



Theme: Strengthening storage, credit, and food
security linkages

A Case for AHL Commodities Exchange

Golden Peacock 8th October 2014

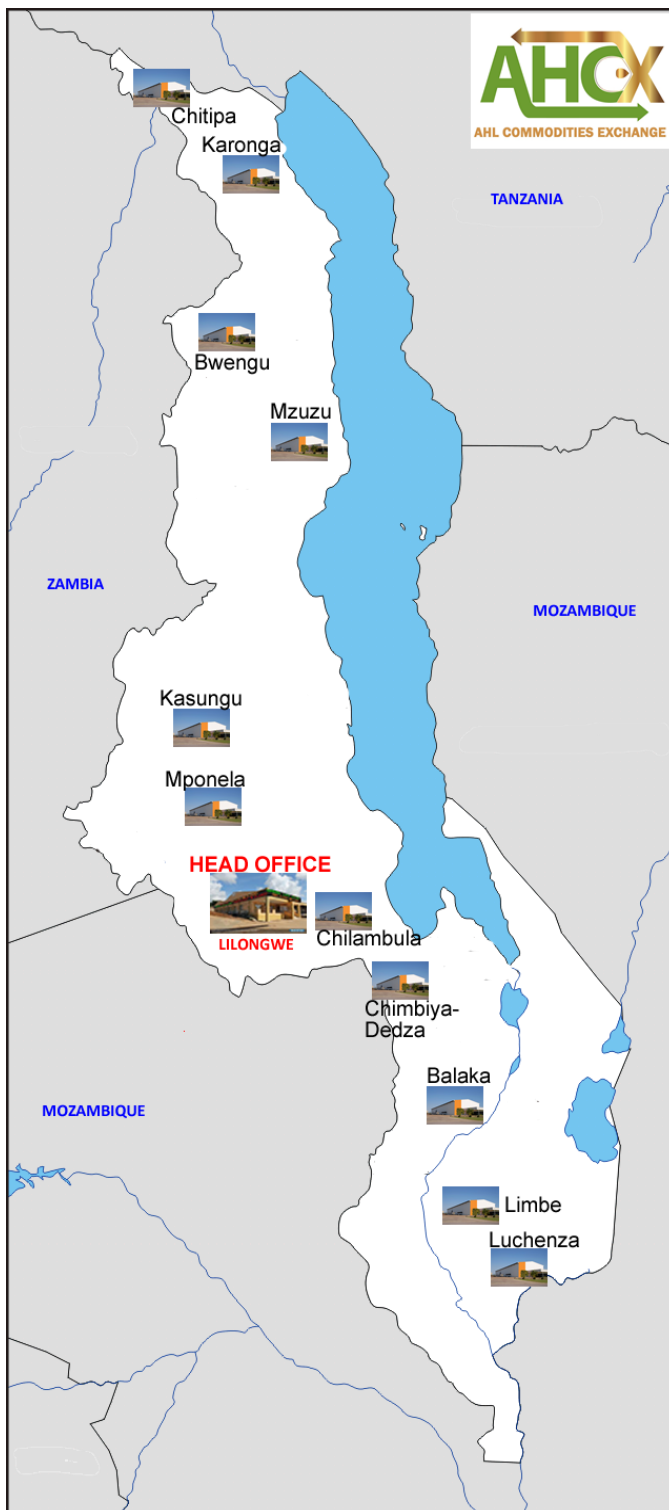
✓ AHL Commodities Exchange Warehouse receipt financing in Brief

The Process

1. Farmer Deposits Commodity (Minimum of 1mt) in AHCX Warehouses across Malawi. Warehouse manager will Issue a Commodity deposit acknowledgement (CDA).
2. The collateral Manager will accept the CDA into AHCX Central server to which an electronic warehouse receipt is generated.
3. The farmer can walk into any of 1 of 5 financial institutions with his CDA to ask for warehouse receipt financing.
4. The bank will verify the CDA through a secure electronic interface with our server and pledge the receipt on our server before remitting cash to the depositor. The current value of the receipt is determined by the bank with aid of Exchange "Market Watch Feature"
5. Proceeds from the sale of that CDA will be sent to the depositors account in the pledging bank or account of choice by the financier. After deductions the remainder is remitted to the depositor.

Besides the generic warehouse receipt financing above, AHCX offers large corporate companies Export W.H.Financing and to smaller traders and cooperatives Aggregator warehouse receipt financing

✓ Our Outreach for collateral financing



- A total of 4 AHCX run warehouses in the northern Region of Malawi, with total storage space for 10,000mt
- A total of 4 AHCX run warehouses in the central region of Malawi with total storage space for 12,000mt
- A total of 3 AHCX run Warehouses in the southern region of Malawi with total storage space for 38000mt

Community Warehouses

- AHCX is in agreement with cooperatives in Mchinji, Zomba, Mwanza that run 5 seasonal community warehouses acting as feeder points to AHCX Warehouses.

Regional Offices

- AHCX has 4 Regional offices held by senior managers to facilitate Exchange processes closer to the farmer.
- Limbe Office - Southern Region
- Balaka - For Mwanza, Ntcheu, Machinga, Mangochi and Balaka
- Lilongwe Office- Central Region
- Mzuzu Office - Northern Region

✓ Our Banks and Financing Modalities

1. Malawi Savings Bank

- a. Finances up to 70% on value of the receipt within 48hrs
- b. Has largest bank access to smallholder farmers in Malawi.
- c. Interest rates base plus 3

2. Eco bank Malawi

- a. The pan African Bank finances up to 70% on value of the receipt within 48hrs, it has been integral in our export financing and international settlements.
- b. It has mainly served the medium scale band of depositors on aggregator and generic warehouse receipt financing.
- c. Interest rates base plus 2

3. FDH Bank

- a. One of the first banks to finance AHCX receipts, the bank finances up to 70% on value of the receipt within 72hrs.
- b. It has served Smallholder and large scale farmer/traders.
- c. Interest rates base plus 4

4. IndeBank

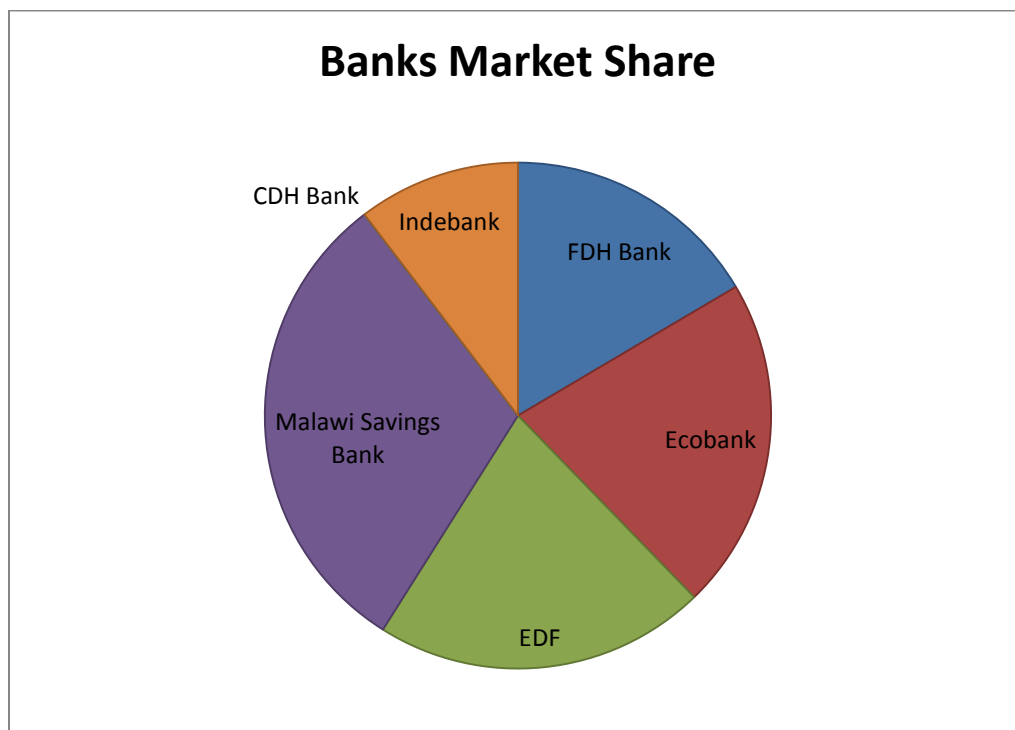
- a. IndeBank is new in our portfolio but has already extended finances of more than 22 million since our agreement in August 2014. Financing up to 80% on value of the receipt within 36hrs of application.

- b. It has mainly served depositors close to urban centers due to limited branch network

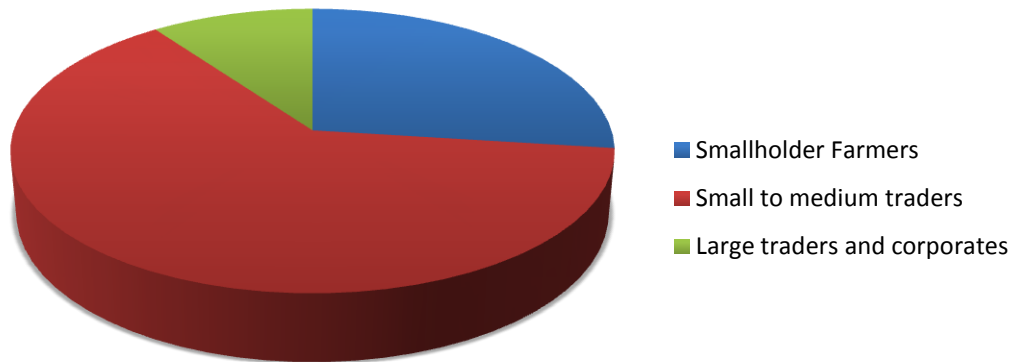
5. Export development Fund

- a. An arm of reserve bank of Malawi finances up to 70% on value of the receipt primarily set for export warehouse receipt financing. This is despite 500 million set aside for domestic trade financing.
- b. The institution charges lowest interest rates of 27 to 28%

✓ Warehouse receipt financing market share



Share According to Type of Depositor



✓ The Experience So far

- a. **Liquidity Issues:** The introduction of Basel 2 within the banking sector has meant banks are less liquid than before. There many instances some banks have had to suspend lending in order to meet the new requirements.
- b. **Interest Rates:** The interest rates have been somewhat prohibitive however much out of control of the Exchange or banks.
- c. **Awareness:** Most farmers are not aware of the service, it is costly and sometimes much outside the exchange scope to educate the farmers on the same.
- d. **Regulation & Policy:** Even though they are strides made to bring on warehouse receipting act the lack of it in the past years has derailed the speed at which the service can be adopted by stakeholders as well as cheap international finance. There is no policy to deliberately encourage the service despite the country being Agri-based economy.

- e. **Positive feedback:** From those that have used the service terms of monetary gain due to movements of prices between time of financing and sale. This is true especially to Soya beans 2014, Pigeon peas in 2013/14, Groundnuts 2013, Maize 2013 e.t.c
- f. **Banks processing time:** There has sometimes been delays in processing times for warehouse receipt financing, with some banks taking as much as 1 week despite the promise of 48hr turnaround times.

✓ **Is the service feasible for a smallholder farmer?**

The answer is YES!

- The service is more beneficial to a smallholder farmer than any other stakeholder in the value chain. This reduces their need to sale at reduced prices in search for money.
- It provides a platform for Cooperatives to improve capital,
- The total cost of financing and warehousing has been less than the cost of selling at lowest price early in the season

✓ **What has AHCX done to improve access to smallholder**

- A wide network of warehousing
- Introduction of community warehousing where AHCX warehouses are further from the farmer
- Though much more is required the exchange has invested into marketing teams that conduct awareness campaigns across the country.

- We have set up 4 regional offices with multiple staff members to offer support services to farmers closer to their homes.
- Advertising
- Partnerships with other relevant NGO's and government extension workers.
- Farmer facilitation centers and Market information Bill Boards in 2015

Thank YOU