

Enhancing the Linkages between WRS and Exchanges *“MACE’S EXPERIENCES”*

Presentation Made By Mr. Sydney Khando, Business Development Officer, Malawi Agriculture Commodity Exchange at the “Improving the Functioning of Commodity Markets in Eastern and Southern Africa through Warehouse Receipt System and Market-based Interventions Workshop held at Taj Pamodzi Hotel in Lusaka Zambia from 30th September to 2nd October 2009

Email: skhando@ideaamis.com; skhando2@yahoo.com; skhando2@gmail.com



BACKGROUND INFORMATION

- *Agriculture* remains the *backbone of the economy*
- Accounts for about 40% of Gross Domestic Product (GDP), Employs 85% of the population, accounting for over 63% of total income for the rural poor.
- Dualistic in nature composed of *estate* and *smallholder* sector.
- Majority of the smallholders undertake over 80% of farming as subsistence agriculture with land holding ranging from 0.5 to 2.5 hectares
- Estate Sector produces mainly cash crops while smallholder farmers produce both food and cash crops.



BACKGROUND INFORMATION

- Between 1981 to 1994 Malawi implemented several SAPs
- Being an agro-based economy, most reforms were focused on agricultural sector
- Smallholder farmer dependence on ADMARC declined.
- Private sector participation increased.
- Consequences
 - Farmers no longer have guaranteed markets and prices;
 - don't know *where* to sell their commodities, at *what price* and in *what quantities* therefore must find the market on their own.
- This was Big challenge in the absence of reliable and timely market information.
- Hence MACE was born in 2004



MACE

- Stands for Malawi Agriculture Commodity Exchange
- Borne out of the IDEAA (Initiative for the Development and Equity in Agriculture) Programme
- *IDEAA's mission: promote agricultural technologies, market institutional mechanisms and policies that contribute to reducing poverty, improving food security and expanding income opportunities for smallholder farmers of Malawi.*
- Amongst other interventions, IDEAA implements *interventions that Expand access to markets* through the development of *pro-poor* market information systems
- Hence the Development of MACE as one of the interventions



MACE Goal

- Overall goal of MACE is to *make markets work better* for smallholder farmers in Malawi,
- Lead to *poverty reduction* and *economic growth*
- Through the *provision* of the following *complementary services*-
 - provision of agricultural market *information* on *inputs* and *outputs*
 - Prices- *Wholesale and Retail (MoAFS)*
 - Trade Opportunity- *Bids* to buy and *Offers* to sell
 - *Linking* buyers and sellers of agriculture commodities.
 - Building the *capacity* of smallholder farmers



MACE OBJECTIVES

- ❑ *Facilitate linkages* between sellers and buyers
- ❑ *Empower farmers* with *relevant* and *timely* market *information* and *intelligence* to enhance their *bargaining power* and *competitiveness* in the market place;
- ❑ Provide a *transparent* and *competitive price discovery* mechanism through the operations of the exchange trading floor; and
- ❑ *Harness* and *apply* the *power of ICTs* as a strategic *tool* for *rural value addition* and *empowerment*.



MACE TARGET BENEFICIARIES AND IMPLEMENTATION PRINCIPLES

- ❑ **Primary Target Beneficiaries-** smallholder farmers
- ❑ **Secondary Beneficiaries-** Buyers Sellers of Agric Commodities, NGO Government
- ❑ **Implementation principles:**
 - Commodity neutral
 - Public Private Sector Initiative
 - Cost recovery



MACE COMPONENTS

- Offices (Use innovative tools such as soft boards, black boards, cellphones, trading floors, radio programme)
 - Hub in Lilongwe-nerve centre
 - Market Information Centres (3)
 - Market Resource Centres (14)(owned by private entrepreneurs)
- Farmer Managed Market Information Centres
- Radio Programme (Supermarket On Air)
- Short Message Services: 0888200777
- Telephone: +265 1 759 536
- Fax: +265 1 759 536
- Website: www.ideaamis.com
- Email: ideaa@ideaamis.com



MACE DATABASE

- MACE has a *database* of wholesale (and Retail Prices) *price* in Malawi (for both *inputs/outputs*) -3 city markets and 14 rural markets (selected crops and markets), 4 farmer Managed Market Information Centres
- MACE has a *database* of *buyers* (both large and small) and *sellers* (smallholder farmers and entrepreneurs) those that have *traded through MACE*
- MACE has *experiences* of smallholder farmers and entrepreneurs *marketing needs* and *behaviours*



MACE'S EXPERIENCES IN COMMODITY MARKETS

- ❑ *Smallholder farmers* contribute a *more than 80%* to agricultural production in Malawi
- ❑ Over the years, there has been a general *upward shift in prices* (Worldwide phenomenon)
- ❑ Retail/wholesale *Market prices* have remained consistently *higher* in all markets in Malawi
- ❑ Prices are very consistently *seasonal* with highest prices experienced between December and February



MACE'S EXPERIENCES IN COMMODITY MARKETS

- Maize Price ranges \$107 (farm-gate)- \$357 per ton (\$714 in 2008/9) . Soya ranges from \$250-\$1017
- Smallholder farmers do not *benefit directly* from higher prices in the value chain.
 - Do not have *direct access* to large markets/export markets
 - Lack information (Access? Buyers not transparent?)
 - Poor communication infrastructure to access markets
- *Smallholder farmers do not benefit directly from higher prices* due to seasonality of prices
 - Sell *before* or *immediately after harvest*.

MACE'S EXPERIENCES IN COMMODITY MARKETS

- Smallholder have difficulty to *access to finance*.
- Therefore they sell their *commodities immediately after harvest or before* to meet their cash needs
- But they usually sell *more commodities than they have to e.g. maize* to meet cash needs (Purchase inputs, School fees, Groceries, Other food items) without considering their *annual household food requirements*
- Smallholder farmers *sell* their commodities at lower prices (*to meet immediate cash needs*) but *buy* the commodities sometimes as high as three times the prices they sold (*to meet their food needs*)
- This Affects Smallholder Farmers Household *Food Security* and *Poverty* Levels



MACE'S EXPERIENCES IN COMMODITY MARKETS

□ **Smallholder farmers in Malawi**

- Produce *variable and small* quantities -smallholdings
- commodities have *very variable grades*
- *Do not usually store* their commodities for sale later (*traders do*)
- *Do not usually bulk their commodities (collective/group marketing* concept not utilized. *traders* bulk.
- Use very *inappropriate storage technologies*
- Have very *non-functioning* producer associations *if at all*



MACE'S EXPERIENCES IN COMMODITY MARKETS

- ❑ Most Commodity markets for some “*strategic commodities*” are government controlled.
- ❑ There is *no guaranteed market* for commodities;
- ❑ There is lack of *mutually agreed and enforceable quality standards* for commodities
- ❑ There is lack of *knowledge* and/or *recognition* of *acceptable* and *enforceable* arbitration rules
- ❑ Smallholder farmers therefore have not benefited *directly* from schemes like the *WFP's PFP* programme.




MACE'S TAKE ON WRS

- *WRS* could be good institution which could assist smallholder farmers –*collateral* to access *cash*, provide *grading mechanisms*, *storage*, *better markets* (good grades), *food security* (storage), *higher prices* (seasonality as a result of storage)



MACE'S TAKE ON WRS

- MACE believes *some form institutional mechanism* could enable smallholder farmers access/share better markets/prices: (WFP's PFP, Seasonal higher prices),
 - Enables smallholder farmers to *deposit* commodities.
 - Guarantees *minimum cash* to s/holder farmers upon deposit.
 - *Trust* comes out of *Transparent system*
 - S/holder farmers *share in* the *benefits (as well as costs/risks)*
 - *Meet or take into account smallholder farmer situation*
- There is need to invest in the formation/strengthening of *viable producer association for smallholder farmers.*



**MAY THE GRACE OF
GOD
BE UPON YOU**