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

By

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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
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

- 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
Commodity Value Chain in Malawi

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

Lack of grading Services, Storage and Liquidity for farmers

Contract default, quality disputes, price fluctuations

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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

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Benefits from the new structure to Commodity value chain

<table>
<thead>
<tr>
<th>Farmers and Primary Producers</th>
<th>Processors aggregators Exporters</th>
<th>Local and International Buyers and Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of grading Services, Storage and Liquidity for farmers</td>
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Integrated solution for Grading, Standardization, Warehouse Receipt System

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

Consistent pricing, quality improvement, transparency.

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Increased role of formal financing systems and banks

Price information

Clients have lower default risk; and banks can offer commodity price-linked products

Exchange driven commodity “pipeline”

Large volumes of money move through the system, bringing unbanked rural farmers into banking system

Once goods are graded and in a controlled warehouse, they become perfect collateral

Farmers need to be paid immediately on sale: large cash management requirements
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.

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Thank You

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