

# Malawi Agricultural Commodity Exchange: Converting Growth into Sustainable Success

## Experience of Structured Trade System in Malawi

The Agricultural Commodity Exchange in Malawi (ACE) was formed in 2004 ACE by a working party, comprising both private and public sector stakeholders of Malawi's maize market. It focussed, essentially, on making grain business in Malawi more transparent to sellers and buyers by identifying the basic standard grades being offered for sale, attaching the known characteristics to each grain parcel and creating an open system for sellers to bid against the offer price on this basis.

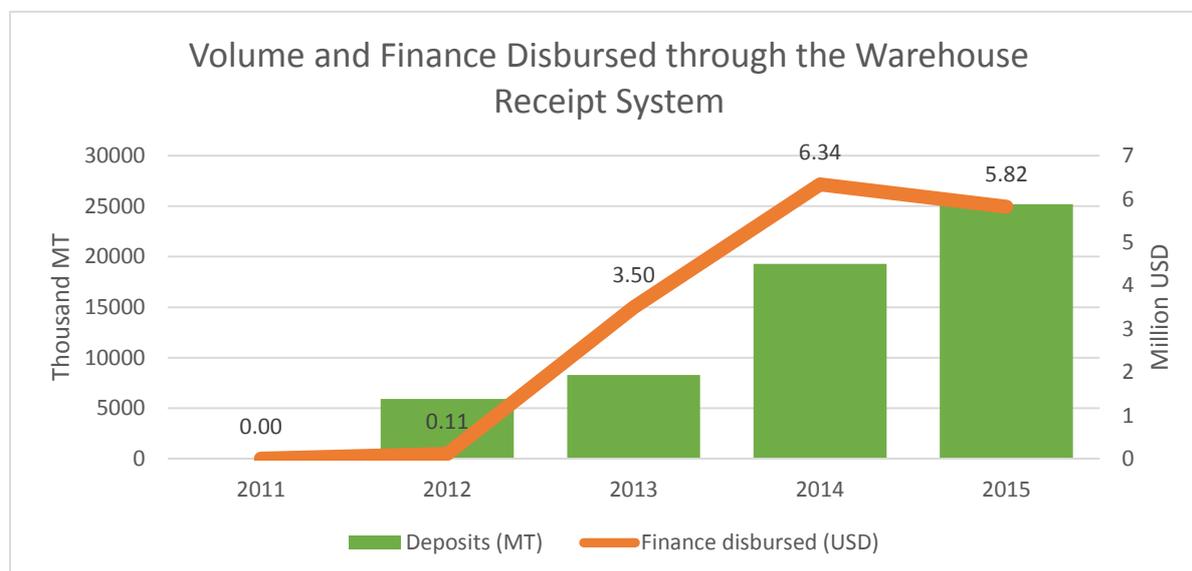
In 2007 the CFC assisted ACE in the development of the principles of warehouse receipts finance model with a small grant under the Fast Track procedure. With the use of a warehouse receipts system (WRS) ACE focussed on closing the finance gap affecting most small-scale farmers who are forced to sell their produce at harvest because they need money to re-pay the cost of inputs and prepare for the next season. WRS allows farmers to deposit their crop at an ACE-registered storage facility receiving a Warehouse Receipt. This document can then be used as collateral to borrow from a participating bank. In addition to closing the finance gap, WRS also allows farmers to access quality storage facilities and sell their commodities

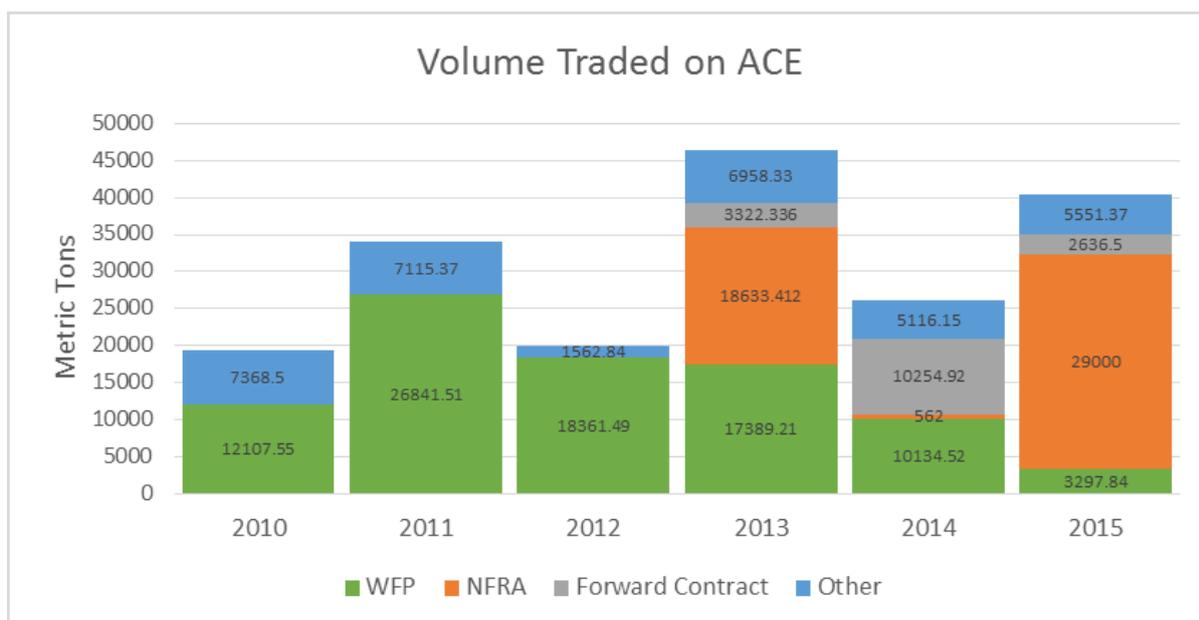
at a fair market price and at the time of their choosing e.g. when prices recover from their seasonal harvest-time lows.

In 2008 the Common Fund for Commodities (CFC) started implementing a wider project to support warehouse receipt systems in the grains sector East Africa. While Malawi was not originally intended as one of the primary operational locations, and the budget allocation was relatively small, the progress achieved by ACE made it possible to expand the basic WRS infrastructure and as a result the structured trade story began to unfold in Malawi.

The first dedicated storage sites were certified in 2011, the same year the first receipts were financed and traded on ACE (106 MT financed with USD 15,000). Since then, the system has experienced a natural growth.

In Malawi, The World Food Programme (WFP) supported the warehouse receipt system from the start. WFP's purchase for progress (P4P) project procured commodities through ACE by applying the P4P flexible procurement modalities. ACE utilised this demand to sensitise market





participants, including smallholder farmers and successfully managed to link the latter directly to WFP. The ACE warehouse receipts gave WFP the essential performance guarantees and quality assurances that they required.

Naturally, the bulk of volume traded on ACE the early years was sold by the medium to large-scale traders with WFP as the dominant buyer. There is no doubt that this initial WFP demand has been the most significant factor contributing to the structured trade success story in Malawi. Since the inception years, ACE has managed to significantly reduce the dependency on WFP and integrate a broader base of buyers.

In the Malawian context, the main challenges have been the availability of finance, availability of storage and the ability of ACE's technology to handle receipt transactions and different finance modalities. Recognising these challenges, ACE has developed the services it offers in these three areas. Below, ACE has articulated solutions for the future continuing the path of adopting innovative approaches to structured trade.

## Finance

To date, four banks in Malawi have disbursed USD 16 million through the warehouse receipt system. The bulk of this finance has been to finance receipts under the forward contract facility. The appetite for finance is far greater than what the

banks are prepared to provide. To address this, ACE is negotiating with African Trade Insurance (ATI) to offer insurance solutions that are not currently available in Malawi. With *warehouse bond insurance* to protect stock on warehouse receipt and *off taker insurance* to cover the risk under forward contract, not only should banks be willing to increase liquidity, but interest rates should come down as new international sources of finance will become available.

## Technology

Support from the CFC helped ACE build its own cost effective software platform to serve the needs of the WRS and exchange operations<sup>1</sup>. In-house developers have created, over time, a technology application which has progressively integrated functionalities to support warehouse receipt (WR) financing, market information and comex trading. In-house development targeted at the specific needs of ACE produced the system which delivers the results at the fraction of the cost of a solution from mainstream technology providers.

The results have been impressive. ACE has evolved systems and processes custom-designed for the context of a smallholder-dominated African agricultural market. These blend the traditional WR depository services with pricing, financing, trading and information solutions, all of which are

<sup>1</sup> Can be seen on the web site [www.aceafrica.org](http://www.aceafrica.org)



**Ace**  
Agricultural Commodity Exchange for Africa

Date of Print: 14 Jul 2014  
Warehouse Receipt Number: 2014/262

**1) Depositor Details**

a. Entity:  
b. Contact: Alice Kachere  
c. Physical Address: Ntshenje  
d. Postal Address: Box 130 Ntshenje  
e. Tel: 26599578327  
f. Fax:  
g. Email: alicekachere@yahoo.com



*Alice Kachere*

**2) Warehouse details**

a. Warehouse Name: Ntshenje Warehouse  
b. Warehouse Manager: Zuzi Kuchata  
c. Warehouse Operator: NASFAM  
d. Warehouse Number: NtshenjeVH  
e. Location: LILONGWE  
f. Fax:  
g. Email: zkuchata@aceafrica.org

**3) Commodity Details**

a. Commodity Name: Maize Grain  
b. Variety: White Maize (non GMO)  
c. Grade: ACE1  
d. Crop Year 2014  
e. Quantity: 8.72 MT  
f. Total Draw Down: 59.4 MT  
g. Volume at Current Moisture: 8.34 MT @ 11.00 %  
h. Volume loss at current Moisture: 0.37 MT  
i. Volume at Standard Moisture: 0.38 MT

**4) Storage Cost as of 15 Sep 2015**

Cost code	Cost (MWK)
Farm Handling	40,561.78
Bags and Bagging	146,382.39
Daily Storage Fee	517,803.31
<b>Total</b>	<b>704,847.47</b>

Storage settled till: 15/09/2015

Amount Financed:

Final Settlement Till Date: 0

Accumulated Interest Till Date: 0

Placement: Owner

**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 default 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 36 of the regulations of ACE.

**6) Audit Trail**

Date	Description	Owner	Volume(MT)
14/07/2014	WRI Created	Alice Kachere	13.68
22/07/2014	Additional Volume	Alice Kachere	24.87
01/09/2014	Additional Volume	Alice Kachere	29.57
23/03/2015	Drawdown Volume	Alice Kachere	59.40

*Small holder farmer Alice Kachere's maize warehouse receipt issued from a rural warehouse built with funds from CFC*

class technology capabilities, but lacks intimate knowledge of the workflow and solutions for emerging markets; by partnering with ACE, it will be able to develop a full-fledged technology solution for WRS in Africa.

The new system will build upon and integrate all the functionality of the current ACE systems and processes. ACE and Avenir expect to come up with high performance, agile, scalable technology platform, while also paving the way for expansion into derivatives trading, central counterparty clearing and other innovative instruments in the near future. Effectively, with this system ACE will be exporting the knowledge generated in Malawi into the global commodities markets.

Hirander Misra, CEO and Co-Founder of GMEX Group states, "The solution provided by this partnership will transform African commodity exchange development. It will act as an enabler for the establishment of cost effective, well-structured exchanges for trading physical soft commodities across Africa and globally with an efficient warehouse receipts system and delivery mechanism."

### On the road to future growth: Investing in Storage Infrastructure

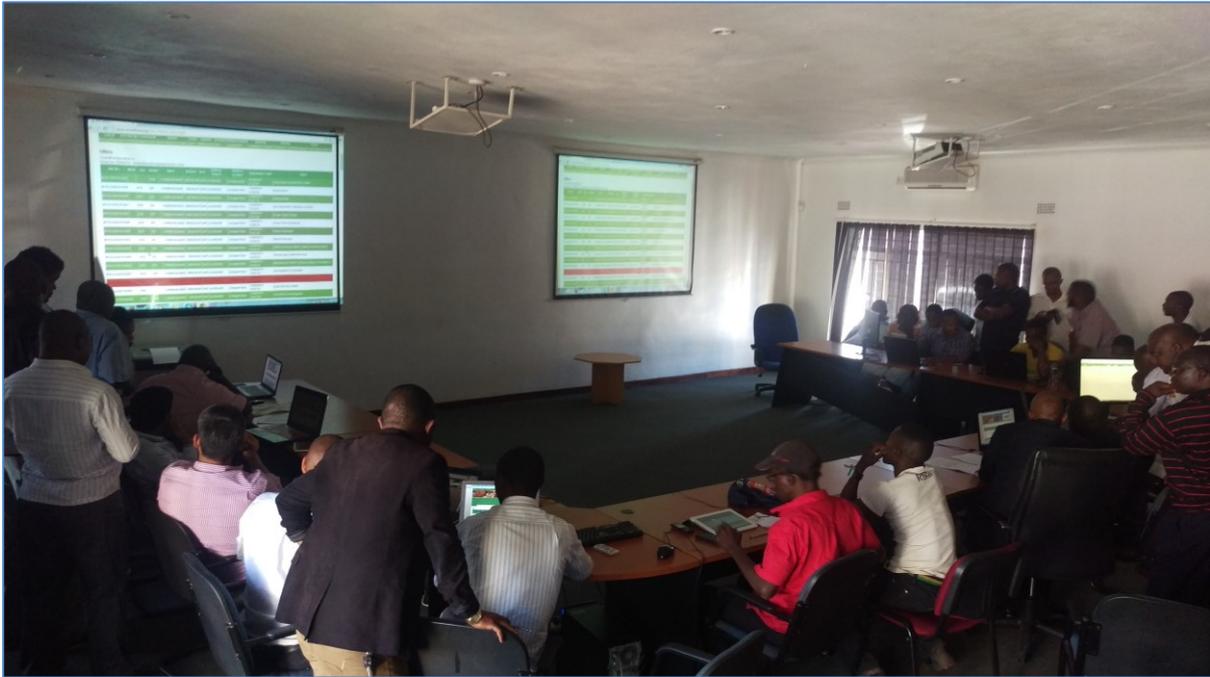
Early on ACE identified a desire from private sector to invest in storage and rural storage in particular. However, the expressed desire did not materialise on the ground and when ACE investigated, it became clear that the sector only had limited access to finance and that the available finance was fully utilised as capex for infrastructure investment in urban areas and opex for commodity procurement and general operations.

In response to this situation, ACE engaged technical assistance from the USAID Southern African Trade Hub and developed a strategy to facilitate investment into agricultural storage in Malawi which it has designated, Agricultural Storage Investment Facility (ASIF). Noting the origins of the strategy in the results of its earlier projects, the CFC agreed to participate in the creation of ASIF once other investors have been identified.

integrated into ACE's broader process capabilities including stakeholder relationship management, accreditation, supervision, training and capacity-building.

ACE's platform is thus not so much a traditional WR depository or comex platform where typically two separate systems run in parallel as it happens, for example, in South Africa. Rather, it is an integrated 'value chain finance' solution that enables counterparties to manage a wide range of risk-mitigated trading and financing structures – 70% finance, bid/offer spot trade, forward contracts, auctions and reverse auctions – end-to-end throughout the entire transaction cycle.

However, as processes become more complex and the volume of transactions increase, the red tape of scalability and replicability is starting to show. To maintain its cost efficiency, ACE is now entering a joint venture between ACE and Avenir, a well-established UK-based software company, partly owned by GMEX Technologies. Avenir has first



*ACE Bid Volume Only (BVO) session for the National Food Reserve Agency to replenish the Strategic Grain Reserve with 20.000 MT of Maize.*

ASIF strives to convene relevant qualified organisations in partnership not just to facilitate financing and investment, but also to address comprehensively the enabling environment and the bottlenecks identified by stakeholders.

Key ASIF investment lines would include:

- **Agribusiness pipelines**
  - The first of these is to be potentially financed by the **European Investment Bank (EIB)** through a credit line provided through National Bank of Malawi (NBM), Malawi's largest commercial bank, at preferential rates on the basis of agribusiness complying with developmental conditionalities;
  - The second of these is still in the formative stages, with the **CDH Investment Bank** seeking a DFI financing partner to meet the warehouse investment needs of its client base.
- **SME pipeline** to be potentially financed by the **Agence Francaise de Developpement (AFD)** with a differentiated focus on small rural

warehouses for the **SME sector** as well as one project of high development salience promoted by a Malawian agribusiness, **Farmers World**, to develop a wide network of small rural warehouses and associated services alongside their nationwide chain of rural retail outlets.

- **Farmer Association pipeline** based on collaboration with ACE's shareholder, the **National Smallholder Farmer Association of Malawi (NASFAM)**, to develop business plans and financing models on the one hand for an agro-industrial complex in Lilongwe and on the other hand, rural warehouses for NASFAM farmer clubs covering 165,000 smallholder farmers in most districts across Malawi.

There is no doubt that the coming years will be exciting for ACE, Malawi and the Region. As the finance, storage and technology solutions come together, ACE is certain that millions of smallholder farmers actually can, and will, benefit from structured trade solutions. This will be seen as the rest of the story unfolds.

