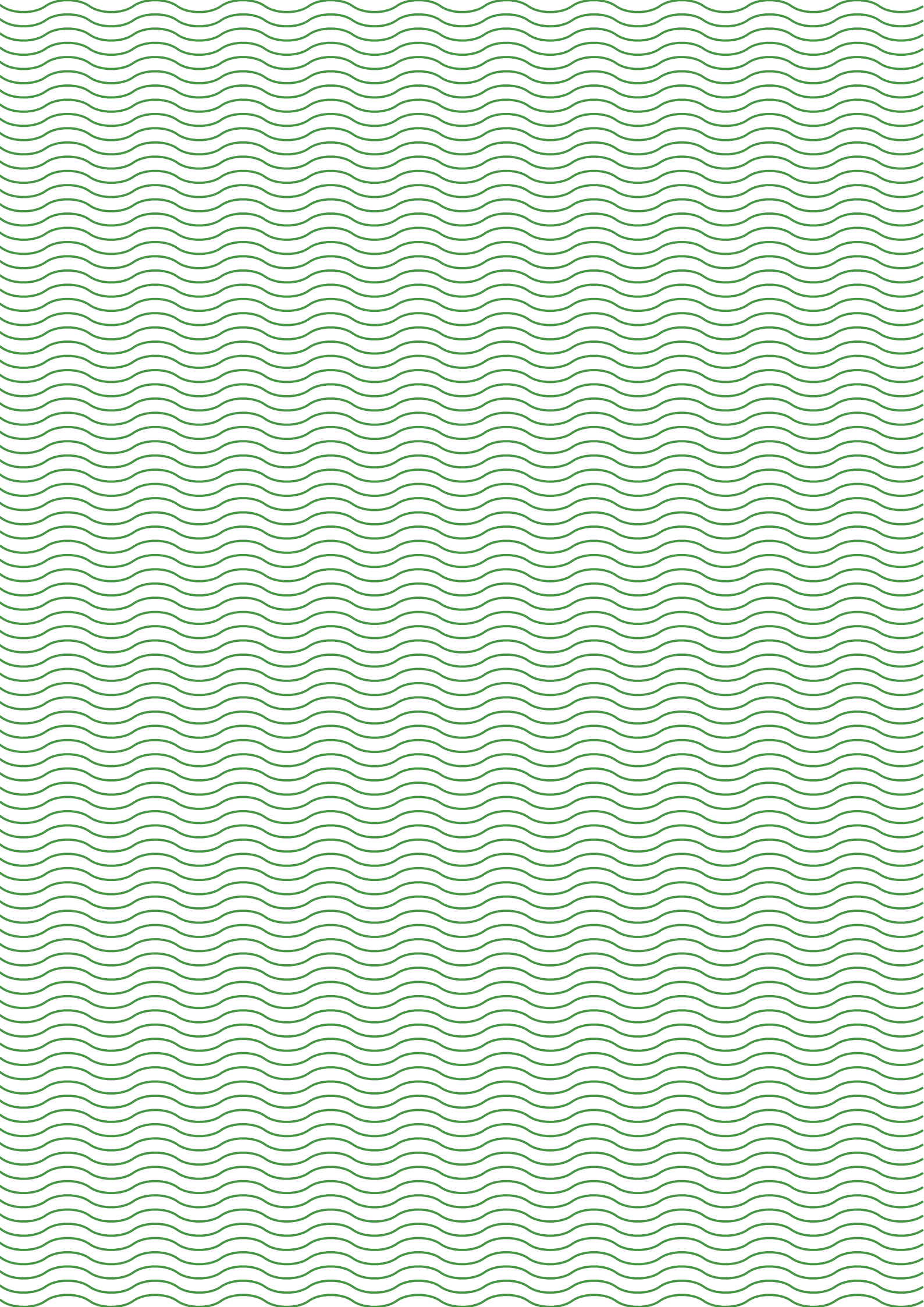




ACE Retrospective

2005-2020





ACE Retrospective

2005-2020

*A journey through structured
trade: from an idea to a licensed
agricultural commodity exchange*

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Trade facilitation

Market Information

Warehouse Receipt System

Risk mitigation



Collateral management

Quality and quantity analysis

Warehouse management

Professional guarantees

Training



ACE Marketing School

Partnerships

Project design and implementation

Development of structured trade institutions and modalities



Access to inputs

Access to finance

Access to markets

Production practices

Production technologies



Abbreviations

ACE	Agricultural Commodity Exchange for Africa
AGRA	Alliance for a Green Revolution in Africa
ADMARC	Agricultural Development and Marketing Corporation
AMS	ACE Marketing School
BVO	Bid Volume Only
EDF	Export Development Fund
EU	European Union
FCB	First Capital Bank
FISP	Farm Input Subsidy Programme
FUM	Farmers Union of Malawi
GAP	Good Agricultural Practices
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IFPRI	International Food Policy Research Institute
JSE	Johannesburg Stock Exchange
KULIMA-MIERA	KULIMA – More Income and Employment in Rural Areas of Malawi
MIS	Market Information System
MOST	Malawi Oilseed Sector Transformation
MT	Metric tonne
NASCOMEX	NASFAM Agricultural Commodity Exchange
NASFAM	National Smallholder Farmers' Association of Malawi
NFRA	National Food Reserve Agency
RMA	Rural Marketing Advisors
SAFEX	South African Futures Exchange
SSO	Sunseed Oil
USAID	United States Agency for International Development
WFP	United Nations World Food Programme
WHH	Welthungerhilfe
WRS	Warehouse Receipt System
ZAMACE	Zambian Agricultural Commodities Exchange
ZAMBOARD	Zambian Marketing Board
ZIMACE	Zimbabwe Agricultural Commodity Exchange

Foreword

Kristian Schach Møller
Chief Executive Officer



Fifteen years: what a journey!

On Friday 26 April 2019, the Agricultural Commodity Exchange for Africa (ACE Africa) handed in an application to the Registrar of Financial Institutions for a licence to operate a trade platform, a warehouse receipt system, and a clearing house; all to continue the development and promotion of structured trade in Malawi. After one year of suspense, in April 2020 ACE Africa was granted the licence – an imperative milestone in ACE's endeavour to establish and develop structured trade in Malawi.

To mark this occasion ACE released a series of seven articles about the structured trade journey and in-depth information about the Warehouse Receipt System, the Market Information System, finance, and trade facilitation. We've collated them in this publication (sometimes known as a *festschrift*) and hope you'll enjoy reading about our journey so far.

The value of partnerships

As I look back on the past fifteen years, one thing that really stands out is partnerships. There would have been no ACE today without all the support and joint initiatives. So many in Malawi and internationally have been involved in this process – far too many to mention here; but you know who you are (if you forgot, read through the Acknowledgements at the end of this publication). I cannot express enough my gratitude for your support, belief, and advice over the years.

Had you asked me fifteen years ago what the future would hold, when as a young lawyer I travelled to Malawi to visit a friend, I wouldn't have had the faintest idea of what was to unfold. The voyage has been so incredibly rewarding; nauseatingly frustrating at times; challenging beyond comparison; but most of all extremely privileged. I don't say this lightly, but when I arrived at the National Smallholder Farmers' Association of Malawi (NASFAM) I didn't have the slightest idea what was going on around me. I did not understand the environment, the culture, the struggles of farmers, and least of all agriculture. But when I was introduced to structured trade and studied the concept of warehouse receipts, it struck a chord with me. I was absolutely convinced this could benefit smallholder farmers across the African continent.

The chance to nurture this idea, this concept, of which my conviction was absolute, was compelling personally and without a doubt the reason why I'm still here. I have to admit I started this journey with a fair amount of naivety. I didn't fully understand what was needed – in terms of infrastructure, organisation, and support – to implement these ideas in this environment. Had I understood at the beginning, I like to believe I would have taken on the fight, but I can't honestly say that!

One of the early strong motivators for me came just as I'd started to realise trade facilitation wasn't going to happen just because there was a commodity exchange. We had just issued a contract to a farmer from Madisi who delivered 25MT of maize to the World Food Programme (WFP). He was so excited and so full of gratitude that he brought a bag of potatoes and a live chicken to our office. The affirmation of the impact for farmers when ACE got it right was the driving force for me. ACE just needs to get it right more often!

I cannot thank Ian Goggin enough for the early support he gave me; for his patience dealing with a thousand questions; and for fiercely engaging in heated debates when I questioned conventional wisdom. We were a good team. Ian left the operational side of ACE in 2010 as he accepted an offer for a position with the USAID Eastern

Africa Trade Hub. As Ian was packing his bags, ACE received a grant from Alliance for a Green Revolution in Africa (AGRA), and WFP wanted to start using the auction system. The timing of these two events was crucial for ACE and I often think back on this defining moment – ACE could have closed down, but instead I found myself in a position to take ACE forward.

As I take the time to reflect on the journey so far, I'm humbled by the achievements ACE has accomplished. I also recognise the failures and fully appreciate that the work is not complete. But most of all, I am full of optimism for what lies ahead. The Warehouse Receipt System is developing naturally, through growing volumes and increasing adoption by financial institutions. ACE Trust has a great programme with GIZ and recently signed new contracts with the Government of Flanders and the Malawi Innovation Challenge Fund. Commodity Services Limited (CSL) has delivered its first profitable accounts for the quarter; and support from the Government of Malawi for structured trade activities is stronger than ever.

The most common criticism of ACE, and exchanges in general, is that we're not sustainable. This is certainly true if one reviews the African Exchange initiatives over the last decade, but critics have failed to distinguish the dual approach by ACE, with ACE Trust as the structured trade development entity and ACE's commercial activities harboured by the Exchange entity. With the implementation of CSL, ACE's commercial activities are on the cusp of sustainability, which is crucial, as it sets the anchors for the development activities of ACE Trust.

If I can predict the future, which I proved fifteen years ago I can't, I would say the next decade is all about de-risking agriculture. ACE's strategy is certainly centred on mitigating risk for agricultural value chains, driving commercial incentives, and aligning smallholder farmer and private sector interests; to promote an agricultural environment where an agricultural commodity exchange will flourish and grow in step with Malawi's economy.



2005

ACE legally incorporated

2006

Trade operations begin

2007

ACE Trust incorporated

2011

First warehouse receipt; first price information SMS

2012

Traded volume reaches a total of 100,000 MT

2014

First brokers certified

2015

Chithumba input finance model launches

2016

Warehouse receipt finance reaches a total of \$20 million disbursed

2018

CSL incorporated

2020

Licence granted

A Tribute to ACE

Adam Gross
Industry Expert



Congratulations to ACE on reaching its fifteenth anniversary and obtaining a regulatory license!

As it turns fifteen, ACE has arguably become Africa's most interesting – and important – commodity exchange.

ACE is not Africa's largest, nor its most liquid, nor its most sophisticated, nor its best funded, nor its sexiest marketed such institution...

And it is certainly not Africa's most heralded – neither by the commercial market nor, more surprisingly, by the development community, from which it has occasionally taken an unfair beating...

So what is it that makes the ACE story so compelling?

The starting point

No money, no systems, no products, no infrastructure, no regulatory framework... But two big smiles, bucket loads of enthusiasm, irrepressible optimism, sheer dogged persistence, and a refusal to give up or accept defeat no matter what...

The support network

Minimal government support, minimal private sector support¹, no big donor or philanthropic benefactor²... ACE has always excelled at building working relationships with all kinds of organisations towards a shared vision, and has never been held hostage to a single set of interests – it truly is an honest broker within Malawi and the region...

¹ At least not until much later in its lifetime...

² ACE has had to scrap for every donor facility from a whole range of institutions rather than receive large full-coverage grants

The context

Malawi shares more with the rest of the African continent than some other places where commodity exchanges have taken root... on this basis, ACE can stake a claim to being Africa's most replicable commodity exchange, a beacon of hope – and a reservoir of experience – for other initiatives that face the same set of daunting challenges at their inception...

The people

A genuine team effort blending talented, engaged Malawians with passionate, experienced expatriates working in a non-hierarchical atmosphere characterised by shared endeavour and mutual respect...

The innovation

Applied ingenuity to address with relish the complex realities of smallholder-prevalent, government-distorted, infrastructure-deficient, under-developed, under-capacitated, under-resourced, under-institutionalised, under-understood value chains, yielding the systems, products, infrastructures and – ultimately in the near future – money and a regulatory framework

that capacitate, sustain and grow these very African markets in a win-win-win-win-win proposition for farmers, agribusiness, financiers, government and the development community...

The bridging from the developmental to the commercial

The so-called 'Holy Grail' within the new private-sector-focused development paradigm to build commercial acceptance on the basis of a developmental core, from small farmer capacitation to food security procurement to infrastructure development to financial intermediation to market liquidity...

So a big friendly birthday hug for ACE, and a fat slice of cake to all its staff, participants and partners – past and present – for defying prophecies of doom, for keeping a big smile on ACE's face, and for making an indelible contribution to the global commodity exchange landscape.



Photo An ACE Warehouse Manager presents a sample of maize

370k

MT traded

191k

MT deposited

\$46.6m

finance disbursed

111k

farmers trained

162k

registered for MIS

2005-2019



“ACE has come a long way since NASFAM first identified the need for farmers to access market information and better trade opportunities. The challenge with structured trade development is the fragmented market and structures we have in Malawi – each fragment needs to be developed for the whole market to lift. In essence, this is the core of NASFAM’s vision too.”

Dr. Betty Chinyamunyu

CEO, NASFAM

Trustee, ACE Trust



“I remember travelling to Lilongwe in 2010 to participate in the new ACE BVO auctions for the World Food Programme. This was new and exciting. One of ACE’s strengths is its ability to bring industry together and provide industry solutions, such as the Warehouse Receipt System and commodity finance, but also encouraging those of us in the private sector to offer more services to farmers and become inclusive.”

Ahmed Sunka

CEO, Rab Processors



“It’s been a joy to follow the development of ACE from its early days. The ACE team inspires the business community with its tireless promotion of warehouse receipt and finance modalities. ACE has my full support and as a bank we’re always interested to hear what ACE is up to. National Bank has financed a lot of warehouse receipts in the past and we’ll continue to work closely with ACE to develop better modalities. I congratulate ACE on the first successful fifteen years!”

Shadreck Malenga

Business Development Manager, National Bank of Malawi

ACE building transparent and secure markets

Chris Sturgess

- Former Director: Commodities at the JSE
- Consultant



Huge congratulations to the team at ACE for reaching the fifteen-year milestone. Anyone who has worked in a commodity exchange has appreciation for the stamina and perseverance it takes to bring transparency and regulation to the forefront of daily commodity markets.

I recall the first time I met up with the ACE team, right at the start of their journey, filled with passion and lots of energy to build a better commodities market for Malawi. Back then I already knew it would not be easy: I was working for the South African Futures Exchange (SAFEX), which had been in operation for around nine years. Looking back over fifteen years I still see the same passion and energy in the ACE team – sure, some of the faces have changed but what has not is that undying passion to bring the benefits of a liquid and transparent commodities exchange to Malawi.

Having had the privilege of working closely with both ACE and SAFEX, I was asked to share some of my observations around the nuances between Malawi and South Africa and how this has played out through the evolution of the two exchanges.

Let's start with **REGULATION**. With the recent licensing of ACE in Malawi with the Registrar of Financial Institutions, this brings both countries closer as more formal regulation governs the role of the commodity exchanges in each

country. A well respected and robust regulatory environment will help build confidence, not only with local market participants, but also encourage international investors. Another critical success factor to the development of the South African commodities market has been consistent Government policy when it comes to marketing commodities. The South African government not intervening in agricultural pricing or imposing export or import bans has strongly supported the development of the free market and the role of SAFEX, now owned by the Johannesburg Stock Exchange (JSE), in providing a price risk management platform to the sector.

Another striking difference in the two markets is the **STRUCTURE OF THE PRODUCER**. The Malawi context consists of many smallholders while the South African grain market has particularly developed into more commercial, large farming units that are highly mechanised. This made it much easier for SAFEX to evolve as it already had a sizeable product base from which to offer trading products. Although educating the producer around the role and function of a commodity exchange has always been a priority across both markets, we see less of this today in South Africa which is not always a good thing. ACE is commended for their ongoing dedication to supporting the farmer's development.

SECURE STORAGE of commodity is the enabler for any exchange and here SAFEX was very fortunate to plug into an existing and well respected storage industry. Without a doubt this was a huge benefit to the development of the South African derivatives market. Storage operators all had a sizeable balance sheet to guarantee the product they stored. This remains a key area for ACE and their collateral management service is a genius solution to help develop this requirement for a liquid commodity exchange business.

The risk appetite by the **FINANCIAL SECTOR** to offer financing products is also an element of how quickly a commodity exchange can evolve. SAFEX spent its early years working very closely with the banks to ensure its product became integrated and, once this was possible, this provided the bedrock of the exchange business today. In developing SAFEX it was certainly very fortunate to have the support of most, if not all, of the major banks, acting not only as financiers but also clearing members to the derivatives market – a huge bonus. I fully appreciate that, to secure the banks' support, a number of risks must be quantified and hedged where possible and here it is clear ACE is working very hard to narrow the gap.

The **VALUE PROPOSITION** of the two exchanges is also slightly different: SAFEX only offers derivative contracts through futures and option contracts; while ACE largely offers spot contracts. With derivative instruments come price risk management tools and so it is far easier to encourage financial institutions to offer commodity finance as they have a mechanism to safely hedge out any price risk. With a traditional spot market the focus is price transparency and removing settlement risk – however, the price hedging ability is not there. I fully appreciate the efforts by ACE to build a better market by continually exploring innovative ways to offer clients hedging alternatives.

Finally, in my opinion, it is the **PEOPLE** factor that really makes up an exchange. The passion and commitment to persevere in building a well functioning market is unbelievable, especially in the case of ACE. The journey as described in the chapters that follow speaks loud and clear to the efforts involved, and the trials and tribulations that have brought ACE to where it is today. Markets continue to evolve and I wish ACE all the very best in its journey ahead – keep smiling!



ZIMACE and beyond

Ian Goggin

Trustee, ACE Trust



My introduction to the world of agricultural commodity exchanges began in February 1995, when I took over the running of the Zimbabwe Agricultural Commodity Exchange (ZIMACE). This was the first commodity exchange to become operational in southern Africa (1994), followed by ACE in Zambia and South African Futures Exchange (SAFEX), both of which became functional in 1995. ACE in Zambia provided market information designed to help strengthen the operations of both agricultural enterprises and individuals engaged in the sector. ZIMACE was established as a spot and forward market exchange with an open outcry system or call-over at the daily trading sessions, whilst SAFEX was an electronic platform trading futures and options contracts. SAFEX was subsequently purchased by the Johannesburg Stock Exchange (JSE), under whose auspices it still operates today.

This was truly exciting times for the commodity exchange industry in southern Africa. You could say that the exchanges were to be the jewels in the crowns of the 1980s market liberalisation efforts. The narrative was perfect, but reality decided to tell another tale.

ACE in Zambia never developed into an exchange; although the Zambian Marketing Board (ZAMBOARD) was abolished in 1989, markets were not fully liberalised. Government and parastatals continued to play a significant role and in 1995 the Food Reserve Agency was established as a dominant player in maize markets.

SAFEX was the only exchange who managed to implement derivatives and although it was

established later than the others, it resulted in the exchange flourishing. There are of course many factors pushing this story along. I would like to think the main reason was a combination of well-established large producers with financial institutions willing to finance production. The banks would say to the producer: 'you have to hedge the price on SAFEX to access finance'. There you have the birth of a successful exchange. Most African countries do not have bankable producers and this recipe was therefore not available to other aspiring exchanges.

One could argue that ZIMACE had very similar prerequisites as SAFEX and that ZIMACE was developing quickly and could have had a shot at the stars. However, the adventure ended abruptly in 2001 when the Government of Zimbabwe re-imposed market constraints by making the Grain Market Board the only body that could purchase maize and wheat. This ultimately made it impossible for ZIMACE to operate and this chapter came to an end. This was a huge blow to the agricultural sector at all levels as the warehouse receipt system, which was well supported by the banks, had revolutionised finance in the sector and provided comfort to producers, buyers, and of course the banks. This ultimately, along with other factors, resulted in a huge decline in agricultural production in Zimbabwe.

Dyborn Chibonga, then CEO of the National Smallholder Farmers' Association of Malawi (NASFAM), came to visit ZIMACE. He was very impressed and sent an invitation for me to come to Lilongwe to discuss the possibility of opening an exchange in Malawi. NASFAM, under the banner of the NASFAM Agricultural Commodity Exchange (NASCOMEX) had conceptualised an in-house platform to help streamline their operations and better serve their membership.

In 2004 I conducted a feasibility study to assess the viability of an exchange to be based in Lilongwe. It was my recommendation that

NASFAM should move from an in-house platform under NASCOMEX to a structure founded in the wider industry. NASFAM agreed and this was the birth of ACE in Malawi. I had only been there a few weeks when I met the current CEO, Kristian Schach Møller, who was doing some legal work for NASFAM at the time. Together we got everything in place, allowing the exchange to begin live electronic operations on 26 October 2006.

We went on a promotional tour in Zambia to attract Zambian members for ACE. Interest was great in Zambia and stakeholders were very interested. They quickly formed a group, but instead of joining ACE, they decided to start their own exchange. ACE was keen to engage and we went to Lusaka to discuss and assist them with setting up what was to become the Zambian Agricultural Commodities Exchange (ZAMACE).

The vision from the beginning was that the two exchanges should work closely together with harmonised rules and systems. However, as both exchanges battled their own domestic problems it was difficult to achieve the regional vision. The collaboration is still relevant and much needed for regional trade and transparency. ZAMACE is now in a rebuilding phase and it is hoped that it will become a meaningful force in the agricultural sector there.

ACE is also following other regional initiatives: warehouse receipts in Tanzania, exchange development in Mozambique, and ZIMACE resuscitation in Zimbabwe, which could be integrated in a regional structured trade approach with ACE and ZAMACE.

It has been great to have been part of the development of these crucial agricultural institutions and I will continue to support and work with ACE to pursue our initial regional vision. I should like to send huge congratulations to the whole ACE team for the achievements over the past 15 years – well done and here's to the next 15 years and more.

1 THE EARLY YEARS

The three pillars of ACE



Market
information



Trade
facilitation



Warehouse
receipts

It was fifteen years ago when the National Smallholder Farmers' Association of Malawi (NASFAM) took the initiative to start an agricultural commodity exchange. The model was adopted from the Zimbabwe Agricultural Commodity Exchange (ZIMACE) where a group of committed agribusinesses were behind a young and thriving exchange. However, the model did not develop easily in Malawi and trade volumes were very low. The markets in Malawi were much more fragmented than in Zimbabwe and the Malawian agribusinesses, whose equivalent in Zimbabwe were driving ZIMACE, were never as active in Malawi. The early conundrum can be described as a regular chicken/egg situation.

Farmers were reluctant to aggregate if ACE didn't have a firm buyer lined up, and buyers were reluctant to commit if ACE didn't have commodity aggregated and ready for inspection.

NASFAM and ACE realised that establishing an Exchange was not going to solve the problems alone. ACE Trust was therefore incorporated in 2007 to implement structured trade projects in partnership with a wide range of development partners. These partnerships started laying the

foundation of the many necessary building blocks for successful structured markets in Malawi.

The stars aligned for ACE in 2010, when the World Food Programme (WFP) implementing the Purchase for Progress programme, wanted to utilise ACE as a new procurement modality. With WFP, ACE now had a steady buyer and a solution to the chicken (or the egg) problem. At the same time, ACE qualified for a grant from the Alliance for a Green Revolution in Africa (AGRA), to train, establish and promote aggregation and collective marketing for selected farmer groups. With AGRA, ACE now had funding to stimulate the supply side and a solution to the egg (or chicken) problem.

The modality WFP used was the online auction – a Bid Volume Only (BVO) auction, which means that the buyer specifies all terms and volume but not the price. ACE invites all interested suppliers to offer prices and available volume, against these terms on the online auction. After the auction, the buyer can select the best suppliers (right volume, right location and right price) and ACE will issue the contract and delivery can begin.

Under the AGRA project, ACE managed to promote farmer aggregation. It was small

volumes, between 10MT and 30MT, but it was the beginning. The commodity was quality tested and maintained, the farmer groups accessed the BVO actions and managed to win some of these auctions by offering one kwacha lower than the large traders. **ACE felt we had cracked the nut and found a solution to smallholder farmers market access.**

One problem...this was not scalable. ACE had spent considerable project funds to handhold the farmer groups, ensuring safety of commodity stored in community sheds and assistance with rebagging, handling and logistics. There was no way ACE could handle these processes at scale. ACE knew private sector had to be the key. However, both NASFAM and ACE had been rejected, in the years leading up to 2010, when trying to get private sector to offer warehouse space and services. It seemed private sector were operating at full capacity doing their core businesses.

Farmers World was a founding member of ACE together with NASFAM and in 2011 Farmers World had taken their new Lilongwe silos into operations and they had excess capacity. They came to ACE and offered storage space and other services to farmers. This was the birth of the Warehouse Receipt System (WRS) in Malawi. In 2011 we only had six deposits but managed to successfully store, finance and trade the warehouse receipts and provide the depositors with **30% more profit compared with selling**

Photo Traditional household storage: the estimated post-harvest loss is 20%



their commodity early in the season instead of storing.

By 2012 all ACE activities centred around what ACE later would define as the three pillars of ACE: **market information, trade facilitation, and warehouse receipts.** A pathway of structured trade had emerged. Firstly, a farmer would register on the market information system and receive market information via SMS. The main vision was to empower the farmers and to ensure that they knew the urban prices before having to sell to local vendors, thereby (hopefully) negotiating a better price more aligned to the market.

With communication now established, the second step was to facilitate the farmer actually selling at the best price in the urban centres. This trade facilitation was the central idea for starting the Exchange, but as in the early years, ACE really struggled getting volume of trade. Chapter Four analyses this, but **the main problems are coordination of volume, logistics/transport and settlement of cash.** It has only been in the last couple of years that ACE has seen promising progress with trade facilitation and part of the solution has been very strategic and targeted training and capacity building with regular communication and structured follow-ups.

The third step of the structured trade ladder is the WRS. ACE needed the receipt system to be able to ensure and guarantee the performance



Photo Perfectly stored commodity in a certified rural warehouse

of the seller and thereby build trade volume on the exchange. It was, however, not the prospect of finding an immediate buyer which caught the attention of the farmers and traders; it was access to finance. Very early on, First Capital Bank (FCB) – then First Merchant Bank – offered to provide finance against a warehouse receipt. A depositor would deposit commodity in a certified warehouse and request finance from FCB. FCB would disburse 70% of the market value to the depositor.

This was new in Malawi; with a flick of a switch all Malawian farmers could now access finance. Well, in theory, all had access. In reality FCB had a market risk. If market price would drop below the 70% FCB would lose its collateral. It began well – depositors had profit year after year and ACE always ran out of finance before we ran out of depositors. However, it didn't end well; in fact, it went horribly wrong. But that story is for another chapter (see Chapter Six).

Other private sector partners actively joined the development of structured trade. Rab Processors offered storage space and opened their rural Kulima Gold shops as deposit points for the WRS. National Bank, CDH Investment Bank and Export Development Fund (EDF) started financing warehouse receipts and engaged in the development of receipt finance modalities. It all slowly started to take shape.

With the ACE rural model materializing, ACE Trust was able to establish some vital and game-changing partnerships with the USAID, the European Union, and the Common Fund for Commodities. Large grants were made available and ACE continued to lay bricks on the still fresh foundations. The focus was on development of the trade platform, building warehouses in rural areas, training and capacity building of farmers, service delivery and promotion of the structured trade approach to Government, financial institutions and other stakeholders.

More recently, ACE has worked with the Government of Flanders and GIZ to bring scale to the rural strategy and further drive the development of structured trade. A key focus has been to fully engage with the Ministry of Trade when in 2014 they laid out a roadmap to regulate the commodity exchange industry. First, the Warehouse Receipt Act, gazetted in January 2018, and then the Commodity Exchange Directive of April 2018. These two legislations are the regulatory framework for commodity exchanges, warehouse receipt systems and clearing houses. With the licence now granted, ACE will become a Self-Regulating Organisation, with authority from the Registrar of Financial Institutions to regulate industry and stakeholders utilising the services of ACE.

2 THE ACE MARKET INFORMATION SYSTEM

ACE has labelled market information as the first step on the structured trade ladder. It is a natural start, being a manageable and cheap way to integrate and work with rural populations. The theory, research and practice on use of market information is plentiful and, although not unanimous, it points to the fact that access to market information benefits rural individuals.

However, the main longer-term problem with market information is that no one seems to have managed to make a market information system economically viable. ACE believed it had an advantage. ACE did not need to sell the information to farmers; ACE could give it for free. Eventually, all things being equal, ACE anticipated that providing market information would lead to increased trade, with the commission on the traded volume covering the cost of the market information. **The idea of a sustainable market information system integrated with a trade**

platform made ACE jump at the opportunity when the USAID Market Linkages Initiative facilitated Esoko's entry to Malawi in 2011.

Esoko was a technology platform out of Ghana and had spearheaded large-scale distribution of market information through SMS in many African countries. ACE started collecting price information from rural and urban markets and uploading it to the Esoko platform and then utilising the Esoko technology to send out the information on SMS.

To pilot this, ACE registered 250 farmers on the Esoko platform. The result was incredibly promising. Within 2 months over 70 contracts were signed on ACE, making the exercise very sustainable. An interesting personal story also emerged which was later published by USAID.

ACE immediately started plans to scale this – market information was seen as the key to scale trade volumes, integrate rural

USAID success story: Sara Maunda

Sara Maunda lives on a two-acre farm about 50 km outside Lilongwe. Sara would normally sell to traders who came to her farm. She assumed they were paying her market prices. In 2011 she registered with ACE and started receiving price information on her phone. She harvested 150kg of groundnuts that year and when the trader came to her farm she was shocked to find out that he was only offering her a fourth of the price she received on her phone. She rented a pick-up with her neighbours, "...and there we were: off to Lilongwe with our bags of groundnuts," as she put it. Sara managed to get USD 130 after cost, compared to USD 27 she would have received from the vendor.



populations and develop a sustainable

Exchange. By the following season, ACE had registered 12,000 farmers and was preparing to significantly increase volumes of trade. Nothing happened... Market Information System-related trades were nowhere close to the results of the pilot and commissions earned on trades could not cover the cost of sending messages to 12,000 farmers. This did not necessarily mean that the farmers did not benefit from the information, but the local and community impact of the SMS campaign was not captured at the time, as ACE focused our impact metrics on the volume of trade through the ACE platform.

In 2014 ACE entered into partnership with Avenir Technology, an experienced commodity exchange system designer and developer. The first module to be implemented was the client database integrated with market information. ACE could register farmers and traders and share market information, but the clients could also access the Warehouse Receipt System (WRS) and trade platform. The Avenir partnership meant ACE could integrate all functions. This new system also allowed ACE to provide partner organisations with access to the database, so they could register their beneficiaries and ACE would push information to them. ACE quickly signed up several partners and in 2015 the Farmers Union of Malawi (FUM) launched their National Communication Platform using ACE/Avenir technology.

Despite the early excitement and uptake, partners were unable to devote the time and staff to the effective management and maintenance of these farmer databases. Even ACE's own database showed an increasing number of inactive mobile users as there was no way to identify or automatically remove numbers that had been changed or discontinued.

When it comes down to it, the establishment, registration and maintenance of client databases for only market information is not sustainable and therefore reliant on donor funding. Today,

IFPRI ACE MIS study

In 2018, the International Food Policy Research Institute (IFPRI) approached ACE with an idea to look at the impact of market information. Needless to say, ACE eagerly accepted. The study was conducted during the 2019 marketing season in four districts (Mchinji, Ntchisi, Dowa and Kasungu). The aim of the study was to look at the impact of receiving market price information for farmers' sales of maize and soya. Two farmer organisations in each district were selected. None of the farmer organisations had worked with ACE before and each district was assigned an intervention group, which was receiving weekly market prices for soya and maize, and a control group, which was not receiving market information.

The study found that, for the intervention group, the share of sales of both soya and maize through structured markets increased more than the share of sales through structured markets for the control group. The intervention group also saw more of an increase in the prices that they sold their maize and soya at than the control group.

It was therefore concluded that receiving market price information is beneficial to farmers when they are making decisions about their trades. While anecdotal evidence showed higher prices and positive impact from the market information SMS, the conclusions of the study were statistically insignificant and therefore not conclusive.

ACE has about 162,000 clients registered. This number is slowly increasing as more farmers are trained and more partners sign up. Due to the cost of SMS, ACE is very selective on what information is shared, to whom it's shared, and the frequency of this. Ideally, ACE would be in a situation where market information could be shared with all actors, but that is neither realistic nor sustainable.

ACE concluded that it is crucial to provide additional support to the farmers who are receiving the price information to ensure that they understand it, but also that they understand other requirements of quantity and quality, and the principles of structured markets and collective marketing.

ACE has seen, in recent years, significant progress with a combination of market information and targeted training. Through support from GIZ's KULIMA-MIERA, ACE was able to create a bespoke training service that provided farmers with the knowledge and skills to access structured markets.

The ACE Marketing School (AMS) is a three-day training for thirty members of a partner farmer organisation with modules on:

- ACE services
- market information
- collective marketing and aggregation
- trade facilitation
- an introduction to the WRS
- ACE's input supply model
- how to develop and follow a marketing plan.

This intensive training is supported with ongoing engagement from ACE Rural Marketing Advisors who provide ongoing advice and support to farmer organisations, helping turn the newly acquired knowledge and skills into improved access to markets and higher prices for their commodities.

All trainees receive price information via SMS and this, coupled with the support of their local Rural

Marketing Advisors and the skills and knowledge gained from the AMS, helps farmers to know that the price they are offered is a good one, and sell on that basis. After three years of implementation, ACE is seeing significant interest from farmers and steadily increasing adoption of ACE services and structured trade. In fact, ACE has seen farmer uptake increase by 450% and average volume traded by farmer organisations increase by 650% between 2017 and 2019.

In 2019, ACE started work on an agricultural extension app, named Zaulimi, with Welthungerhilfe (WHH). In addition to disseminating market information, **the app will also be loaded with agricultural extension messages in the form of audio, videos, images and books, so farmers can access information in different ways, suiting their literacy level.** In essence ACE is piloting whether the smart content in the app can in some way substitute elements of a three-day AMS training, which is not cost-efficient for nationwide scaling, despite small-scale interaction showing the largest impact on changing farmer behaviour and increasing access to structured markets. Furthermore, if the app can support the dissemination of market information, then that element is scalable to the extent farmers have smartphones.

There is no doubt that ACE still believes market information is beneficial and a critical first element of structured trade. ACE also acknowledges that we do not have the right model yet and that increasing adoption of structured trade models is much more complex than just sending an SMS with a price. ACE will keep registering farmers, keep pushing partners to sign up, keep piloting new methodologies and technologies and, **first and foremost, keep making agricultural market information readily available in Malawi.**

3 THE ACE WAREHOUSE RECEIPT SYSTEM



Photo An ACE Warehouse Manager grades and weighs deposited commodity

The Warehouse Receipt System (WRS) is undoubtedly the greatest achievement delivered by ACE. Nearly all domestic banks have at some point been involved with the system – some peripheral, others with complete integrated commodity finance products. Close to all large agribusinesses in Malawi have an ACE-certified warehouse and the majority have issued receipts for their own business purposes or to third parties storing with them. The WRS is truly an industry infrastructure.

The tracks have been laid, the machinery has been oiled – now it is up to the combined industry to push the train into motion. Once it has reached scale and is running at speed, it will be very hard to stop. The WRS is here to stay.

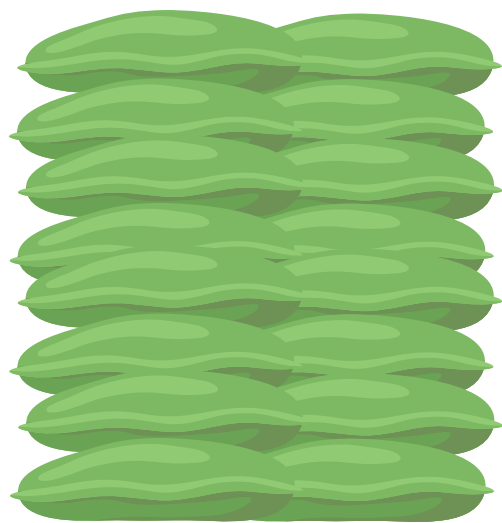
The WRS and agricultural finance walk hand in hand. ACE has already experienced what can be achieved when the product is right. There can be no doubt as to the effect access to finance has on businesses as well as smallholder farmers' ability to advance as commercial and profitable enterprises. Finance is such a strong proposition and it deserves its own chapter (see Chapter Six); this chapter will touch on the other moving parts of the WRS.

The Warehouse Receipt Act defines a warehouse receipt as a security under the Securities Act

and the ACE WRS is therefore effectively a central securities depository or registry. ACE is the system operator and with the recent commodity exchange licence, **ACE will also regulate the system in the capacity of a Self-Regulating Organisation, under the authority and regulation of the Registrar of Financial Institutions.**

The registry will contain any information about a warehouse receipt and embody the receipts as documents of legal title to the underlying commodity. Any lien or right can be pledged or registered on the warehouse receipts to protect the holder of that right. Most common would be a financier's right to the commodity as collateral for financing or a buyer's right to the commodity as specified in a contract of sales.

The critical component of the WRS is the certified warehouses. These are crucial, as the integrity of the whole system is dependent on the warehouse operator's ability to guarantee the receipts they issue. The rules the WRS has in place to mitigate risks is what differentiates a receipt issued from an ACE-certified warehouse from a warehouse receipt issued by any other warehouse. The Warehouse Receipt Act states that anyone with a warehouse for hire can issue a warehouse receipt. There is therefore no protection in the warehouse

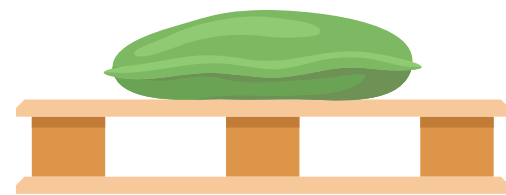


15%-20%
Post-harvest losses

receipt itself. It is only as good as the warehouse that issued it.

Developed and mature warehouse receipt systems have strict capital and financial requirements for their warehouses to insure and secure their performance. The problem faced in setting up the system in Malawi was that there was no appetite or ability for the warehouse operators to provide these financial guarantees. Had ACE introduced these safeguards, it is likely that ACE would have no certified sites at all. It is also a consideration that the cost of financial guarantees would translate into higher storage charges which again would limit interaction with the system.

It is a fine balance and a crucial element of the WRS. ACE has taken the approach that the warehouse operator guarantees will have to be introduced gradually as volume on the system increases. So far, the bar that ACE needs to meet is the bar set by the financial institutions. If banks are happy to finance, then ACE, as the system regulator, is also content. **ACE recognises that the better the protections put in place, the more attractive the system will become to banks.** The WRS needs to move from being dependent on traditional collateral management to rely on guarantees from the warehouse



1%
WRS storage loss

operators instead.

ACE believes that the WRS is an essential infrastructure. It is a catalyst for trade, finance and information. As mentioned in Chapter One, ACE started the WRS with trade services in mind. There was a need for buyers to know that they would get what they contracted to buy. Too many times, and this still happens today, a seller would default if another buyer for some reason was deemed more convenient. This mentality of disregarding or disrespecting contracts is hugely detrimental to trade.

If a buyer buys a warehouse receipt, their right to the underlying commodity will be registered in the registry. This means they are protected. The owner of the commodity can't sell it to others or take it out of the warehouse. It is locked. The practical safeguard is the warehouse operator. A warehouse operator can only release commodity on a warehouse receipt if they receive a drawdown authorisation from ACE. This actually means that the counterparty to the warehouse receipt buyer is, in fact, the warehouse operator more than the seller of the commodity. This structure opens new doors when it comes to transacting with farmers and farmer organisations. **By introducing a reputable company as a service provider to the farmers,**

any buyer in the world can transact safely with that farmer. And that, ladies and gentlemen, is the end game for ACE.

Promoting the WRS is obviously also promoting quality storage. This aspect alone could drastically reduce post-harvest losses, estimated to be 15-20% in Malawi. The WRS calculates a storage loss of 1%, so this substantial post-harvest loss reduction can contribute significantly to increased volumes towards food security or export markets.

Although ACE recognises that private sector involvement in the WRS is a critical prerequisite for success, ACE also wanted to promote farmer organisations adopting the system and, like the private sector, offered services to their farmers and members. The traditional model in Malawi is that the farmer organisation will buy produce from the farmers and sell then onwards to a buyer. Basically making the farmer organisation a trader or middleman. Many farmers in Malawi have been cheated by this set-up, both by the farmer organisation management and by traders tricking the farmer organisation leadership. ACE has also seen, too often, that the farmer organisation is paying low prices for the produce, earning considerable margins which fail to trickle down to the farmers again. ACE is, however, happy to report that there are some truly fantastic

associations out there, who are really serving their farmers well. **ACE believes that the WRS can be a tool to lead the farmer organisations in the right direction.**

ACE has been constructing warehouses for farmer organisations so they can take full ownership of their WRS integration and thereby limit their reliance on the private sector. Farmers can now deposit the commodities in their own warehouses and keep ownership of the commodity. The farmer's organisation will handle, treat and store the commodity and maybe also find a buyer. Instead of a trade margin, as in the model above, the farmer organisation will now charge a service fee for the work they do. **This model will empower the farmers in their own structures.** The financial model shows that warehouse operations will be sustainable at 50% utilisation of a 500MT warehouse. **This will be possible to achieve for many farmer organisations, but it requires considerable support.**

Of course the end vision is that a farmer organisation as an entity can be sustainable by offering services to its members. This will require larger warehouses and more volumes. We are not quite there yet!

A central proposition of the WRS is to enable farmers with the option to delay the sale at



Photo Commodity receipt at intake

harvest time, where prices are traditionally very low. The first requirement is access to the warehouse and the second could be access to finance to ensure that the farmer is not forced to sell because of cash needs. The decision to delay the sale is a speculative decision and one can never be certain that you will profit from that decision. The volatile market prices do not assist farmers in Malawi, or the region – Chapter Six covers this issue in more depth. However, the fact is that **prices after harvest are low, often below cost of production, and having the choice to store and maybe access finance will increase a farmer's options. A farmer with choices is a farmer with opportunities.**

ACE would like to see the WRS integrated with the operations of the National Food Reserve Agency (NFRA) and Agricultural Development and Marketing Corporation (ADMARC). These agencies should be offering storage against warehouse receipts. Both NFRA and ADMARC are in a constant battle to get the budget they need to buy commodities. It is great when they have funds and manage to buy early in the season. Farm gate prices always increase. However, they hardly ever manage to do that. This latest season is no exception.

ACE is promoting an alternative. Both ADMARC and NFRA should open their silos and warehouses at the beginning of the season. All farmers can deposit and get a warehouse receipt (an ACE warehouse receipt would of course be preferred). Banks could be integrated and they could offer

finance – for example, 50% of market value, just to ensure that farmers have some cash. Ideally, Government could take some financial risk from the banks to ensure attractive interest rates. ACE has no doubt that Malawi could fill up public storage spaces in the first couple of months of the season if funds or finance were available.

If there is a humanitarian need or ADMARC needs to implement price stabilising policies, then Government can buy the receipts at market price. Either first-in, first-out or at a competitive auction. If Government doesn't need to buy, then Malawi must allow export so farmers and traders can empty the storage and prepare for the new season. There shouldn't even be a need for a food reserve, but Government can buy and carry over a preferred volume of stock to the new season. This is transparent, predictable and the market will respond favourably. ACE is certain it could transform the markets, especially maize, and bring back incentives to produce and export.

ACE is happy to report that both NFRA and ADMARC leadership are very open to these ideas. ACE is optimistic: the WRS has been included in all major agricultural policies; intense work has been done on the regulatory framework led by the Ministry of Trade; and lately the initiatives from the Reserve Bank of Malawi to create a strategic Government road map for structured trade fuel the optimistic feeling that ACE will be able to table our ideas in the near future.





4 ACE TRADE FACILITATION

Trade facilitation is the Achilles' heel of ACE services. NASFAM's main vision for ACE was to bring trade opportunities to rural farmers to ensure the best possible price available. In theory, this does make sense. Farmers are selling at very low farm gate prices, while end buyers are paying considerable premiums in urban areas. Create the linkages and add value for the farmers. **Well, it turns out that this isn't as easy as it sounds!**

Let's say a farmer receives an SMS with an attractive price and calls 223 (ACE's toll-free number for trade and market information) to get a contract to sell 1MT of soya. ACE will verify with the buyer that 1MT can be accepted, then contact the seller to agree on an aggregation/collection point – preferably an ACE-certified warehouse but it doesn't have to be. ACE will then try to identify if there are other sellers close by, so that transport costs can be shared and reduced, combatting the excessively disproportionate transport costs of smaller loads. 15MT is the point where cost-effectiveness is most apparent, but 5MT can also give benefits to the sellers; less than that and it may not make sense to move the soya. The transporter goes to the collection point to collect the soya and deliver to the buyer. There is no need to complicate this example, so let's assume there's no deduction done by the buyer upon delivery.

The buyer will pay ACE by transferring to the ACE settlement account and now ACE will have to settle the seller. The easiest would be a bank transfer, but it is very unlikely that the seller (in this case, a rural farmer) will have one. ACE can also settle through mobile money, but this is hardly ever requested. (ACE assumes this is because it is hard to cash out in rural areas and the cash-out cost may be prohibitive for many.) The farmer can then travel to ACE or ACE can send a cheque by courier, bus or staff. If there is a farmer's organisation, settling through them is a preferred option.

Logistics can easily take one week and settlement the same (depending on method). This is often not an attractive proposition to the farmers, even

if the premium is 10–20%. When a farmer takes the decision to sell, they are usually responding to an urgent need for cash. The vendor, or rural trader as ACE prefers to call them, pays cash immediately and thereby performs all the services ACE is trying to put in place – aggregation, logistics and cash settlement. These traders are highly efficient and most of the time they are not making huge margins – on the contrary they are getting squeezed on both fronts. Some years, it is cheaper for large urban aggregators/buyers to buy from traders delivering commodity to their warehouse in Lilongwe than it is buying through their own rural outlets. This is really remarkable.

ACE is not trying to replace these traders. ACE wants to introduce a structured aggregation, transactional and settlement system where all the players transact – transforming the fragmented informal myriad of supply channels into a structured delivery system.

“Unscrupulous traders” is a phrase often heard. “Enemies of the state.” The rural traders and aggregators are often singled out and blamed for all that is wrong with the agricultural markets. However, it must be recognised that an integral part of good business skills, and some would say human nature, is to buy for less and sell for more, i.e. make a profit. It is simply not fair to weigh the morality of farm gate pricing on the shoulders of the rural traders. **The rural prices are, and have always been, a projection of the underlying supply and demand mechanisms, not a result of the unscrupulous behaviour of the rural traders.**

There are a lot of factors which influence prices at the beginning of the season, but there can be no doubt as to the significant role of government agricultural policies. Put simply, if policies reduce incentives for traders and processors, then demand will go down and so will prices. On the other hand, if policies increase incentives for buyers, then demand will go up and so will prices. **It is extremely frustrating for ACE, as a service provider and structured market developer, to repeatedly be undermined**

Photo Early ACE outreach to a farmer organisation



by policies developed to alleviate certain problems, while actually exacerbating those problems.

The disastrous state of agriculture production and markets is to a very large extent a direct result of decades of bad policy decisions.

Numerous Governments in Malawi have justified the export ban of maize by saying that maize is the country's staple food and that Malawi will risk starving if maize is being exported. In fact, the export ban is possibly the main reason why Malawi is in a perpetual food insecurity circle. When a ban is introduced, it removes incentives for trader and aggregators, as their options to sell have been diminished. They will not be buying; demand down, prices down. With low prices, farmers will only grow the maize they need for their own use and even the smallest yield reduction will lead to Malawi as a whole being food insecure.

There is a long tradition in Malawi for the Ministry of Agriculture to issue minimum prices. Some years these are guidelines, and some years they are dictates and it is a criminal offence not to adhere to them. Minimum prices based on a cost-of-production figure is a great guideline tool. However, some years, like this current season, the minimum prices are set very high relative to market prices. Incentives are again removed and the market prices will go down. Ironically, the more that Government tries to enforce the minimum price, the lower the real farm gate price will be.

Some years back, Government wanted to weed out the 'unscrupulous elements' and decided to introduce a licence requirement to buy from farmers. Again, the intentions were undoubtedly pure, but the outcome had the opposite effect. Traders got stopped at roadblocks, their commodity was confiscated and, all things equal, the army of traders bringing markets to farm gate got reduced overnight; demand down, prices down.

When the input subsidies programme was introduced by the Government in 2005, the Government was bold enough to allow export the first year. That resulted in a handful of years where Malawi exported about 400,000MT of maize every year. This all ended in November 2011 when the export ban was introduced and Malawi has not exported any maize since. A perfect example of how good policies can drive the agricultural production and market. **There is a real need for Government to review the agricultural policies.**

On the other hand, ACE cannot blame its poor performance when it comes to trade facilitation on Government policies. There is also a need for ACE to rethink the whole approach. Is there even a role for the commodity exchanges in the mix of the larger trader's rural outlets, the 15MT traders with pockets full of cash, and even throwing ADMARC into the mix? **Yes, perhaps stubbornly, ACE still believes there is. But, there are some essential building blocks missing: electronic**

settlement and volume on the Warehouse Receipt System (WRS).

Volume on the WRS is very closely linked to finance – Chapter Six focuses on this. Electronic settlement is dependent on infrastructure and scale. In the past, ACE believed introducing liquid mobile money agents would be a solution. However, more recently and after brainstorming with TNM, ACE is convinced the whole electronic payment system needs to take a leap forward and enable a cashless transaction environment. In other words, when a farmer receives an electronic payment, they will have to be able to buy the goods and services needed with the electronic payment service and thereby eliminate the need for cash altogether.

ACE and TNM have designed a pilot to be implemented around a well-functioning rural warehouse, to explore if it will be possible to get everyone in that area on a cashless system. This will be hard to implement at scale, but ACE believes its needs to happen. Especially for ACE's ability to develop structured trade facilitation.

Facing these missing elements, ACE is targeting buyers who, for various reasons, need or benefit from the WRS. ACE calls these demand drivers, or, using established commodity exchange terminology, market makers. Utilising the demand from these market makers, ACE can introduce systems and build transaction volume.

In fact, the WRS and to a large extent ACE itself was built on the early demand from the World Food Programme (WFP). ACE had very little trade volume when WFP started buying through ACE in 2010. ACE developed the Bid Volume Only (BVO) auctions for WFP procurements. BVO basically means that the buyer specifies all the terms, expect the price. Suppliers will then attend the auction and compete on price. It is like an open tender. In the first three years WFP was responsible for 75% of ACE's trade volume. ACE builds the systems and structures and then manages to migrate volume away from WFP. During the subsequent years, WFP's share was less than 15% of ACE's total volume. A remarkable

tale of what can be developed around a steady demand. Just imagine what could be done with the demand from Government, WFP and other institutional buyers.

Unfortunately, WFP is no longer using the BVO system, but ACE and WFP have signed an MOU detailing how WFP will procure from farmers through the private sector, utilising the WRS as an aggregation, settlement and audit trial. ACE is also providing services to a leading tobacco company, where contracted farmers will deposit groundnuts in the selected certified warehouses. Commodity Services Limited (CSL)³ is managing the flow of warehouse receipts, with ACE linking non-contracted farmers (when needed) and settling the farmers through the settlement system. ACE has also successfully linked farmers and traders to United Refineries Limited in Zimbabwe utilising the WRS.

These demand drivers are crucial for ACE's ability to further the development of structured trade. The export market has a particular appeal to ACE. The benefit of the WRS to foreign buyers is obvious. They can take ownership of any commodity, in any certified warehouse and transport it out of Malawi when it is needed. For the export buyer, volume is crucial – they really need to be confident that volume is there, so they are sure of delivery.

ACE is confident that trade volume will increase if ACE continues to build more relationships with market makers, to develop commodity finance options and to promote the WRS as an aggregation system for farmers. There is a critical volume that needs to be reached. ACE is not sure where the threshold is, but it will be a tipping point and, from then on, buying and selling warehouse receipts will be the default way to trade agricultural commodities.

³ CSL is a new entity in the ACE Ecosystem established to house the collateral management, monitoring, and inspection requirements of the exchange.

5 THE CHITHUMBA MODEL



Photo Farmer Enesto Chaima, chairman of the Nyanja Association, in the ACE-certified Nthenje warehouse

In 2015 the government Farm Input Subsidy Programme (FISP) was on the verge of collapse. It had been taken hostage in a disagreement between Government and development partners around funding and the distribution of fertiliser. Government announced that it would not fund seeds that year. That would have been a disaster, as years of healthy growth in the seed manufacturing sector would not only be put on pause but also set back several years – you cannot just pause seed multiplication.

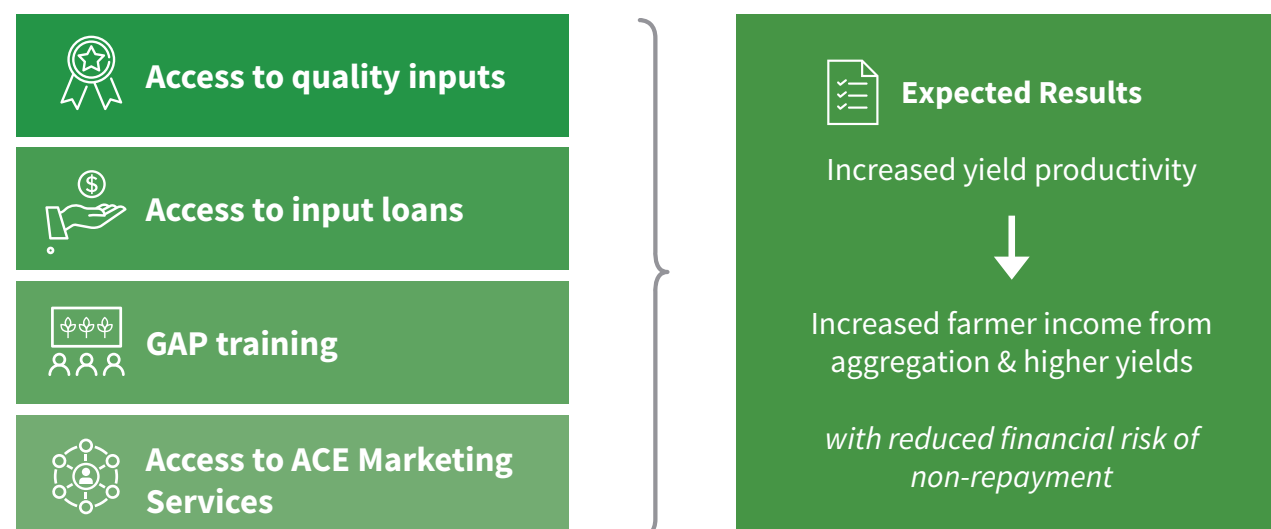
The Malawi Oilseed Sector Transformation (MOST) project was assessing how they could ensure wide seed distribution if Government efforts were going to fail. MOST contacted ACE to find out if they could utilise the network of ACE rural warehouses to distribute seed. The answer was a resounding yes! This was at a time when ACE trade facilitation services were failing to scale as much as the warehouse receipt and finance services. If seeds were going to be distributed from ACE-certified sites, they were likely to be planted near an ACE-certified site and these farmers would in all likelihood be the farmers with excess production and therefore the farmers ACE needed to be in contact with. Luckily, the disagreement between Government and development partners was resolved and funding for seed subsidies was secured, so there was no

need for a rushed alternative seed distribution mechanism. **However, one seed had been sown and that was the idea that ACE should look at seed distribution as a catalyst service to integrate farmers into structured trade. ACE and MOST kept brainstorming and came up with the Chithumba pilot in 2015.**

In essence, Chithumba is still an alternative seed distribution method. A way for seed companies to access a retail market as an alternative to the FISP programme. Chithumba is also an innovative access-to-input-finance/hybrid contract-farming scheme where the farmers pay for the input by delivering commodity after harvest to an ACE-certified warehouse. The main problem for contract farming in Malawi is side-selling. Chithumba mitigates that risk by only contracting a small proportion of the harvest. The farmers are free to do what they want with the remaining harvest. Of course, ACE encourages farmers to use structured trade and an essential element of Chithumba is to see to what extent Chithumba farmers adopt ACE services.

The Chithumba model includes three core services:

- Pre-Harvest Finance for Farm Inputs
- Agricultural Extension Services
- Market Assistance



The Chithumba Model

Pre-Harvest Finance for Farm Inputs

Selected participants received agricultural inputs on credit based on screening criteria. For example, clients must be affiliated with a preselected organised cooperative, have a minimum land size, and express the desire to enrol. While no deposit payment is required, clients must register with Chithumba prior to input distribution times in order to qualify. The entry package includes soybean seed and inoculant. Upon harvest, clients repay input loans in kind with bags of grain produced. A set repayment volume is defined at the onset of the season based on the value of the inputs package received and the expected selling price of the repayment volume. The current repayment ratio of 1:5 covers the cost of inputs in full (i.e. not subsidised) but does not include other services like Good Agricultural Practices (GAP) training.

Agricultural Extension Services

To ensure producers use the inputs provided on credit efficiently, all enrolled producers are trained on GAP through training days, field visits, and/or demonstration plots. In addition, customised agronomic extension SMS messages are sent using the ACE messaging system. The training modules are delivered by Chithumba staff members, ACE Rural Marketing Advisors (RMAs) and champion farmers selected from participating clients who receive specific in-depth training. In addition, a meeting with the

clients to review the model and discuss their performance takes place at the close of each season. Currently, the cost of these services is not embedded into the repayment costs, and the current model depends upon some subsidisation. The justification for providing this level of training was to build social trust with farmers and at the same time respond to low farmer productivity that could impact repayment ability.

Market Assistance

Since Chithumba is a non-traditional contract farming model, farmers are required to repay the calculated repayment volume based on the value of the loaned inputs. While farmers have the option to sell their 'surplus' volumes through ACE after loan repayment, there is no known buyer at the onset of the season. This level of flexibility was deliberate after previous farmer feedback and historic results suggested that the risk of side-selling is significantly reduced when producers remain free to choose how to market their commodity. Clients also accessed the ACE Marketing School (AMS), a three-day training with modules on ACE services, market information, collective marketing and aggregation, trade facilitation, an introduction to the Warehouse Receipt System, and how to develop and follow a marketing plan. This intensive training is supported with ongoing engagement from ACE RMAs who provide ongoing advice and support to Farmer Organisations, helping turn the newly

acquired knowledge and skills into improved access to markets and higher prices for their commodities.

Chithumba has achieved some amazing repayment rates above 85% for soya, which really makes the model promising. Chithumba is designed to be sustainable, from the first year the farmers are paying for the full value of the actual inputs; only the trainings are subsidised. The assumptions behind the financial model is that farmers access higher-value input packages and their need for training decreases as they progress through the years. Their repayments will then gradually support both inputs and trainings making the model sustainable.

However, Chithumba is experiencing problems with these assumptions. Farmers are not particularly loyal to Chithumba as they often move to cheaper input schemes – subsidised and unsustainable or using lower quality seeds. It's hard to build a track record and Chithumba is therefore not able to increase the value of the input packages – which is a requirement for the training component to become a sustainable part of the programme. This is also why Chithumba has not tested the inclusion of fertiliser and irrigation equipment in the package yet.

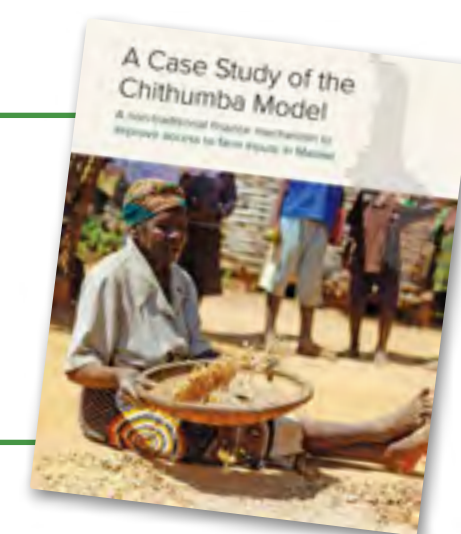
There is no doubt synergies between Chithumba and ACE structured trade services exist. When ACE has collected all the repayment, ACE will host an auction to get the best possible price. In all years, the Chithumba stock has attracted the best price of the season. **In 2019, Chithumba stock was even exported to Zimbabwe at a premium of USD 50 per MT compared to local prices.**

Even with the impressive results on selling the repayment and communicating the prices to the farmers, ACE is still not seeing farmers bring their excess stock to the warehouses with the repayment. They are selling at considerable discount to rural traders. Again, this is a reflection of the 'cash is king' mentality, where immediate cash needs are prioritised and immediate cash settlement is preferred over delayed settlement, despite the higher price potential.

Chithumba has many incredibly promising elements, but also it certainly has its challenges. ACE has not been able to provide the dedicated funding needed to scale and further develop the Chithumba model. ACE is just managing to keep it going for now. ACE is very interested in identifying partners to assist developing the model: are you a future Chithumba partner? The vision is that Chithumba becomes an entity of its own, but remains an integrated part of the ACE Ecosystem.

A detailed Chithumba case study by Anne-Cécile Delwaide and Luke Coulson is available on the ACE website:

aceafrica.org/download/ATL_Chithumba_Case_Study.pdf



6 ACE WAREHOUSE RECEIPT FINANCE



Photo Lawrence Chikhasu with the first warehouse receipt issued in Malawi

The Warehouse Receipt System (WRS) was established to enable ACE to guarantee sellers' performance on an Exchange-traded contract. **There was, however, another element which became the absolute main driver of volume on the WRS: finance!**

The first ACE warehouse receipt was issued by Farmers World in 2011 to Lawrence Chikhasu, a small trader who deposited 14.5MT of maize. Mr. Chikhasu immediately requested finance so he could go and buy more maize. No banks were on board at this time, so ACE, eager to show the potential of the WRS, scraped what little funds ACE had and disbursed MWK 261,000, being 60% of the market value. Mr. Chikhasu managed to aggregate a total of 40MT and sold about half to the World Food Programme on a Bid Volume Only auction and the other half to a private sector buyer, earning a profit of 18% after storage and finance costs had been settled.

Only 6 receipts were issued in 2011, but, with an average profit of 30%, everyone was very excited. All made money: the warehouse

operator, the financier, ACE, and the traders. The fundamentals had been proven and all agreed to continue the further development of the WRS. A task force was established with support from the USAID Southern Africa Trade Hub to create a set of regulations that could attract finance from the banks. ACE saw good support and participation from First Capital Bank (FCB) – then First Merchant Bank – as well as National Bank, CDH Investment Bank, Opportunity International Bank of Malawi, and Standard Bank, and in June 2012 the ACE Warehouse Receipt Rules and Regulations were adopted. By then, the first receipts of the 2012 season had already been issued and the depositors were literally screaming for finance. No bank came forward – this was most frustrating and something ACE had not anticipated after the support in creating the ruleset. Again desperate to further develop the system, ACE dug deep and gathered MWK 5 million which ACE offered to the banks as a first-loss guarantee for the receipt finance. FCB agreed and offered MWK 20 million receipt finance against ACE's first loss. That was the beginning of Warehouse Receipt Finance in Malawi.

The modality was called ‘haircut finance’, as the bank would take a haircut and only finance a proportion of the commodity value. The default haircut in Malawi was 70%. The haircut was actually meant to be very flexible and change depending on market prices, commodity, and time of year. This differentiation never really materialised and a standard haircut of 70% was applied. Despite 2012 also being a good year with average profits of 25%, more banks did not come on board. FCB did increase its finance gradually and didn’t request a first-loss guarantee anymore. The concern was price risk. Being exposed to the agricultural market was not normal business for banks – they are normally exposed to treasury bills and big balance sheets!

The 2014 election gave a hint at how unpredictable and volatile markets can be. With the election coming up, the Agricultural Development and Marketing Corporation (ADMARC) started selling maize at about half the market price and maize prices came tumbling down. This dynamic does not suit the WRS and maize depositors got stuck and on average lost 20% that year. In comparison, traders with pea receipts made a profit of 20% that year. ACE now had its first systemic loss on the WRS, caused by government market interventions. The only positive element from this situation was that

the 70% haircut was enough of a risk margin and bank finance was not at risk – all haircut finance was settled. Even though finance was settled, the situation certainly didn’t bring more banks on board.

The main concern then, as it still is today, is that ACE needs to devise how the banks can hedge their exposure. It will be the only way to really develop structured finance on the WRS. The ability to hedge is what makes the Johannesburg Stock Exchange so successful. However, Malawi price fundamentals just do not follow the rest of the world so Malawi can’t enjoy the safeguards provided by the global exchanges, while the market is too small to warrant replicating the instruments. ACE needed to be innovative.

In 2013 ACE went to Sunseed Oil (SSO), a large vegetable oil processor who was buying large quantities of soya. ACE said: “What is your cost of storage and what is your cost of finance? If ACE takes the market price today and adds your own carryover cost to, say, five months from now – would you take it at that price five months from now?” Sunseed Oil said: “Yes, but we would like to store it ourselves.” And that was the birth of the ACE forward contract for soya.

When depositors delivered soya to SSO and got a warehouse receipt, ACE would also issue a

contract between the depositor and SSO, where SSO would pay the calculated price and take delivery at a future date. ACE would now send both warehouse receipt and forward contract to the bank and request finance for the depositor. The bank would disburse to the depositor and the bank would be settled in full when the forward contract matured. **In effect, ACE had just swapped the price risk of the volatile agricultural market with the balance sheet of a larger offtaker.** This was what banks had been looking for and appetite for this type of receipt finance quickly materialised.

This was an incredible revelation for ACE. Volumes on the WRS increased; trade increased and most importantly, for the first time, significant levels of commission were being realised. ACE firmly believed that it had found the core commercial model. This was all good. However, ACE was also acutely aware that forward contracts, although providing crucial market access, didn’t provide farmers with a market premium. The way the forward prices were calculated, the seller was only receiving the spot price as determined by the forward buyer. What was needed was more competition on the forward market and ACE expected that one day, a buyer would say: “I will take the ACE January price plus one.” This premium in the forward market would translate into a premium for the farmers in spot markets. In other words, the increased liquidity in the forward markets should push prices in the spot market. To ACE’s huge regret, this never happened. The banks really only approved forward contract finance from a handful of large traders. Not enough to create competition in the forward market.

ACE also launched an unsuccessful receipt finance modality: bridge finance. In the early years where depositors saw significant profits, traders were naturally excited and hungry for finance. ACE got many requests and many small traders didn’t have capital to bring the first load of commodity to warehouses. ACE came up with the bridge finance modality where ACE, at the beginning of the season, would advance to the trader for the

first 5MT and get the 70% when the bank would disburse after deposit. In 2014, ACE trained and certified twenty-three commodity brokers, with the bridge finance modality becoming a central component of the services that ACE brokers could offer their clients. Unfortunately, too many bridge finance recipients did not honour the modality, often depositing less than what they were supposed to deposit, which carved out any profits upfront and sometimes made the receipt go into loss, meaning bridge finance was not settled in full. ACE had to stop the modality when it became clear that undercutting the system seemed to be the norm, rather than just actions from a few. The 2014 maize collapse also realised losses on the bridge finance modality. In all, one can say that bad timing coupled with a naïve belief and trust in the ACE brokers and other recipients put an end to ACE bridge finance.

By 2016, ACE could walk on water: that year ACE did 90,000MT of trade, 50,000MT on the WRS, USD 12 million in disbursed warehouse receipt finance and USD 150,000 in realised commissions, just shy of being sustainable.

What could possibly go wrong? Well – a series of very unfortunate events, which could maybe have been anticipated and mitigated against if they happened in their own right, but when they happened simultaneously, it looks a lot like a black swan event.

Firstly, India stopped buying pigeon peas, a contract to the National Food Reserve Agency which would have saved all pea depositors never materialised, prices dropped 80%, and the market was in complete collapse and disarray. Several banks lost significant amounts on pigeon pea finance and that was the end of the haircut modality. A rude realisation of just how vulnerable agricultural services and structures can be.

Secondly, in 2016, the Government had called for significant food aid and estimated that Malawi was short a million metric tonnes of maize. Resources were made available by development financial institutions and development partners and by October 2016 significant volumes were

Photo Early BVO auction for WFP



contracted for import from Mexico. In November 2016, private sector flagged that market indications showed that there was not a shortage. ACE called for meetings to raise the flag, push for Government to allow export and try to get the food aid industry to divert imports and switch to local procurement.

The private sector was right: there was indeed an oversupply of maize and prices were in steady decline. The private sector was sitting on about 100,000MT and ADMARC the same. Tanzania was short of maize and wanted to buy it all at very attractive prices. Government refused and instead of exporting surplus Malawi maize to Tanzania, Malawi was importing Mexican maize – to underline the absurdity, the import came through Tanzania!

Maize was carried into the new season with significant negative impacts. The private sector realised huge losses, ADMARC needed a multimillion-dollar bailout, banks retracted finance, no demand materialised for new season maize which saw the lowest farm gate prices ACE had ever recorded, and farmers lost billions of kwacha. It is a vicious circle and the economic impact on Malawi was huge, and yet it could have been so easily prevented. **It is astounding that Government refused to export excess maize, and it was equally surprising to discover that the food aid machinery was completely unequipped to recognise and respond to a changing situation on the ground.** There is a real need to make sure this doesn't happen again.

Nearly all value chains were affected and most warehouse receipts made significant losses. Many private sector companies were struggling and bank appetite to finance agriculture was nearly non-existent. Forward contract finance dropped from USD 12 million to USD 500,000 and the modality did not recover. By 2018 finance started picking up again. However, banks were requesting ACE to offer more traditional collateral management services, rather than the forward contract modality. ACE established Commodity Services Limited (CSL) to handle this new demand and further develop commodity and warehouse services integrated with the WRS. In essence the modalities are the same, but the paperwork is different. ACE sees this demand for Collateral Finance as the latest phase in the warehouse receipt finance evolution. **It's a great relief to see warehouse receipt volumes and finance reaching 2016 levels again – although this time ACE is walking with caution, not on water!**

A significant catalyst for ACE's ability to facilitate finance, develop new modalities, and engage with banks is the regulatory framework now adopted in Malawi. The process was started in 2014 by the World Bank Group and only finalised with the licensing this year. It has been a great process to have been involved in, with great dedication from the Ministry of Trade, the Reserve Bank of Malawi, and industry leaders. We have international experts exclaiming that Malawi has adopted a first-class regulatory framework for commodity exchanges and warehouse receipt systems. It is now ACE's job to convert this into first-class finance and risk modalities.



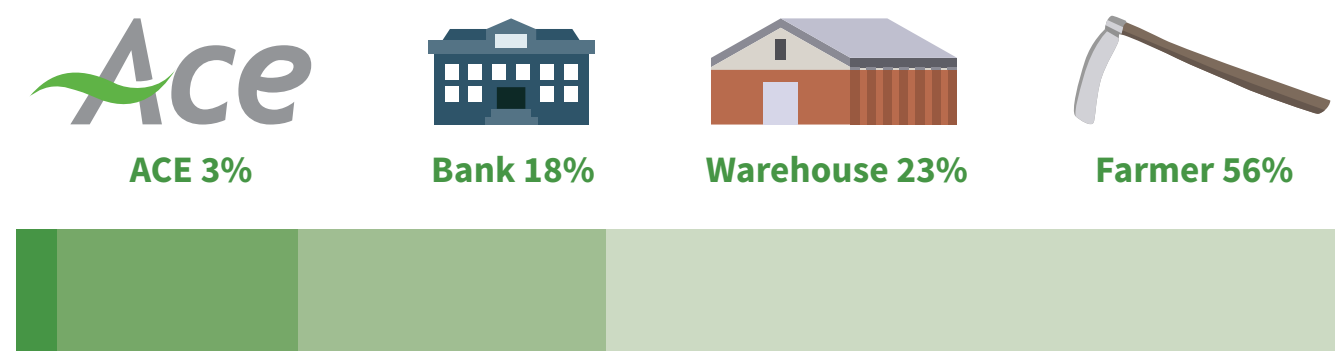
Photo A woman husks corn in her village on the outskirts of Lilongwe

There can be no doubt about the importance of agricultural finance. The more finance, the more liquidity, the more demand, and therefore better farm gate prices. The state of agricultural finance is directly related to the state of the agricultural sector as a whole. But when it comes to access to finance in rural areas, the answer is less clear-cut. Accessing finance always comes with a risk. If your added value does not match your interest on the finance, then you will be making a loss. Most agri-industry participants have different tools at their disposal to navigate the risks. Rural farmers, on the other hand, do not, and are therefore left exposed to market forces.

ACE has an exhaustive dataset of all warehouse receipts ever issued on the system and ACE asked the International Food Policy Research Institute (IFPRI) if they would be interested in doing a detailed analysis of the data, to identify if certain behaviours were leading to losses and others to profit. The balancing act for ACE is to determine whether ACE should promote access to finance to rural farmers or if this is too risky. The hope was that IFPRI could create a set of rules – for example: if the market price for soya is less than USD 350 per MT then there is a 90% chance to make a profit if the farmers store, access finance, and sell within six months. IFPRI agreed to do the study, but our hope was quickly squashed. The reality which presented itself proved to be much more complex. More information is available on the IFPRI website: massp.ifpri.info/2019/12/13

Clearly the 2014 and 2017 events explained most of the losses experienced on the WRS, but there were also other losses. There is a negative relationship between the duration of storage and the returns that the depositor makes. For example, maize and soya stored for less than 180 days generally made a profit. However, a duration of less than 90 days was the case for pigeon peas. It is also important to point out that the cost of finance was a significant share of the total receipt cost. Some of these receipts had a cost of finance as high as 35% – although today this has dropped below 20%. There are many nuances to this study and ACE recommends readers review it themselves.

What does stand out is that receipt finance sometimes is not beneficial and can be very risky if the market experiences external interventions. This is the unfortunate reality. On the other hand, access to finance is also the tool the farmers need to be able to delay a sale in a year where the prices are extremely low, like 2017. But again, according to the IFPRI study, even extreme low post harvest prices do not mean the receipt will make a profit. ACE does believe providing farmers with choices and access to finance is a crucial and important element, even if the choice is hard to get right. The biggest take away, however, stands out even clearer: Government needs to stop unhealthy and detrimental interventions in the agricultural markets which have devastating outcomes for all value chain actors.



The value gain of warehouse receipts

7 THE FUTURE



Photo A women's farmers group which uses ACE services

It is fair to say that it has been a struggle for ACE to carve out a space as a service provider in the agricultural value chains. The model was always based on high volumes and low commissions, but in a fragmented and highly volatile environment this model has proven unsuccessful. In essence this has always been ACE's predicament. ACE has, however, learned highly valuable lessons and is now eager to move into the future with a new model to service and further develop structured trade in Malawi.

The pivotal ingredient moving forward is services developed to de-risk agricultural production and markets. The risks embedded in agriculture facing both producers and agribusinesses are the same risks ACE has been battling with for fifteen years. It's very clear the agricultural industry cannot progress further to ensure the productivity, food security, and economic benefit Malawi desperately needs without a new range of risk-mitigating tools. ACE will concentrate its efforts on developing and making these tools available to the industry while building ACE's services around them.

There is a reason why none of the few commercial farmers that Malawi has are producing any maize, soya, peas, groundnuts, or beans for the commercial markets. It is simply too risky. Commercial farmers concentrate on seeds, tobacco, and other niche crops where production is backed by a production contract and a reputable buyer. A commercial farmer needs to have a guaranteed price and that is simply not possible for the grain and pulses cash crops in Malawi. So Malawi's production of these crops is dependent on small-scale producers, who face the same risks but not the same opportunities. **Each year millions of small-scale producers risk their time, energy, and precious few resources to produce, based on hopes and dreams that the price will be good.** Sometimes the price will be good, but the harsh reality is that most years the price will be below the cost of production making it impossible for the farmers to evolve their business in any way.

The fact that farmers are willing to sell their produce at prices below cost of production is the very reason growers cannot get agribusinesses to give them production contracts at fair prices.

Why would processors issue production contracts when they know that they are likely to be able to buy their requirements cheaper from the small-scale sector? This is the industry predicament. The obvious result being that nothing will develop to commercial scale.

In developed markets, producers can hedge their price risk by accessing futures and options, but that is not available to farmers in Malawi. This inability to hedge prices is also the main bottleneck for the availability of agricultural finance in any post-production processes, leaving many operators with weak balance sheets incapable of accessing finance. This again narrows the markets, reducing demand for produce, and one of the main reasons for low post-harvest prices. We have to find solutions to address these inefficiencies and ACE intends to spearhead these efforts.

The regulatory licence process was an opportune time for ACE to adapt its structure and put in place a model for the future. The crucial element for ACE is to have a strong industry mandate and support. One of the findings in the recent study⁴ by the International Food Policy Research Institute (IFPRI) of the commodity exchange

⁴ ifpri.org/publication/commodity-exchanges-and-warehouse-receipts-malawi-current-status-and-their-implications

Photo These women in Salima District boil groundnuts at home and carry their tubs to the Siyasiya roadside market



landscape in Malawi was that ACE had support in both the banking and agri-industries. This was encouraging to learn. Even if ACE has struggled and failed to scale its services, **the message from the industry was clear: “we need what ACE is trying to do and we support ACE as the entity to do it.”**

ACE made a proposition to the industry: sign a commitment to use ACE services for USD 25,000 over the next three years and ACE will convert this commitment to equity at the end of the three-year period. It felt natural to promote ACE’s services rather than an outright equity investment, and the added advantage is that ACE will work with the right shareholders, meaning the companies who actually use the exchange and therefore have a self-interest in supporting and developing ACE. The IFPRI findings about support was right, with ACE managing to get commitments from fourteen companies, a good mix of banks, traders, processors, and warehouse operators. After the first twelve months, USD 105,000 of the total USD 350,000 had been fulfilled which is a very satisfactory and promising start. There were some conditions in the licence granted to ACE; one was for ACE Trust to hold a maximum of 40% ownership in the licensed exchange. ACE will meet this condition by transferring 60% ownership to the committed shareholders who meet the commitment.



Photo Harvesting groundnuts

Another issue ACE wanted to tackle with the new model was to better distinguish ACE’s development efforts from the commercial activities. ACE Trust has always been the entity implementing development activities with the main objective being the integration of farmers into structured trade and the services of the commercial Exchange. **It was never ACE’s vision to build a sustainable NGO; it has always been the vision to develop a sustainable commodity exchange.** Over the years, these lines have blurred and perhaps ACE has lost its focus at times. With most funding coming through ACE Trust, the main focus has been to implement the ACE Trust activities and meet the targets and expectations of the development partners, which did not necessarily align with those of a commercial Exchange.

Although ACE Trust has been very fortunate partnering with supportive development partners, it has still been a challenge for ACE to align multiple development partners’ (often short-term) targets with ACE’s longer-term sector transformation goals. There is a need to call out to development partners to support Malawi’s industry institutions such as the National Smallholder Farmers’ Association of Malawi, the Farmers Union of Malawi, the Civil Society Agriculture Network, the African Institute of Corporate Citizenship, and of course ACE, who are all working for similar, aligned objectives and

all struggling with funding. These institutions, including ACE, have all at times been reduced to being implementing partners for donors’ three- to five-year projects, jumping from project to project to stay alive, all while the main transformational strategies are being neglected. **It has to be the other way around! Support strong institutional strategies and then the implementation of these from project to project.**

ACE is comprised of three entities: ACE Trust oversees the developmental and inclusivity of structured trade; while the commercial entities of the ACE Ecosystem are ACE Africa, the licensed commodity exchange, and Commodity Service Limited (CSL). While ACE Trust will continue to implement inclusive rural activities, the commercial entities will develop and offer the risk-mitigating services to the industry. The first of which was the collateral management services under CSL. One of the main lessons from past experience was ACE’s successful inspection of physical stock through the forward contract modality. Banks were very happy with the service ACE provided, but there was always a call from banks for ACE to provide traditional collateral management, as opposed to the inspection services ACE provided. The difference is where the liability lies. In ACE’s system under the Warehouse Receipt System (WRS), the liability was with the warehouse operators, but after 2017 banks

Suggested priority areas for the Structured Trade Task Force

1

Design and implement risk mitigation and management tools for agricultural value chains

2

Design and implement price risk management tools for agricultural production, trade, and financing

3

Design and implement structured trade finance solutions with financial institutions and the industry to support inter-regional and global trade flows

4

Promote good agricultural trade policies including enabling Government market interaction such as market interventions and food procurement

5

Work closely with the Registrar of Financial Institutions to ensure a quality regulatory regime and a sound and enabling framework for warehouse receipts

6

Design and promote large-scale private sector investments that promote rural inclusion, structured trade, and regional integration

wanted ACE to take liability for the physical stock. This is not a traditional activity for a commodity exchange and the main reason ACE had refused previously. However, 2017 made it evident that it was needed. The foundation of the New ACE Model began with the incorporation of CSL in 2018 to meet the banks' request and offer the full suite of collateral management services.

The future vision is still that full liability of physical stock has to be with the certified storage operators, but until such a time when the storage operators can back their exposure with financial guarantees, there is a need for third-party collateral managers to be integrated with the WRS – the two go hand in hand: **the WRS protects the legal title to the stock, while the collateral management keeps eyes on the physical stock.**

Another condition in the licence granted to ACE was the potential conflict of interest that could arise by integrating CSL and collateral management into the Exchange model. Internally, ACE has erected a Chinese wall between the entities in terms of ownership and responsibility. Externally, ACE has no intention to monopolise collateral management under the WRS. In fact, ACE's vision is to integrate all collateral managers into the WRS. So, if you are a collateral manager, please join our efforts!

It is clear that the Registrar of Financial Institutions wants to achieve an open and inclusive market system. The third and final condition in the licence granted to ACE is to ensure that the ACE model and especially the trade function under the Exchange meets the criteria set out in the International Organization of Securities Commissions principles. The third condition emphasises the potential conflict of interest of having trade, receipt, and settlement functions under one roof. This condition will require dialogue with the industry and the Regulator, as it touches on the central components of the ACE model. **However, the core element of this regulatory concern is fully aligned with the ACE vision, to**

establish a fully inclusive and transparent market system.

Alongside the three ACE Ecosystem entities, ACE called for the establishment of the Structured Trade Task Force and articulated six intervention areas to take centre stage. The task force is a modality to unify and combine industry and development partners' efforts in a systematic approach. The work that is needed to bring forward the structured trade agenda is too encompassing for ACE, or any market entity, to take on alone and there is a real need to combine efforts. Unfortunately, ACE has so far received little support for this agenda and again would like to call partners to engage.

ACE identified six areas where efforts should be focused under the Structured Trade Task Force (see left).

ACE is truly excited to experience the increased focus the Registrar of Financial Institutions has already manifested by the development of an ambitious roadmap for the commodity exchanges and market functions. The recent operationalisation of the Malawi Agricultural and Industrial Investment Corporation, whose objectives are fully aligned with the objectives of the task force, is also very welcome. The now well-established Export Development Fund and the Malawi Investment and Trade Centre are also continuing to developing their offerings in this space. It is safe to say that the ingredients, institutions, and political will are present. Whether it will succeed will largely depend on our ability to align efforts and work together to push the wagon along the road laid out by the Registrar of Financial Institutions.

As these industry solutions materialise, it will be paramount that rural farmers are prepared and ready to be included and integrated. The ACE Ecosystem will work towards this, and ACE Trust will continue to implement rural activities directly and through partnership with other organisations working with farmers to ensure the benefits of a commercially vibrant agricultural market will benefit the millions of farmers across Malawi.

ACE Partners

ACE would especially like to thank its partners for their continued support.



Co-funded by the European Union



The ACE Committed Shareholders

These fourteen companies have all signed a commitment to utilise ACE services and support the development of ACE, the Warehouse Receipt System, and structured trade in Malawi. Thank you for your commitment and dedication to the development of industry solutions.



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- **Prince Kapondamgaga** for representing the farmers of Farmers Union of Malawi
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Previous employees

Those who have left over the years have all done their share to develop ACE, our services and deliveries. Some left for greener pastures (but it wasn’t really greener, was it?), some ACE had to let go when funding was scarce, and some have passed away. A few stick out:

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