



SOUTHERN AFRICA REGIONAL DEVELOPMENT BRIEFING N° 3

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Executive Summary

The ACE Experience in Malawi

Kristian Schach Moller, Agricultural Commodity Exchange for Africa (ACE)

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.

ACE was established in 2005 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.

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. WFP was the spark – we all need to be the fuel.