

Score with ACE

In recognizing the importance of agriculture to the economy, Agricultural Commodity Exchange for Africa (ACE) focuses its operations on three complementing spheres: trade facilitation, warehouse receipt system and market information dissemination. ACE aims to reduce transaction costs, mitigate information asymmetries and govern contractual relations between market participants with the overall objective of inducing efficiency gains. Conquering a number of the agricultural markets' limitations, ACE has shown that a well -designed institution can bring substantial social benefits to its participants and the economy as a whole.

The first pillar of the exchange's model is facilitating access to higher-value output markets using a virtual trading platform, which allows registered traders or brokers to place bids to buy or offers to sell that are in turn promoted via the internet, email, mobile networks, newspapers and radio. ACE also developed an alternative procurement mechanism, Bid Volume only (BVO) for the World Food Program (WFP) and more recently NFRA, which has proven to be a catalyst in the exchange's evolution.



Bid Volume Only (BVO) in session

The second pillar is the warehouse receipt system, through which Malawi's numerous smallholder farmers, often cut off from the markets, the services and the financing that would allow them to benefit from rising prices and demand, are able to store their produce safely and sell it when prices are higher. By ensuring compliance with quality standards, it also provides access to higher-value markets. Small traders have the opportunity to use financing as capital investment and thus reap the benefits of trading in a larger scale, and sellers can sell to buyers in a wider geographical area than their immediate location. Farm inputs like seed and fertilizer are also accessed using the commodity deposited as collateral. Processing companies, retailers and international buyers have access to a secure and transparent mechanism to trade that can reduce the transaction costs. The proper functioning of the warehouse receipt system requires a number of elements, including a legal framework, collateral financing, insurance, grading regulation, registered warehouses and a trading system. In 2012, a farmer, Mr Nivison Stock managed to deposit 7.1Mt of maize at an ACE certified warehouse in Lilongwe. "I trusted the system because I was told by the National Agricultural Smallholder Farmers Association Malawi which I knew and had worked with. They said the warehouse would be secure and safe and I agreed when I saw it so I brought my maize here. The best thing was that I got 70 percent of the value of the maize and with that money I bought dairy cattle and also sent my five children to school. With my maize in the warehouse I can decide when I want to sell and I will not sell for less than K75/kg as now I know about the prices from ACE. They keep me up to date with what prices there are in town". He said.



A farmer, Mr N. Stock made a deposit in 2012

A commodity Receipt at an ACE warehouse in Dowa

The third pillar is an integrated marketing information system. ACE uses mobile technology to collect price information from the rural areas and disseminate it to farmers, traders and others in the agricultural industry. Farmers and traders need to be well informed about price trends in order to make good marketing decisions. Crosscutting, supporting components such as promotion, sensitization, and arbitration and information technology management are also strategic to ACE's holistic approach. Together these elements represent an on-going process as the exchange grows and new services are offered.

ACE Replenishes the Strategic Grain Reserve

The Agricultural Commodity Exchange for Africa (ACE) was invited to participate in a restricted tender for the replenishment of the National Food Reserve Agency's Strategic Grain Reserve and its bid was subsequently chosen as one of the procurement modalities.

ACE's intention has been to propose a new and innovative way to go about NFRA procurement. The modalities were constructed to guarantee 100 percent transparency, equal access to a diverse pool of suppliers, continuous market price discovery and accurate price information dissemination.

ACE has used the Bid Volume Only (BVO), a reverse auction whereby suppliers can offer volumes while they bid each other's prices up or down to find a precise market price, as a market price discovery tool and as an invitation to get any willing supplier to deliver at NFRA.

Not only have the modalities guaranteed complete transparency as to what is being paid, but they have also provided equal access and the same contractual terms to farmers, small traders, processors and large traders alike. Casting a wide net has proven to be fundamental in getting a stable flow of large volumes over a short period of time.

In a period of six weeks, and at a time when there was a great deal of uncertainty about the availability of maize in Malawi, ACE has procured over 17 thousand metric tons of maize for the Strategic Grain Reserve. Most of this maize was procured by small traders and operators. A total of 163 suppliers have delivered maize to NFRA through ACE: 153 in the Central Region, 4 in the Northern Region and 6 in the Southern Region.

ACE, together with NASFAM and ADMARC, has been working hand in hand with NFRA to guarantee that the silos are efficiently replenished and that Malawi has enough stock to address issues of food security. The operation has shown great success.

Forward Contracts

This season ACE has initiated an exciting new contract, the Forward Contract. What is a forward contract? A Forward contract is a non-standardized contract between two parties to buy or to sell an asset at a specified future time at a price agreed upon today. In this case a commodity.

The forward price is calculated by adding the financing, handling and or storage charge to the spot price that is today's price. For example in the case of maize we will start the pricing by adding finance and storage costs to the spot price of 126 MK/kg over a set period.

Who would benefit? Processors who need a reliable stock source throughout the year will benefit greatly from knowing in advance what the price for the various delivery months will be.

Where is it stored? Suppliers will deliver the commodity to an ACE accredited warehouse or silo. In this way the quality and storage standard can be guaranteed. All the facilities have been insured against fire and allied perils and theft. Storage operators cannot release grains without ACE in Lilongwe indicating that the receipt may be released.

What are the requirements? The bank requires a Bank Guarantee, Letter of Intent to purchase and a Buying Instruction from the buyer. All three these documents need to note the bank's interest. Once the commodity has been purchased from a supplier, the bank furthermore requires a copy of the warehouse receipt noting the bank's interest.

When does the buyer pay? The buyer pays upon the maturity of the contract, that is the date of delivery upon which was agreed. The grain cannot be drawn from the warehouse unless the buyer has paid all charges due to ACE and ACE has settled with the financier and the storage operator.

Agricultural Commodity Exchange for Africa (ACE) is implementing a Holistic Approach to Agricultural Marketing under the USAID funded Integrating Nutrition into Value Chain (INVC) program. ACE is promoting structured trade with a view to give farmers a fair value for their commodities.