Facilitating the Development of a WRS in Zambia

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Outline

- Who and what is ZAMACE?
- ZAMACE Services
- History of Warehouse Receipts in Zambia
- ZAMACE and Smallholder Aggregation Model

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ZAMACE Mission Statement

To provide an efficient and vibrant Zambian and regional agricultural commodity exchange, supported by a warehouse certification and receipt system to enhance market access, liquidity and credibility in the commodities market.

• Established in 2007
• Response to the need for a market mechanism that addressed issues such as:
  • high transaction costs
  • poor market information
  • low levels of transparency and trust
  • Dispute resolution mechanism
## Ownership & Control

1. AAI
2. Afgri Corporation
3. Amagrain
4. Cargill Zambia
5. CHC Commodities
6. Dunavant Zambia
7. Export Trading Company
8. Food Reserve Agency (FRA)
9. Olam Zambia
10. Quality Commodities
11. Sakiza Spinning
12. Savanna Commodities
13. Seaboard Commodities
14. Simba Milling
15. Zdenakie

- Currently owned by 15 Member-Brokers (FRA joined as at 21<sup>st</sup> October 2010)
- Members governed by Exchange Rules & Regulations
- Board headed by an Independent Chairman and comprises 8 Member-brokers, 3 permanent institutional members (ZNFU, MAZ & BAZ) and 3 Ex-officio (PROFIT, ED & FD)
- Initial financial and technical support by USAID-PROFIT
What is ZAMACE?

- ZAMACE Ltd operates Zambia’s sole commodities exchange
- An exchange is a market place where buyers/sellers interact under a clear set of rules and regulations
- It is a structured market which has set and industry accepted quality standards
- Standardised contracts are used and backed by a dispute resolution mechanism (mediation and arbitration)

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History of Warehouse Receipts in Zambia

- **Collateral Management Agreements (CMAs)**
  - Been in existence in Zambia for years
  - Commodity under the management of a fully insured, fully liable collateral management company (SGS, ACE etc)
  - Used by large operators to secure finance
  - Ensures security to lending institutions but expensive

- **Zambia Agricultural Commodities Agency (ZACA)**
  - Donor-funded non-profit company promoting a warehouse receipting system established in 2000
  - Certification and inspection agency
  - Certified 26,000t of capacity, 17,400t of receipted commodity
  - Provided FRA with grain testing service
  - Ceased operations in 2006
Why didn’t ZACA Succeed?

- Focused on WR financing
- WR not recognised as document of title under Agric Credit Act 1995
- Limited ‘buy in’ from financial sector
- No linkage to a centralized marketing system for price discovery
- Therefore, perceived to be of little value to agricultural sector
- Focused on smallholder warehouse receipting – donor orientation
- Never found a place in the market

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ZACA Key Lessons

- Strong and transparent market environment
- Volume-based trade with long term outlook
- Stimulation of storage industry
- Need to increase trading efficiency
- Demand for warehouse receipting system
- Warehouse receipts recognised by trade
- Warehouse receipts recognised by banks

A warehouse receipt system doesn’t create an orderly market. It is a product of one
Grain Marketing Expansion Program (GMEP)
Chongwe Pilot 2008/09

- Collaboration with (PaViDIA)
- PaViDIA supported villages to build community sheds
- Sheds became idle as no linkage to market
- ZAMACE inspected +50 community sheds for storage of maize
- ZAMACE conducted training on grain grading, handling and storage
- 200mt of maize was placed on the Exchange by 4 sheds
- Identified need for district certified storage

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ZAMACE and the Smallholder - Moving towards Smallholder Commercialisation (GMEP)

- Working with 18 first-level community aggregation points
- Farmers/co-operatives/traders are sensitized and trained in commodity grading and quality parameters
- Community aggregated commodity is throughput to ZAMACE district certified warehouses
- 8 district warehouses certified in 2010
- Interest by some financial institutions to potentially provide warehouse receipt financing
Basic ZAMACE Requirements for Certified District WO

- Incorporate business owning/leasing warehouse
- Working minimum of 200mt storage capacity
- Acceptable physical integrity of infrastructure as per Rules & Requirements for WO (Appendix 10 of R&R)
- Grading kits
- Insurance cover:
  - Theft, fire and material damage
  - Professional Indemnity
  - Fidelity guarantee
  - Performance bond
- Application on prescribed form

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Community Aggregation Requirements

- Organised community groups (cooperatives)
- Management structure and membership register
- Encourage female representation (gender)
- Must own/lease storage acceptable sheds (typically up to 60mt)
- Train community on quality parameters, grading and handling and basic storage
- Sheds not certified but used for throughput to district certified warehouses

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ZAMACE Model WR

ZAMACE
ZAMBIA AGRICULTURAL COMMODITIES EXCHANGE

ORIGINAL WAREHOUSE RECEIPT

No.

RECEIVED FROM (FULL NAMES):

CONTACT DETAILS:

ISSUED BY:

IN RESPECT OF:

WAREHOUSE NAME
WAREHOUSE PLOT NUMBER

STORAGE AND HANDLING CHARGES

MONTHLY STORAGE FEE  K
Storage Fee includes:
1. Handling charges in and out of the warehouse
2. Depreciation and depreciation of fixed assets
3. Insurance charges
4. Any other charges as stipulated by the WEC.

Other Outstanding Fees
Re-stocking Fee  K
Tempering Fee  K

Storage, handling and other charges have been paid on the commodity covered by this receipt up to and including the last date endorsed below by the warehouse operator.

STORAGE, HANDLING AND OTHER CHARGES PAID UP TO AND INCLUDING

(LADE)

WAREHOUSE OPERATOR'S AUTHORIZED SIGNATURE

DATE OF ISSUE

QUANTITY (DIGITS)

TYPE OF COMMODITY

GRADE

WHITE MAIZE

SUNFLOWER

WHEAT

SOYA BEANS

QUANTITY (IN WORDS)

Depositor's Signature

Date

Shed / Warehouse Quality Manager's Signature

Date

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Trading through ZAMACE

1. Clean/sieve commodity
2. Put in new polypropylene bags
3. Weigh just over 50kg (51.5-52kg)
4. Aggregate
5. Store in community shed
6. Transport to ZAMACE certified district warehouse

- Warehouse operator completes trade on ZAMACE
- Warehouse operator aggregates 30Mt
- Receive Goods Received Note

- Store commodity
- Sample & weigh

- Notify warehouse operator
- Decide to trade through ZAMACE
- Receive Warehouse Receipt
  - Less than 30 Mt
  - More than 30 Mt

- Contact broker
- Sign contract with broker
- Broker looks for buyers
- Communication between broker and client
- Trade complete
- Collect payment
- Distribute payment

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Government still has a role:  
The Ideal Scenario

**Predictable policy environment**

- **Incentive to produce**
- **Incentive to finance**
- **Incentive to store**

- Transparent, market-based interventions

- Using ZAMACE to sell crop

- Predictable export policies

- **Stable prices for producers**

- **Stable prices for consumers**

- **National food security**

- **Regional competitiveness**

**GRZ can now invest in extension, infrastructure, R&D, irrigation, etc**

- **FRA buying areas clearly defined**

- **Enabling legislation**
Take Home Message

- ZAMACE can be used as a conduit for secure smallholder “commercialisation”
- ZAMACE has started the ground work and has a comprehensive set of Rules and Requirements for WO
- ZAMACE embarking on a restructuring process to more effectively serve its clients
- Current status quo means ZAMACE can not effectively continue its WRS service without the “Licensing Authority” agency

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Thank you!