

UNCTAD
GLOBAL COMMODITIES FORUM 2013
Recommitting to commodity sector development
as an engine of economic growth and poverty reduction

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**Improving transparency and diversification using a
Commodity Exchange - An effort in Malawi**

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Bharat Kulkarni



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Background

- **Malawi, A country dependent on Tobacco**
- **Lack of diversification- Lack of Markets;**
- **Challenges for government parastatal - ADMARC**
- **Solution- A Commodity Exchange for Malawi;**
- **Playing catch-up in the agricultural sector- Building the infrastructural gaps**

Gaps in Agricultural Sector

- The agricultural industry represents principle activity, means of sustenance and source of income.
- The land maintains millions of people, most of them are extremely poor
- Food shortages are a common,
- Heavily dependent on agricultural export (specifically Tobacco) for revenue
- No organized export system for other crops

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Issues to be tackled

- Poor transport networks,
- Small farms and small holder driven,
- Poor storage facilities,
- Lack and cost of credit- Agricultural loans @ 40%
- Lack of Modernization,
- Standardization of grades,
- A poor and often inequitable marketing
- Long chains of informal traders and trading companies

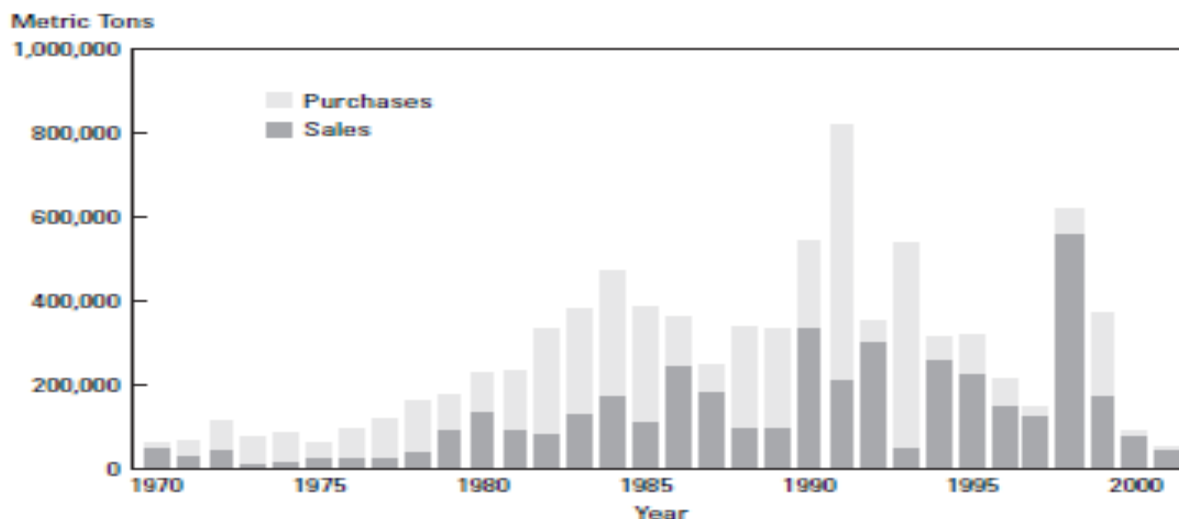
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Development (?) efforts- Role of ADMARC in Malawi

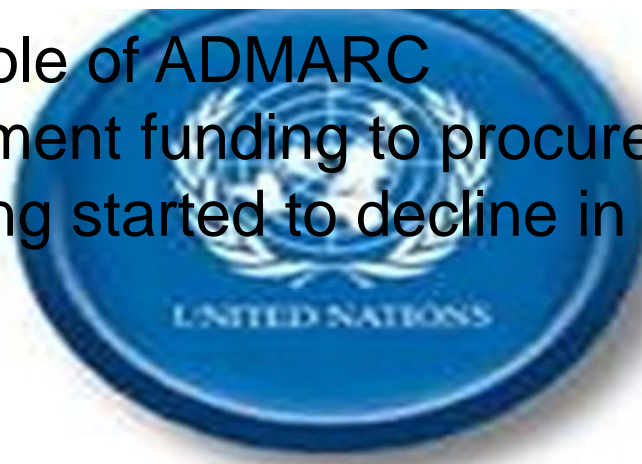
- ADMARC to support strategic crops
- ADMARC is state run and Bureaucratic
- Better bargaining position with large trading companies- (?)
- Supporting small holders through Minimum support prices
- Solution- **Commodity Exchange**

Activities of ADMARC in Malawi



Source: O&M Associates (1999).

- NFRA created to replace the role of ADMARC
- ADMARC depends on government funding to procure.
- ADMARC's role in maize trading started to decline in the early 1990s



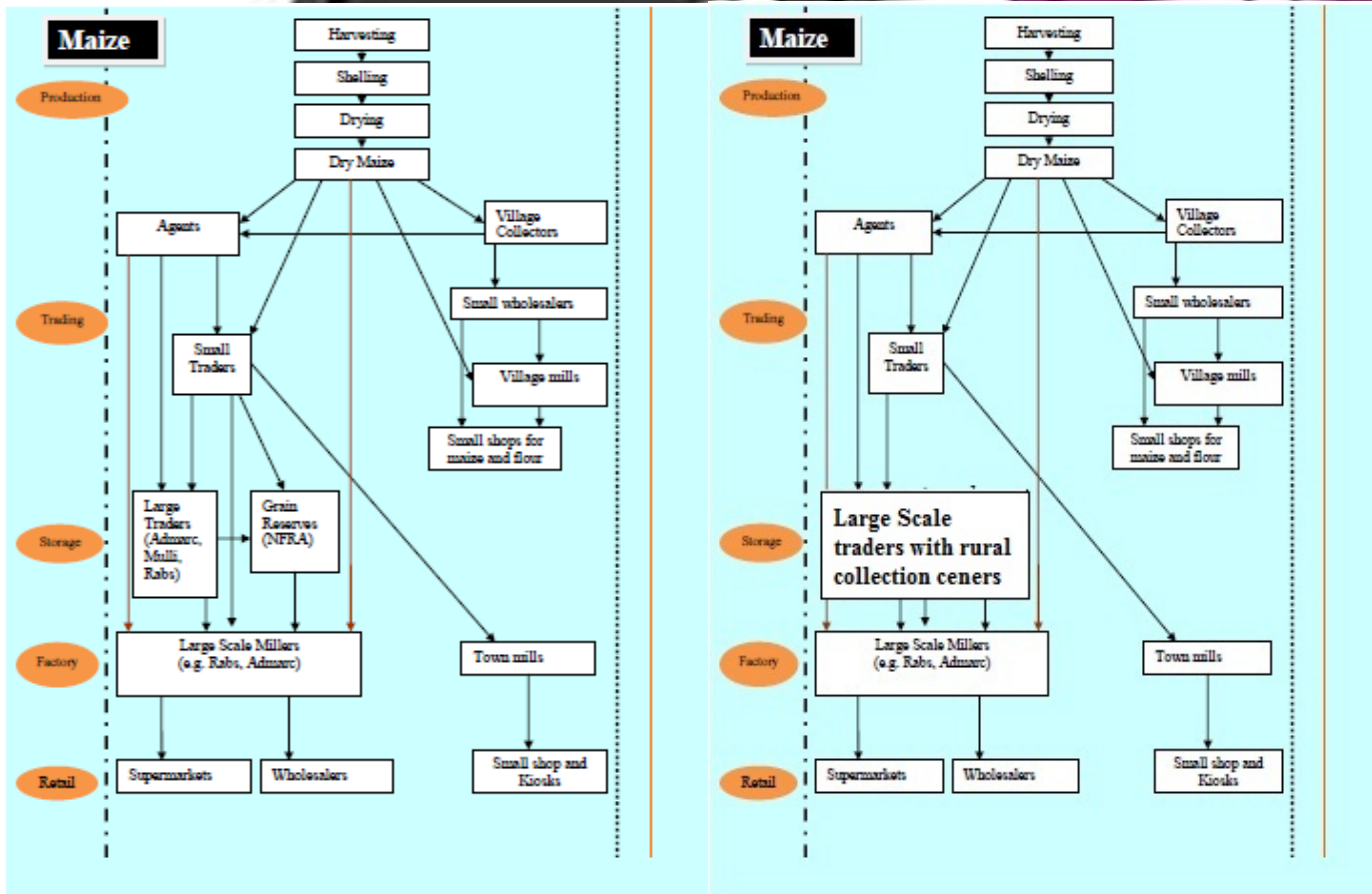
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Commodity Value Chain in Malawi



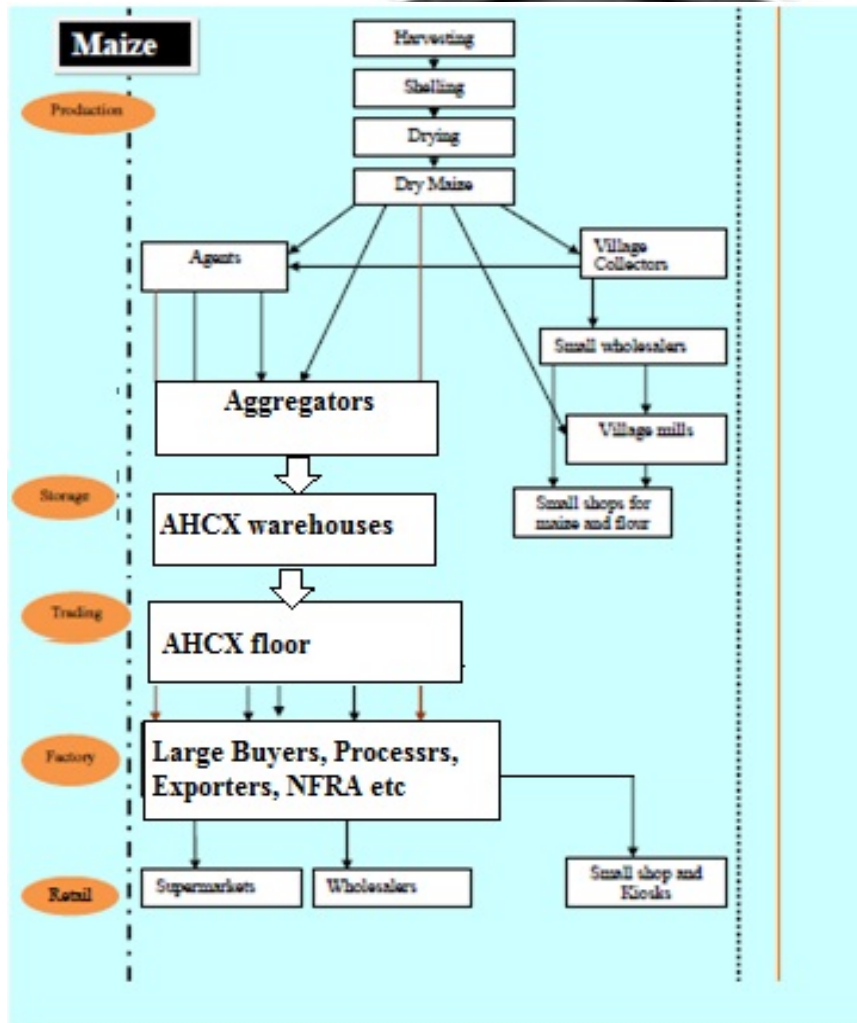
Value Chain



Issues in Development of Value chain

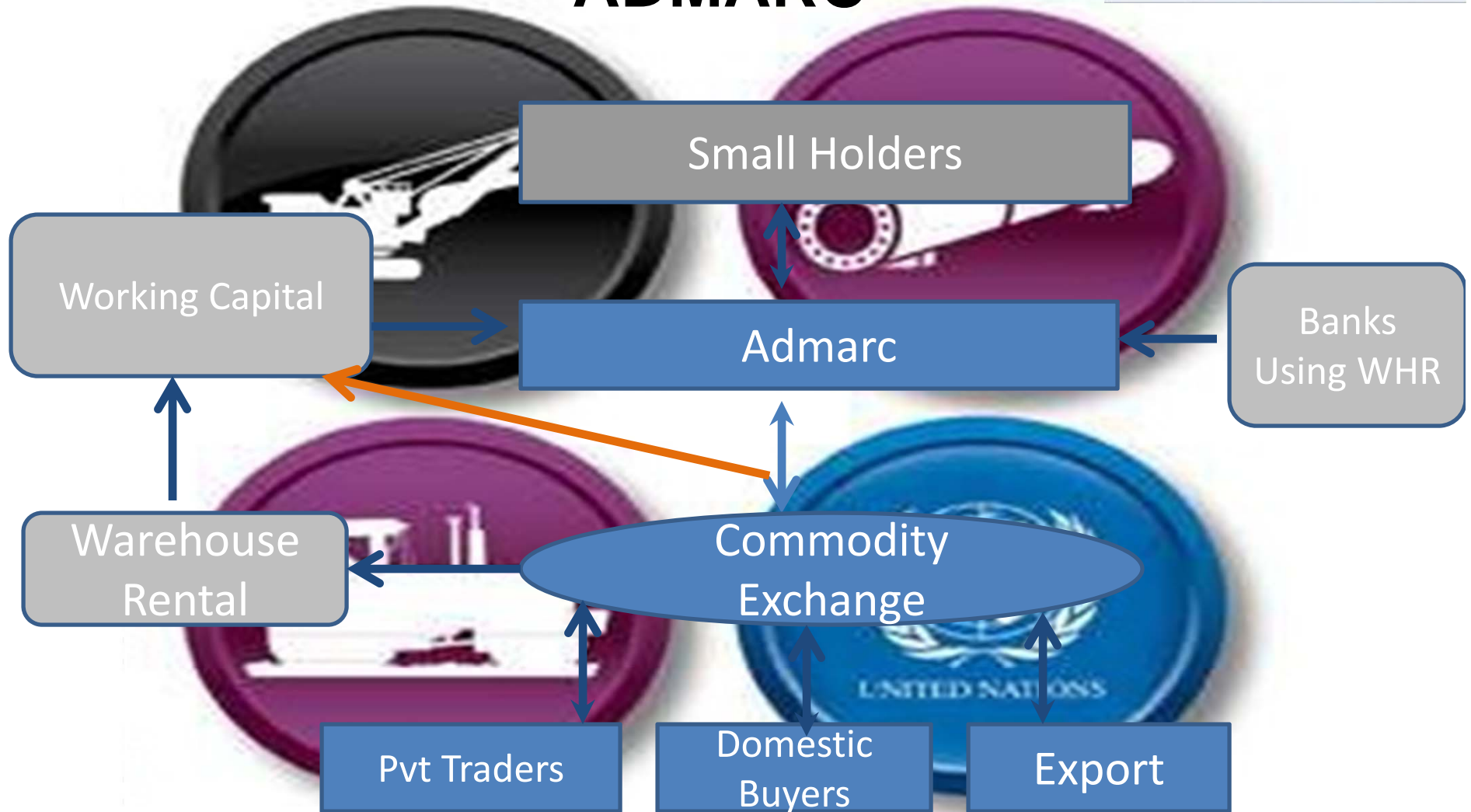


Redefining the Value Chain

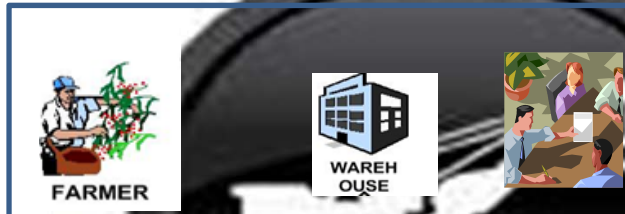


- The producers can directly access the National Market
- Warehousing facility made available, using idle infrastructure
- Inclusion in Formal financial structure, Access to finance
- Better price realization
- Better price information
- A market based solution for void left by agencies like ADMARC and NFRA

Redefining the role of ADMARC



Benefits from the new structure to Commodity value chain



Farmers and Primary Producers

Lack of grading Services, Storage and Liquidity for farmers

Integrated solution for Grading, Standardization, Warehouse Receipt System



Processors aggregators Exporters

Lack of consistent supply, cost of collection, Financing, need of huge storage

Consistent Supply, decoupling deposit with Trade, Aggregation and WHR financing.



Local and International Buyers and Retailers

Contract default, quality disputes, price fluctuations

Consistent pricing, quality improvement, transparency.

Increased role of formal financing systems and banks



Concluding remarks

- Government parastatals and marketing board era is getting over soon
- Several gaps still exist
- Market based solutions needed
- Government – Facilitator; Private Sector- Operator
- Commodity exchange ecosystem seems a workable solution
- Modelled exclusive for the country.
- Commercial role of the parastatals

Thank You



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