Grain Traders Association of Zambia

Challenges and Opportunities of maize marketing in Zambia

Theme: Evidence based Agricultural Policy Decision to Shape Agricultural Development for Poverty Reduction

Date:  5th December, 2012
Venue:  Pamodzi Hotel
Lusaka, Zambia
Grain Traders Association of Zambia

- Established in October, 2005
- GTAZ is a self regulating traders association

Objectives:
- To promote commodity trading
- To promote sound trading rules and regulations
- To encourage the development of small and medium traders
- To work with government and other stakeholders to improve the agriculture sector in Zambia
Grain Trades Association of Zambia

- GTAZ has diverse membership both Zambian and International companies
  - Local Zambian companies
  - Multinational companies (grains & cotton)
  - Regional players
Services offered by GTAZ members

• Procurement
• Selling
• Storage (Warehouse Receipt issuance)
• Fumigation
• Logistics
• Commodity Brokering
• Input finance
• Cross border trade
List of Members

- CHC Commodities
- Zdenakie Limited
- Quality Commodities
- Seaboard
- Cargill
- Cirrus Commodities
- Farmers Builders Suppliers
- Munzuma Estates
- Kasabi Industries Ltd
- Afgri Corporation
- Export Trading
- Dunavant Zambia
- Olam Zambia
- Nyimba Filling Station
- Savannah Commodities
- Senwes Grainlink
- Louis Dreyfus Comm
- Moomba Investments
- Kakunka Import & Export
GTAZ Operating Locations

- Chipata
- Katete
- Petauke
- Lundazi
- Mumbwa
- Lusaka
- Kabwe
- Sesheke
- Kasama
- Kapiri Mposhi
- Mkushi
- Kalomo
- Choma
- Mazubuka
- Gwembe
- Monze
- Ndola
Commodities Traded

- Maize
- Soya beans
- Wheat
- Edible Beans
- Groundnuts
- Sunflower
- Rice
- Sorghum
- Cowpeas
- Soya/Cotton cake
- Barley/Malt

Non Grain

- Fertilizers
- Seeds
- Empty bags

Bran

- Wheat
- Maize
- Rice
GTAZ contribution to the Sector

• Employment Opportunities
• Liquidity in the market
• Bridging the market (producer – processor)
• Moderating influence (producer – processor)
• Infrastructure investment (New storage)
• Tax contribution & forex generation
• Multiplier effect :
  ➢ Major clients to FRA (Sheds)
  ➢ Transporters
  ➢ Fumigation companies
Investment: Grain Storage Solutions

Joint Venture between CHC Commodities & Zdenakie Limited
Zambia Supplier of Grain

- Zambia has increased production from deficit grain country in maize, soya and wheat to surplus.
- Zambia is known for its production of Non-GMO grain commodities mainly maize, soya and wheat in region and beyond.
- Zambia MUST be the supplier of first choice
Challenges

• **Uncertainty in the market:**
  - Quantity to be procured by FRA vary in season
  - Government interventions (FRA)
  - Export & Import restrictions

• Exchange fluctuations

• **Extension** staff are busy with FISP at a critical time of land preparation and planting by the farmer, result is poor yields.

• No regular meetings of the Grain Stock Monitoring Committee – MAL

• Post Harvest survey not being carried out to validate the crop focus.

• Legislation (credit act), Marketing Bill & Commodity Exchange bill.
Challenges: Infrastructure

• A railway line to the major ports e.g Beria, Walvis Bay, Dar es Salaam and now Angola.

• Road infrastructure internally and connections to the main supplier routes.
Results of intervention - FRA

• FRA uniform buying price
  - Results into crowding out private sector from buying along the line of rail
  - Current FRA purchase of maize:
    - FRA price K1,300/kg - $260/mt
    - GTAZ/MAZ, - K1,100/kg – K1,300/kg, $220/mt - $260/mt
  - Large volume of maize purchased by FRA resulted in reduced purchases by traders because of the threat of FRA selling maize in the local market below cost or even selling maize for export at a discount hence making it uncompetitive for Zambian traders to sell their maize at a profit.
  - MAZ just like traders have assumed a short trading regime of buy mill and sell immediately, no stocking for LONG TERM
  - No sane Business person will invest in stocks for long term through MANDATE to the Grain Trade because of the unpredictable hand of uncle sam.
Example

• FRA procurement price K65,000/50kg bag or $260/mt farm gate
• Maize bought July/August 2012
• Stored, Financed for 2 months
• Transported from satellite depots to district holding depots & main consumption areas
• Associated costs: Interest 1% per month, storage, handling, fumigation, transport & shrinkage
### Illustration

<table>
<thead>
<tr>
<th>Cost of holding grain</th>
<th>Rate</th>
<th>Months</th>
<th>Total</th>
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<tr>
<td>Interest 1% per month</td>
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<td>Storage</td>
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<td>Handling &amp; rebagging</td>
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<tr>
<td>Shrinkage 2%</td>
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<td>Grain bags</td>
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<td>Fumigation</td>
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<td>Transport</td>
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**Grand total**  

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**Realistic Market Price**  

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**Current Selling price**  

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**Profit**  

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GTAZ market price -  
Maize per metric ton  

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<td>Transport</td>
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**Grand total**  

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**Realistic Market Price**  

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**Current Selling price**  

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**Profit**  

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Alternatives

• FRA to procure limited maize from areas that are not economically viable for private sector to operate (i.e. for strategic reserve only)
• Contract private sector to procure maize and hold in stock on its behalf
• Use ZAMACE for the sale of FRA maize:
  > Price discovery
  > Transparency
• FRA to adopt a more supervisory/regulatory function
  > Assess stocks & quality in the country
Benefits

➢ Government use **less resources** to achieve same objective

➢ Use **private sector resources** & expertise to secure strategic reserve

➢ Remove **uncertainty**

➢ Encourage private sector participation
GRZ Interventions
FISP & FRA

• Are fertiliser and Maize subsidies the best way to uplift small scale farmers (SSF’s)?
• After 48 years of not very successful policies and interventions is it not time for new thinking?
• Refocus the national priority from the achieved goal of food security to becoming a net exporter of staple foods and higher value agricultural commodities to the region and beyond.
• Support the above with a greater emphasis on research, education and extension services to SSF’s
• Target support appropriately
• Government to encourage private sector expansion into rural areas through infrastructure development.
• Encourage diversification of SSF’s cropping into high value crops and locally appropriate crops.
Role of Government

- Government to concentrate on developing conditions that can enable private sector function in a predictable & competitive way:-
  - Good monetary policies, low interest rates & stable exchange rates
  - Consistent imports & export policy (open borders)
  - Implementation of Agriculture Market Development Plan (AMDP)
  - Continued dialogue with industry stakeholders
  - Improve infrastructure to enhance trade activity at the borders
  - **Open up** government fertilizer supply program to more players
Private Public Partnership

GTAZ maintains that FRA has a role to play in the market;

However GTAZ proposes that FRA considers working with the private sector, by using market instruments to secure and maintain strategic grain reserves in a more cost effective way and with least distortion in the market.
What Next?

- Steps to consider to avoid repetition of FRA having to purchase in excess of 500,000MT
  
  - FRA “floor price” must be closer to market prices

  - Artificially high FRA prices create the conditions of dependency by farmers who access subsidized inputs and expect uneconomically high prices for their grain
What Next? Cont.

- Whilst setting FRA floor price, due consideration must be given to the real costs of production and not a price that would **mollify** one or two stakeholders.

- Encourage participation of private sector by limiting FRA’s **mandate** to **strategic reserves** and allowing FRA to set a price closer to the market prices to avoid distortion and unrealistic expectations from FRA at a huge cost to tax payer.
Zambian Maize Contract (JSE)

- JSE in conjunction with ZAMACE are working to introduce a 10ton Zambian Maize Contract
- JSE announced Zambian maize contract introduction 04-12-12 for 1ST Quarter 2013.
- Put Zambia on the international market as a supplier of Non GMO maize to the world.
- ZAMACE Recapitalised (1ST Quarter 2013)
- Credit Act 35 of 2010 implementation, Marketing and Commodity draft Bills.
GTAZ is ready but ..... The biggest challenge we face is uncertainty in the markets. Unfortunately, the uncertainty is so uncertainty that you can still not plan around the uncertainty. The uncertainty is unpredictable on its own .............

Result is encouraging hit and run operations to be the norm in Grain Trading in the Country
Recorded Progress - GRZ

• Government pronouncements that FRA is not the supplier of raw materials to processors (millers)

• The bridging of the Subsidy on FRA marketing of maize in the market from K40,000 to K60,000 per bag to the millers

• Anticipated moves in addressing the implementation of Credit Act and;

• Implementation of e-voucher pilot in 2013
Thank you

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