction**
- 2. Objectives set out in the Bridging fund to ACE**
- 3. Comparison of Accomplishments against Goals and Objectives**
 - WFP Experience**
 - Enhancing and expanding ACE trading activities**
 - Further development of the trading software**
 - Market Linkages Initiative proposal**
 - CFC WRS Project prepared**
- 4. Summary**

1. Introduction

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 nearly 40,000MT of commodities worth USD 14,000,000 million across the exchange.

ACE has 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. The market showed interest in ACE and we are certain that this active WFP market involvement will have a great spillover effect.

The COMPETE funds, did not only rescue ACE, they also provided the means needed to develop the software applications necessary to fully harness benefit WFP is bringing to the market.

2. Objectives set out in the Bridging fund to ACE

- Enhancing and expanding ACE trade activities
- Further development on ACE trading software
- MLI joint proposal prepared and approved
- Joint proposal to CFC WRS Project prepared , submitted and approved

3. Comparison of Accomplishments against Goals and Objectives

The WFP experience.

ACE is one of several agricultural commodity exchanges in Eastern Southern Africa trying to establish how the theory, on which they are founded and motivated by, can be implemented and sustained. ACE is there to add value for the small farmer, but this has proven to be very hard to achieve.

Since ACE was established and started operating an online trading platform in October 2006, the scope was regional and ACE quickly got members from Malawi, South Africa, Zimbabwe and Zambia. The initial focus was sensitizing large traders in the region to buy commodities from Malawi through ACE. The sentiment was to generate a demand on ACE that small farmers and farmer associations in Malawi could supply.

Some of these stakeholders saw new opportunities and were interested in testing ACE, as an easy way for them to procure commodities from Malawi. At first it was a relative success. ACE generated a number of contracts, mostly small quantities serviced by small farming groups in rural Malawi. However, problems soon

arose as farmers started to default on the contracts; either because a vendor had offered them more, or because they never had the correct quantities.

Interest from the newly found regional allies eroded and ACE was in 2008 forced to change strategy. Instead of creating a demand from the region, ACE focused on training of NGOs, extension workers and farming associations. The focal point was aggregation and structured trade. The task was substantial and ACE still depends heavily on a number of partners to incorporate ACE related activities in their strategy. The critical element is to get significant volumes traded on ACE so that timely, up to date and reliable market information can be published.

ACE soon experienced other hurdles. The capacity building and trainings did result in well organized farmer associations aggregating and bulking their commodities, to place them for offer on ACE. A few contracts were generated, but more often ACE couldn't find a market for the farming associations, leading to frustrated and disbelief in the whole concept amongst the farmers. It was really a catch 22 situation. No demand without performance guarantee, no supply without demand.

The solution is not an easy one. ACE needed to lift the market out of its present void by simultaneously creating an initial demand to stimulate the farmer associations and introducing warehouse receipt securing performance. ACE approached WFP to create the initial demand that would enable the farmer associations to actually experience the benefits. Motivated farmer associations combined with commodities on warehouse receipts would revitalize the initial interest from the region.

COMPETE awarded the grant in January 2010 that enabled ACE to begin the transformation. WFP started procuring through ACE in February 2010. As expected it created a significant pull in the market and interest in ACE operations. It also produced reliable market information for the commodities in question. More importantly the WFP involvement was a catalyst to the generation of contracts between commercial operators who haven't previously utilized ACE.

WFP has procured following on ACE

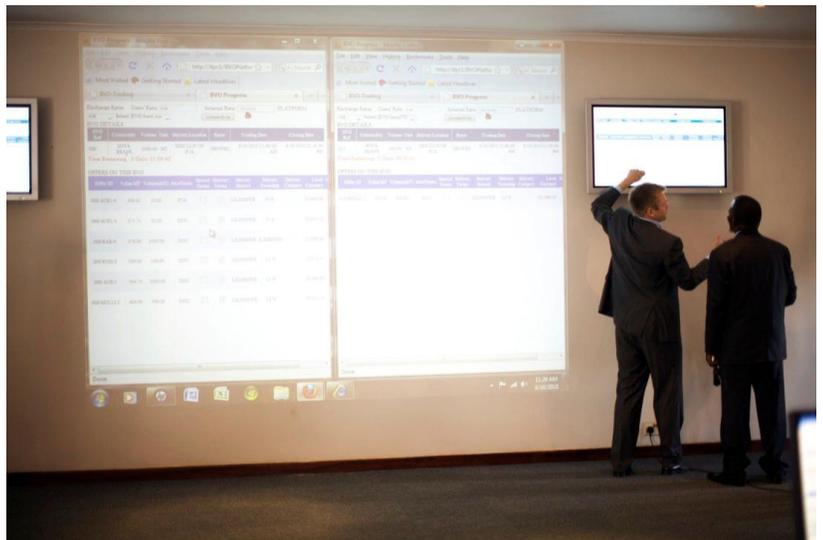
Contract No	Commodity	Location	Volume (MT)	USD/MT	Contract value
2010/001	White Maize	Blantyre, MW	297,3	298,00	88.595,40
2010/002	White Maize	Blantyre, MW	297,3	298,00	88.595,40
2010/003	White Maize	Blantyre, MW	297,3	298,00	88.595,40
2010/004	Maize Meal	Blantyre, MW	23	420,00	9.660,00
2010/005	Cow Peas	Blantyre, MW	7	555,00	3.885,00
2010/006	Cow Peas	Lilongwe, MW	41	550,00	22.550,00
2010/007	White Maize	Blantyre, MW	900	250,00	225.000,00
2010/010	White Maize	Blantyre, MW	350	245,90	86.065,00
2010/011	White Maize	Blantyre, MW	265	246,00	65.190,00
2010/012	White Maize	Mulanje, MW	165	250,00	41.250,00
2010/013	Peas	Blantyre, MW	52	508,00	26.416,00
2010/014	Peas	Lilongwe, MW	18	508,00	9.144,00
2010/015	White Maize	Blantyre, MW	31	254,00	7.874,00

2010/016	Peas	Blantyre, MW	169	509,40	86.088,60
2010/017	Peas	Lilongwe, MW	65	515,00	33.475,00
2010/018	Peas	Blantyre, MW	65	505,00	32.825,00
2010/022	White Maize	Blantyre, MW	50	230,00	11.500,00
2010/023	White Maize	Blantyre, MW	273,45	230,00	62.893,50
2010/024	CSB Plus	Blantyre, MW	121	425,28	51.458,88
Total			3.487,35	7.095,58	1.041.061,18

In the same period ACE has also facilitated trade of 3250 MT of commodities worth USD 968.452, meaning WFP is responsible for little over half of the turnover. This ratio is expected to fall as the market is sensitized and farmer organizations are better capable to participate in the formal marketplace. Total trades on ACE since 2006 is about 40000 MT of commodities worth USD 14.000.000.

One of the main objectives for WFP's P4P program is to try to contract directly with the small operators. This was hard to achieve as it was predominantly large traders who still had commodities in the deficit areas where P4P needed them. As a result all pre-harvest contracts were awarded to medium and large traders.

At lot of effort were spent sensitizing farmer associations, so they would be ready and able to participate after the harvest. ACE had invited a few selected associations to the first post-harvest trading session and it was with great joy and excitement witnessed, that the associations was able to compete with commercial companies on level playing fields. During the trading session the Chairman of one of the associations was told to watch carefully, as one of the large traders obviously was competing on the price. The Chairman responded calmly that there was nothing to worry about. With a smile he said "we are supplying them so we will win this contract". The first contract awarded after harvest was 50 MT to this association.



This proves that the system works and that it successfully can link the small farmers directly to the formal markets and higher prices. If a large trader is happy to sell at price X – then so will a small farmer.

There are still huge challenges lurking in the shadow of this successful achievement.

- The risk of performance default is still there.
- The undertaking of training and capacity building and organization of the farmer associations is still enormous.
- The government stipulated floor price is not having the desired effect on the market, nor does it benefit the farmers. On the contrary the floor price is driving the market away from transparency and killing export opportunities. ACE is confident that these new trade structures will remove the very

reasons for the Government to intervene. If the market functions with access for all and reliable prices information then there will be no need for Government intervention.

For the concept to succeed and for structured trade to expand outside the supporting hand of WFP, these challenges must be counteracted. Many donor projects and NGO activities does seem to start focusing on these areas that induce great synergies with ACE; Warehouse receipts will soon be implemented; and bulking centers will be created throughout the country. ACE and partners still have a lot to prove, but it seems the sentiment in the market, both commercial and at association level is moving in the right direction. COMPETE and WFP was the spark – we all need to be the fuel.

Enhancing and expanding ACE trading activities

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 SENEWS 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.

The aftermath was a bit unfortunate as another commercial operator sent trucks to the destination trying to buy the soya slightly lower than the contract price paying in cash. Some soya was released by the farmers before the SENWES contract was communicated to all. Also another buyer placed a bid on ACE to buy soya at 52 kwacha per kg in Ntchisi. This price came to the producer organization attention and they successfully managed to renegotiate a matching price with SENWES, who of course were unhappy with this development as the first offer is legally binding.

The process and system is new to everyone and ACE is happy with the result and the flexibility shown by the participants. ACE is learning something new at every BVO and we are continuously adjusting and improving

the system. It is still early, producer associations are just familiarizing themselves with an exchange or BVO concept, but there is no doubt that the WFP pull will keep enhancing the normal trading activity on ACE.

Further development of the trading software

Following the development of ACE bid volume software See; www.bidvolumeonly.org we have been working to further enhance the normal trade platform.

Due to complexity of developing the old trade platform software to meet our needs, it was decided to develop new trade platform software. The new design allows integration and incorporation of a warehouse receipt system; the new Bid Volume Only System (BVO) and other exchanges. This will allow stakeholders to see all trades listed on a warehouse receipt and therefore guarantee quality, quantity and availability. The new trade platform will also allow trades on transport, insurance, storage as well as commodities. With new warehouse receipt initiatives, insurance and storage will become a key in the agricultural market. The new system will allow us to restrict minimum floor prices or “farm gate prices” as required by the Ministry of Agriculture and food security in Malawi. The new system will also allow stakeholders to bid lower volume at the same price as the offer.

It is expected that the first test version of this integrated software will be online in a month.

Joint Proposal to MLI prepared submitted and approved

The MLI has decided to go with Esoko technology for a new MIS in Malawi. ACE and MACE will therefore not be submitting a joint proposal to MLI for implementation of a MIS.

ACE will start dialogue with Esoko to make sure their system will be compatible with ACE technology.

ACE has submitted a concept note and is about to submit full proposal to MLI for the implementation of infrastructure to link the small farmer association to the bulking canter and the bulking centers to the market. This activity is proposed as a way to expand the structured trade concept.

Joint proposal to CFC WRS Project prepared, submitted and approved

The warehouse receipt program just kicked off on 1st July, the bridging fund helped us in project preparation and was later approved by Common fund for commodities CFC. ACE believes warehouse receipt system will enhance integrity of the exchange and therefore attract more regional traders and buyers.

5. Summary

The market information provided by trade platforms and BVO screen is the first building block to establishing an open and dynamic marketplace in Malawi. In support of these exciting initiatives various current projects are working to increase the number of certified storage facilities, especially in rural areas, that are designed to

increase smallholder farmer's access to certified storage facilities and link them to other service providers for market information, access to financial services, insurance products and inputs.

WFP and ACE's effort to open up the market in Malawi will provide more opportunities for small operators and farmer organisations. However, these opportunities are not easily reached and it is up all agricultural organisations to implement activities and support structures that enable farmers to utilize this new marketing tool.

The BVO facility will create price discovery and transparency in the market. We feel this is very important and an absolute necessity if Malawi's agricultural sector is to develop. ACE hopes our members and stakeholder will continue to support this new initiative.

Ace Compete budget has been adjusted to cover other costs that were larger than budget lines, in mid march Compete approved recruitment of two IT technicians to enhance the development of the platform and BVO system, and this was covered by the costs of hiring a head of operations.

ACE thanks COMPETE for the assistance over the last months, which really have build momentum for ACE operations.