

# **A Project Proposal for the Development of an Agricultural Commodity Exchange System (ACES) for the Philippines**

## **I. Background/Rationale**

The Philippines is an archipelago with over 7,100 islands. Its underdeveloped infrastructure and transport facilities make it difficult for farmers, especially small ones, to link/sell their produce to buyers and consumers beyond their locality. The same is also true for small consumers and end-users.

Agricultural marketing programs were designed/developed and implemented by both Government and the private sector, all geared towards promoting efficiency in agricultural marketing. However, certain problems/bottlenecks hinder the success of these programs. Among the problems cited by farmers are: lack of post-harvest facilities, their need for immediate cash, their farms are located far from trading centers which is further aggravated by poor infrastructure and transport facilities, lack of marketing information/advocacy and farmers seeming mistrust of Government, brought about by the long/tedious bureaucratic process experienced by farmers when transacting with Government as well as perceived bias for certain individuals/ entities.

Another challenge faced by farmers is the opening up of world trade which results in greater global competition. The Government's ratification of the GATT-WTO in 1995 signaled the entry of relatively cheaper (although sometimes subsidized) agricultural products/substitutes which affected farmers' market opportunities. Farmers find it difficult to compete with these imported agricultural products.

In this new environment of increasing global competition, empowering small farmers in the market place by developing systems which enhance their access to markets and maximize the financial returns for their efforts has become a critical thrust of many countries, including the Philippines.

In the Phase I ESFIM Workshop held last 26 - 27 February 2009 at Sulo Hotel in Quezon City, Metro Manila, Philippines which was attended by various stakeholders in the agriculture sector, a proposal to establish an Agricultural Commodity Exchange System (ACES) was strongly endorsed by majority of the stakeholders present.

It was further agreed that the ACES must be run/operated by the private sector. Government intervention must be exercised only in some key areas of ACES operations. Government support in terms of logistics (communication services, office/space) and manpower resources is however necessary at least in the initial stages

The ACES is expected to support the agriculture sector in terms of:

1. Providing farmers a broader base to link with buyers/traders and consumers thus giving them more opportunity to get better prices for their produce;
2. Providing market information, particularly prices, so farmers can make better decision;
3. Providing transparency in critical aspect of agricultural marketing thus making the playing field more fair;
4. Providing incentives to farmers and other market players to improve the quality of agricultural products traded (standardization, price rewards and penalties) by using of post-harvest processing facilities
5. Educating farmers in the workings of the market thus preparing them for the realities of global competition.

## **II. The Agricultural Commodity Exchange System (ACES)**

### **A. Technical Description**

The system is an Exchange Scheme where Farmers and Other Sellers deposit and sell their Product(s) in a designated warehouse and Processors, Manufacturers, Consumers and Other Buyers purchase and withdraw the Product(s) from a designated warehouse/area.

Initially, the Agricultural Commodities that maybe traded in the Exchange may cover Palay (Paddy)/Rice, Corn, Coconut (Copra) and Sugar. These commodities are commonly grown nationwide and consumed by majority of the population and industrial users/manufacturers. The System aside from it serving as a trading venue for Producers, Sellers and Consumers, may offer services attendant to trade, like Cash/Payment Transfer services, Warehousing and Quality Assurance, Transport Logistics and Post Harvest Facilities Services, such as Drying, Shelling and Grading. These services can be obtained from or through the System.

In the initial phase of its operations and in order to reduce the start-up capital needed, government may provide logistics support (office space and communication facilities) and some manpower through the National Food Authority (NFA) of the Department of Agriculture (DA).

As recommended by the Workshop participants, and since the suggested commodities to be covered are nationally produced and used, the System's scope of operation must be nationwide with regional branches although focus in key regions may be done at the start.

The private sector could share their expertise in suggesting the core network of the ACES and patronizing its services.

Operations of the System must be run or at the very least guided by the private sector to make it market and customer oriented, promote flexibility and transparency and to become free from the constraints of long/tedious bureaucratic procedure. Farmers through the FFF and PAKISAMA will be key players in, and part owners of, the system.

## **B. Mechanics of ACES Operations**

1. The NFA in consultation with farmers (sellers) and Users (Buyers) will have to determine the provinces to be classified as Sellers (major

production areas) or Buyers (provinces where major industrial users are located) Trading Centers. Accordingly, depository/withdrawal warehouses will be designated purposely to be used by the System.

2. Farmers/Sellers deposit their produce in a designated warehouse, specifying the volume, specifications (quality) and price.
3. To provide immediate liquidity to farmers, deposited farmers stocks (palay and corn) can initially be paid using the NFA- Farmers Option to Buy-Back (FOBB) Terms and Conditions aside from alternative liquidity mechanisms that may be provided by the System. Payments for stocks deposited under the FOBB scheme are immediately made based on the prevailing government support price.
4. The System electronically posts marketing information in the sale of produce to Buyers/for Buyers information/reaction.
5. Interested Buyers electronically respond by posting their quotes or by other means of communication relay their interest to buy the produce. Interested Buyers will be required to put up a deposit.
6. The System informs the farmer/seller if the sale is consummated, and the system gives the option to the buyer to either deliver the produce or let the buyer withdraw the produce ex-warehouse.
7. The System accepts payment from the Buyer and remits payment to the farmer/seller net of any advances and deductions of charges and fees for services provided earlier by the System,
8. The buyer withdraws or receives the produce from the System.

### **C. Additional Support/Activities Needed**

To make sure that critical fundamental issues are addressed before the actual establishment/setting up of ACES, the conduct of studies to obtain needed answers and gather from experiences/lessons learned by other Groups /countries which were able to successfully set up a Agricultural Commodities Exchange System would need to be undertaken.

The Workshop Groups recommended for the following areas to be studied:

1. Conduct of a legal review on laws and regulations that would affect the viability and operation of ACES. Likewise, determine if there is a need to prepare additional/specific legal instruments that will serve as basis for the establishment of ACES;
2. Dialogue/consultation with specific groups, e.g., farmers/producers, grains businessmen and policy makers re ACES;
3. Educational Group Visit to countries globally acknowledged to have successfully established or attempted to establish an ACES;
4. Conduct of feasibility study on the inclusion of Coconut (copra) as a commodities to be traded in the System;
5. Assessment/Evaluation of the discontinued NFA Electronic (E) Trading for Corn;
6. Monitoring of the pilot implementation of the ACES.

For the details of the above-mentioned suggested activities, attached are Annexes 1-6.

**D. Budget and Timetable of Implementation of Above Mentioned Support Activities.**

Possible sources of funds are Grant Funds from the ESFIM Program of the International Federation of Agricultural Producers (IFAP) and other sources.

ACTIVITY	SUGGESTED PERIOD OF IMPLEMENTATION	BUDGET		
		(₱) (000)	(\$ ) (000)	(€) (000)
1. Conduct of Legal Review	Two (2) months	500	10.583	7.624
2. Conduct of Small Group Meetings	-	600	12.703	9.152
3. Overseas Educational Observation/Field Trip	-	1,500	31.761	22.874
(suggested countries to visit include China, India and Thailand)	-			
4. Evaluation of the NFA E-Trade System on Corn	-	400	8.468	6.100
5. Pilot Implementation of ACES (advocacy and Monitoring activities)		500	10.587	7.625
6. Feasibility Study on the Inclusion of Coconut (Copra) in the CES	Two (2) months	400	8.469	6.100
<b>TOTAL</b>		<b>3,900</b>	<b>82.571</b>	<b>59.475</b>

## **Expected Output**

All project activities will be coordinated by the Federation of Free Farmers (FFF) as lead ESFIM group in the Philippines. Each group concerned with the conduct of each specific activity will have to submit final report to the FFF. However, a Stakeholders Group will be organized to provide advise on all project activities.

The major output from each activity will be a report explaining in detail the findings and recommendations from each study or activity.

**Conduct of Small Group Stakeholders Meeting  
to Further Discuss Key Issues/Details  
on the Establishment of an  
Agricultural Commodity Exchange System (ACES)**

**I. Rationale**

A Stakeholder Platform shall be organized to be composed of leading personalities/experts from specific groups. They will, for a specific period, meet to discuss further key issues/details with respect to the development and establishment of an ACES.

The meetings will be further backed-up by invited resource person/expert on a specific topic tabled for discussion during the meeting.

The Stakeholder Platform may also serve as a policy sounding board, lobby group and advocacy team for the System.

**II. Mechanics of Implementation**

The Stakeholders Platform shall be composed of representatives from the following sectors: farmers, agri-businessmen, institutional users, government sector and other private sectors. The FFF will initiate the formation and coordinate the activities of the platform.

Initially, the suggested composition of the platform membership is as follows:

Farmer	:	representative(s) from Farmer's Group of FFF, Pakisama and Philmaize
Rice Businessmen	:	Trader/Miller, Retailer
Corn Businessmen/ Manufacturer	:	PAFMI
Sugar Industry Sector	:	Miller, Farmers
Coconut Industry Sector	:	Manufacturers, Traders, Farmers
Government Sector	:	SRA, PCA, NFA



On call basis are representatives from: Logistics sector, Livestock and Poultry Raisers and International Traders.

A Secretariat Group will be hired to assist the FFF in organizing the meetings, keeping track of discussions, preparing meeting reports and evaluating the relevance of the meeting output to the ACES.

Initially, four (4) small groups/roundtable meetings will be scheduled to be held in Metro Manila. Three (3) meetings will be held outside of Metro Manila, one (1) each in Luzon, Visayas and Mindanao. These meetings could also serve as initial advocacy activities in favor of the ACES.

Topics that maybe referred for discussion during the Roundtable meetings may include among others the following:

1. Nature of ACES operation
2. Services to be offered by ACES and charges/fees
3. Areas that would require government intervention

One (1) resource speaker/person will be invited per meeting.

The Platform will also provide comments and feedback on the outputs of the various research components of the program.

### **III. Budget**

The total budget requirement for the Stakeholders Platform and its related activities is estimated at six hundred thousand (P600,000.00) pesos. The funds will be used to defray cost of the following expense items:

Particulars	Budget		
	(P'000)	(US\$'000)	(€'000)
- Four (4) consultative Meetings; (P30,000.00 each meeting to cover cost of venue and food)	120.0	2.541	1.830
- Three (3) outside of Metro Manila meetings (P25,000/meeting to cover cost of venue and food)	75.0	1.538	1.144
- Food and Lodging of Platform member at P3000.00/day x 8 pax	72	1.524	1.098
- Honorarium of Platform members at P2,000/day x 8 pax x 7 meetings	112	2.371	1.708
- Travel allowance/airfare of platform members, non-resident of Manila and non-residents of provinces			
P4,000.00 x 4 meetings x 5 pax	80.0	1.694	1.220
P4,000.00 x 3 meetings x 5 pax	60.0	1.270	0.915
- Secretariat Group fees & travel fees	60.0	1.270	0.915
- Supplies and materials (6 meetings)	15.0	0.318	0.230
- Others	6.0	0.127	0.092
<b>Total</b>	<b>600.0</b>	<b>12.703</b>	<b>9.152</b>

#### IV. Expected Output

Comments and opinions raised by the experts during the Platform meeting will be consolidated/summarized and analyzed by the Secretariat Group. These will also be used to come up with the technical proposal on the ACES. As mentioned earlier, the Platform members will also serve as a sounding board for the outputs of the various research activities to be undertaken under the program

## Assessment/Evaluation of the NFA Electronic (E) Trading for Corn

### I. Background / Rationale

In 2001, the NFA launched a marketing program called the Electronic System of Trading (E-Trade) for corn. It is patterned after the commodity exchange system, wherein offers to sell from corn producers are electronically matched with bids from buyers. Under the System, accredited corn farmers or farmer groups are allowed to deposit a minimum of 2.5 tons or 50 bags Grade 1 corn based on NFA specs in NFA designated corn depository warehouses in a production area.

Both the farmer and user can transact/negotiate through computers "electronically" relative to corn requirements and price. Once a volume is matched, the buyer pays and withdraws the stocks from the NFA warehouse in the consumption area and NFA pays the farmer for the equivalent stocks deposited in the NFA warehouses in the production area.

During its operation, several farmers and buyers posted and offered prices to sell and buy through the System. However, no matching took place, since there were no takers because prices posted by farmers were high.

Other than prices, several constraints bogged down the implementation of the Program.

The Study will examine these problems and offer solution(s) to the same.

### **Mechanics of the Proposed Study**

1. Gathering of existing data from the NFA.
2. Conduct of actual provincial field interviews with farmers, buyers and officials/employees of the NFA.
3. Analysis of data and writing of report.

4. Evaluation and discussion of Report among Team Members of Study Group.
5. Finalization and submission of Report to the Stakeholders Platform

## II. Budget

The proposed Study will require an estimated budget support of Four hundred thousand pesos (P400,000.00), broken down as follows:

Particulars	Budget		
	(P'000)	(\$'000 )	(€'000)
Study Group Fee	300	6.352	4.575
Transport/Mobility (data gathering & provincial field interview)	50	1.059	0.763
Clerical Services	20	0.423	0.305
Supplies and Materials	20	0.423	0.305
Others	10	0.211	0.152
<b>Total</b>	<b>400</b>	<b>8.468</b>	<b>6.100</b>

## III. Project Duration and Expected Output

The Study will require two (2) months to complete. One (1) month will be spent for data gathering and field interview. The 2<sup>nd</sup> month will be devoted to analysis of data and report preparation.

A mid- term and final report must be submitted to the Stakeholders Platform.

## Overseas Educational Field Trip Re ACES

### I. Rationale

Conduct actual observation and gather information/lessons learned from the establishment and operation of an ACES in selected countries.

### II. Suggested Countries to be Visited

- a) China
- b) India
- c) Thailand

China and India, reportedly have successfully established an ACES. Thailand attempted but failed. A visit to these countries will give us information on the critical success and failure factors encountered by these countries. Lessons learned can guide the Philippines in the establishment and operation of its own ACES.

### III. Composition of Study Team

- 1) Two (2) teams each composed of five (5) members, each with representatives from:
  - Two (2) - farmers
  - One (1) - each from grains businessmen, Industry User and Government Sector
- 2) Team 1 to travel to Thailand, then proceed to India, for a total of fourteen (14) days or two (2) weeks inclusive of travel time.
- 3) Team 2 to travel to China for seven (7) days inclusive of travel time.

#### IV. Budget

Total estimated cost of travel (inclusive of air fares, hotel accommodation and per diem) is US\$30,000.00 or around P1,500,000.00 taking into account a P50.00 per US\$ exchange rate.

Funds from ESFIM and other sources maybe used to finance the trip, subject to approval of their respective offices.

Particulars	BUDGET		
	(P'000)	(US\$'000)	(€'000)
1. Team 1 (Thailand and India), composed of 5 members, for 14 days, inclusive of travel time	125.0	2.647	1.906
▪ air fare: Mla-BKK @ US\$500.00 each x 5 pax	262.5	5.558	4.003
▪ hotel accommodation and per diem at US\$150.00 x 7 days x 5 pax	125.0	2.647	1.906
▪ airfare: BKK-India @ US\$500.00 x 5 pax	262.5	5.558	4.003
▪ hotel accommodation and per diem @US\$150.00 x 7 days x 5 pax	200.0	4.235	3.050
▪ airfare: India-Mla @ US\$800.00 x 5 pax			
2. Team 2 (China), composed of five (5) members, for seven (7) days, inclusive of travel time	200.0	4.235	3.050
▪ air fare: Mla-China-Mla @ US\$800.00 x 5 pax	262.5	5.558	4.003
▪ hotel accommodation and per diem at US\$150.00 x 7 days x 5 pax			
3. Others	62.5	1.323	0.953
<b>Total At P50.00/US\$</b>	<b>1,500.00</b>	<b>31.761</b>	<b>22.874</b>

#### V. Expected Output

A report of each Team must be submitted to the Stakeholders Platform ten (10) days after completion of travel. The report will include specific recommendations relevant to the establishment of an ACES in the Philippines.

## **Pilot Implementation of the Agricultural Commodity Exchange System (ACES)**

### **I. Rationale**

Representatives of various stakeholders who attended the ESFIM Commodity Exchange Workshop last 26-27 February 2009 supported a proposal to establish an electronic Agricultural Commodity Exchange System (CES).

Sometime in 1999, the NFA launched an electronic (computer-based) corn trading system. The system provided producers (sellers) and users (buyers) a venue to trade corn. The System also provided corn farmers access to marketing data/information (prices, marketing costs, buyers and their volume of requirements, etc). These information are useful to farmers in terms of decision-making for them to derive the highest possible return on their investments. The NFA System however failed due to some problems, among which are:

- “pole-vaulting” of farmers. Pledged corn were withdrawn by farmers and later sold to traders who offered a higher price.
- Farmers need for immediate cash instead of waiting for their product to be matched under the system
- Farmers want immediate payment for their stocks, after a match is made
- Uncompetitive prices offered by both sellers (farmers) and buyers

The main objective of an electronically backed-up trading system is very noble. It is seen to provide an efficient and reliable alternative for the trading of basic agricultural commodities in the country, initially starting with corn.

The results of the Commodity Exchange workshop again indicated the relevance of the System and that the Government through the NFA is correct in pushing for the establishment of an Agricultural Commodity Exchange System.

The proposal to conduct a pilot implementation of an improved system is therefore relevant especially for farmers. Hopefully, the recommended solutions to the earlier problems cited will enhance the system and expedite its eventual formation and long-term operation.

## **II. Mechanics of Implementation**

1. The NFA will provide the operational electronic network, the office venue and support logistics and the manpower to operate the System in designated areas.
2. An independent Study Group will be hired to prepare the Implementing Guidelines for the conduct of the Pilot Implementation of ACES, monitor, evaluate and prepare progress report on the pilot ACES implementation.
3. Public announcements relative to the pilot operation of ACES will be issued by NFA. The announcement is expected to initiate reaction/participation from farmers (producers-sellers) and buyers (users).
4. Pilot implementation will cover only corn.
5. Target pilot implementation period is suggested to start June this year as the main harvest season for corn normally starts in June of each year.
6. Areas of implementation will cover the traditional main corn producing areas/provinces/regions and major corn using/manufacturing areas/provinces/regions, to be determined by the NFA and the Independent Study Group.
7. Participating farmers will be required to deliver their corn to NFA designated warehouse and same will be paid following the terms and conditions of NFA-FOBB Program. The mechanics of the FOBB payment is presented in Section II-B-3 of the Project Proposal.
8. Participating corn farmers deliveries will be traded under the System following quotes (prices) posted by buyers.
9. Once final sale agreement is made between the Buyer and the System, buyer pays deposit and System issue an authority for buyer to



withdraw the product at designated NFA warehouse, or buyer may request system to deliver (for a fee) the product to his warehouse.

For proper documentation, the NFA and the Independent Study Group will have to prepare an SOP covering the sales transaction of the System.

### III. Timetable of Activities

Activity	Period Covered (2009)
1. Preparatory meetings with concerned agencies and stakeholders	Within two (2) months
2. Document preparation (letters, memos, SOPs, etc.) ad work for its approval, to support pilot operation of ACES	- do -
3. Setting – up of logistics in designated areas	- do -
4. Launching of the ACES pilot implementation	- do -
5. Actual operation of pilot ACES	Three (3) months
6. Monitoring of activities	- do -
7. Preparation and Submission of Final Report	One (1) month

### IV. Budget

1. The Government thru NFA-DA will provide the Manpower and Logistics support (office, computers, warehouse and transport) and travel support funds for its employees.
2. The ESFIM program will provide funds for the Independent Study Group that will design the Implementing Guidelines for the Conduct of the pilot Implementation of ACES and assist in the operation, monitoring and evaluation of the pilot ACES implementation. Funds needed to support these

activities is estimated at five hundred thousand pesos ( P500,000.00 ) or Seven Thousand Six Hundred Twenty Five Euros (€7,625.00) at current exchange rate of 1 Euro = P65.572. In US dollars, the amount is Ten Thousand Five Hundred Eighty Seven (US \$10,587.00) at current exchange rate of 1 US \$ = P47.229.

## **V. Expected Output**

The pilot implementation will seek to address the problems as established/cited by NFA in its initial program implementation of its e-trading system. The Study Group will submit its reports regularly to the Stakeholders Platform.

**Review of Existing Laws and Legal Requirements  
Affecting the Establishment of an  
Agricultural Commodity Exchange System (ACES)**

**I. Rationale**

Legal instruments/requirements can either support or hinder the establishment of an institution. Knowing what these are can be used as the basis to request for any administrative and financial support and any other claims/benefits that maybe accorded to the institution. It will also be the basis to lobby for the removal of possible bottlenecks and hindrances.

**II. Project Description**

Basically, the Project will involve the conduct of research covering existing laws, rules and regulations that will govern the setting up and operations of ACES.

Interviews with members of the Legislative Body and some policy makers and with both public and private resource persons will be conducted to secure clarification, comprehension and interpretation of existing laws. Avenues to further strengthen the existence and operation of the System can also be discussed and explored.

**III. Timetable of Activities**

<b>ACTIVITY</b>	<b>PERIOD COVERED</b>
1. Conduct of legislative research	One (1) month
2. Research evaluation/analysis	One and a half (1 ½) month
3. Preparation of Report	One (1) month
4. Presentation of Draft Report	One (1) day
5. Finalization and Submission of Final Report	Fifteen (15) days

#### IV. Budget

Funds in the amount of five hundred thousand pesos (P500,000.00) will be needed for the conduct of the study. A study group, supported by a team of researchers, will be formed and mobilized to conduct the study.

The allocated funds shall be utilized to defray cost of expenses to be incurred as follows:

Particulars	BUDGET		
	(P'000)	(\$'000)	(€'000)
Study Group fee	280	5.929	4.270
Researchers' fee	130	2.752	1.982
Report Preparation – Clerical fees	50	1.056	0.762
Transport/Mobility	25	0.529	0.381
Supplies and Materials	10	0.211	0.153
Others	5	0.106	0.076
<b>Total</b>	<b>500</b>	<b>10.583</b>	<b>7.624</b>

#### V. Expected Output

The Study Team is expected to submit the following to the Stakeholders Platform:

- a) List of relevant Laws/Bills with analysis highlighting their relevance to ACES.
- b) How these will affect the operation of the ACES?
- c) Advantages/disadvantages of the Bill/Law.
- d) Recommendation on whether to formulate another bill to strengthen existing legal basis and operational viability. If needed, to prepare draft of required bill.

**Feasibility Study on the Inclusion of  
Coconut (Copra) to be Traded in the  
Agricultural Commodity Exchange System (ACES)**

**I. Rationale**

Copra is one of the major agricultural commodities exported by the Philippines. Coconut, the raw material for the production of copra, is widely grown in the country by some three (3) million coconut farmers.

Under normal growing condition, mature coconut is harvested every forty five (45) days, thus assuring sustained supply and demand for the product.

Volatility in price is caused by lack of post-harvest facilities, poor infrastructure and transport facilities, and weather conditions. Being an export/industrial agricultural commodity, coconut is also affected by changes in the foreign exchange system.

It is hoped that with the ACES, some of these problems and issues will be minimized or totally addressed in favor of coconut farmers.

**II. Project Study Implementation**

An independent study group will be hired by IFAP to conduct the Feasibility Study. The Study will require field trips to conduct field observation and interviews with farmers.

**III. Budget**

Funds in the amount of some four hundred thousand (P400,000.00) will be needed to defray cost/expenses for the following:

<b>Particulars</b>	<b>Budget (P'000)</b>	<b>In US Dollars</b>	<b>In Euros</b>
Study Group Fee	300	6.353	4.576
Transport/Mobility	80	1.694	1.220
Supplies and Materials	10	0.211	0.152
Others	10	0.211	0.152
<b>TOTAL</b>	<b>400</b>	<b>8.469</b>	<b>6.100</b>

#### **IV. Expected Output**

The Study Team to submit preliminary and final reports to the Stakeholders Platform.