Role in Zambia's Grain Sector and Warehouse Receipts
Success, Challenges and Opportunities

Presented by
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To
PPP in Grain Marketing Dialogue in Zambia, Chisamba Safari Lodge
6 March, 2010

Outline

- ZAMACE setup, ownership & control
- Benefits of ZAMACE to market
- ZAMACE Services
- Warehouse Receipts and WR System
  - Background, Lessons Learnt
  - Ethiopian/Ugandan models
  - ZAMACE Proposed Model
- Challenges and Opportunities

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WHY ZAMACE?

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

- Established in May, 2007
- Response to demand for a market mechanism that addresses the market imperfections that have stifled growth in the agricultural sector
- Mutual organisation, private limited liability company
- Members governed by Exchange Rules & Regulations
- Market use of the Exchange is currently voluntary

OWNERSHIP & CONTROL

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

- Currently owned by 15 Member-Brokers
- Members governed by Exchange Rules & Regulations
- Board comprises 1 Independent Chairman seat, 8 Members, 3 Institutional (ZNFU, MAZ & BAZ) and 3 Ex-officio (PROFIT, ED & FD)
- Management team & total staff compliment of 6
- Initial financial and technical support by USAID-PROFIT

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1. Commodity Trading

- Trading through Member-broker
- Spot and some forward trades (Daily trading sessions 10 – 12hrs (Physical; Tues & Thurs 11-12hrs))

Negotiation leads to a trade
1. Commodity Trading

- Introducing web-based quasi-automated trading system in April
  - Integrated into website
  - Integration into CoreTalk SMS information distribution system
- Registered (reported trades) feature – OTC market
  - Member-brokers required in Rules to place all trades through Exchange
- Introducing Guaranteed Settlement structure
- Dispute resolution through Arbitration

Total Trading Activity

- October 2007 –March 2010
## Platform Trading Activity

- **Period:** 4th October 2007 – 3rd March 2010

<table>
<thead>
<tr>
<th>COMMODITY</th>
<th>TRADES</th>
<th>VOLUME (MT)</th>
<th>TURNOVER (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRAIN</td>
<td>77</td>
<td>41,086</td>
<td>13,899,016</td>
</tr>
<tr>
<td>OILSEED</td>
<td>20</td>
<td>5,832</td>
<td>2,323,898</td>
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<tr>
<td>MAIZE MEAL</td>
<td>11</td>
<td>4,168</td>
<td>1,222,768</td>
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<tr>
<td>FERTS</td>
<td>9</td>
<td>750</td>
<td>527,050</td>
</tr>
<tr>
<td>PULSES</td>
<td>3</td>
<td>287</td>
<td>221,223</td>
</tr>
<tr>
<td>CEMENT</td>
<td>8</td>
<td>420</td>
<td>127,363</td>
</tr>
<tr>
<td>BRAN</td>
<td>1</td>
<td>200</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>129</strong></td>
<td><strong>52,743</strong></td>
<td><strong>18,341,318</strong></td>
</tr>
</tbody>
</table>

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## Registered Trading Activity

- **Period:** April 2009 – 3rd March 2010

<table>
<thead>
<tr>
<th>COMMODITY</th>
<th>TRADES</th>
<th>VOLUME (MT)</th>
<th>TURNOVER (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRAIN</td>
<td>57</td>
<td>72,472</td>
<td>23,286,888</td>
</tr>
<tr>
<td>OILSEED</td>
<td>18</td>
<td>10,980</td>
<td>4,492,350</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>75</strong></td>
<td><strong>83,452</strong></td>
<td><strong>27,779,238</strong></td>
</tr>
</tbody>
</table>

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ZAMACE SERVICES

2. Grades & Standards
   - ZAMACE has developed quality standards, acceptable to and recognised by the agricultural industry
   - Harmonised Wheat standard with SAFEX standard
   - Exchange contracts adhere to these standards
   - Laboratory service for independent quality testing
   - Ring testing with SAGL

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ZAMACE SERVICES

3. Warehouse Inspection & Certification
   - Well functioning commodities exchange needs secure storage guaranteeing Q&Q of stored crop
   - ZAMACE trains and certifies warehouse operators to manage, grade and store commodities
   - Critical to participation of emergent and small farmers – trade confidence in aggregation
   - Identifying and inspecting storage in districts to develop WRS

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Warehouse Receipt System

- What is a Warehouse Receipt (WR)?
- What is the background to WRs in Zambia?
- What are the lessons?
- Where are we now?

Warehouse Receipt

- Law Encyclopaedia:
  - Written document given by a warehouseman for items received for storage in his warehouse
  - Document serves as evidence of title to the stored goods
  - Can be negotiable/non-negotiable

- ZAMACE:
  - ZAMACE document (electronic and/or hardcopy) issued by a ZAMACE Certified Warehouse Operator
  - Proof of title for commodities deposited in a ZAMACE Certified Warehouse
General Features of WRs

- WRs need not be in any particular form
- However, they must contain such info:
  - State location of the warehouse where goods are stored
  - Date of issue
  - Consecutive No. of the receipts
  - Negotiable/Non-negotiable
  - Storage rate/handling charges
  - Type of stored commodity
  - Quality and Quantity (Q&Q)

ZAMACE Warehouse Operator

- Private registered company
- Physically secure storage facilities
- Trained warehouse staff
- Comprehensive stored-crop insurance ceded to ZAMACE
- ‘Public’ facility – farmers and traders can deposit and store crop
- Issue Warehouse Receipts and Goods Received Notes
ZAMACE’s Role

- Train warehouse operators and staff
- Provide operating, storage and documentation procedures
- Provide robust certification, oversight and inspection role
- Maintain database of all documentation
- Authorise any withdrawals from warehouses
- Provide trading platform for sale of underlying commodity

Role of Warehouse Receipts in Grain Marketing

Two Key Roles:

1) Trading Instrument
   - Quality and quantity certification allows ‘sight-unseen’ trade
   - Allows transfer of ownership without physical delivery
   - Increases efficiency in agricultural trade

2) Financing Instrument
   - When backed by a suitable legal framework, warehouse receipts can be used as secure collateral for inventory financing
   - Farmers, traders and millers can raise finance against them
### Background of WRs in Zambia

<table>
<thead>
<tr>
<th>WRs commercially used under CMAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral Management Arrangements use reputable and experienced companies to oversee stored commodity</td>
</tr>
<tr>
<td>Lenders secured by this arrangement for the stored value</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Zambia Agricultural Commodities Agency (ZACA)</th>
</tr>
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<tbody>
<tr>
<td>USAID/IFAD supported not-for-profit body</td>
</tr>
<tr>
<td>Focused on certifying warehousing for storage of commodities and financing</td>
</tr>
<tr>
<td>Stored +16,000 tons</td>
</tr>
<tr>
<td>Disbanded in 2006 after faced low buy-in by financial sector</td>
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A Look at Some Regional Models

Ethiopian Commodity Exchange (ECX)
- Supported by Act enforced by Commodity Exchange Authority
- No trade takes place on ECX without WR
- 11 storage locations within 900km radius of Addis Ababa
- 114,000tons (1.14mil quintals) of storage capacity
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Uganda Commodity Exchange (UCE)
- Supported by Act enforced by Regulatory body
- 3 storage locations
- Under 10,000tons certified storage capacity
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**ZAMACE Approach**

1. **ZAMACE inspects & certifies private storage facility**
2. **Farmer Deposits cleaned & market ready commodity**
3. **Farmer/Community Instructs ZAMACE Broker to sell**
4. **Farmer Deposits cleaned & market ready commodity**
5. **Brewer/Miller instructs ZAMACE Broker to buy**
6. **Warehouse operator releases commodity to buyer as per contract terms after deal closed on ZAMACE**

**ZAMACE Model**

- Deposits commodity
- Issued with WRs
- Trades on Exchange
- Trades directly with buyer if so wishes
- WO issues ZAMACE WR
- ZAMACE system handles title transfer
- WR validation
- Guarantee O&O
- Trades on Exchange through broker
- Trades directly with seller
- Title of WR changed in name after settlement

- Govt to estb. of regulatory framework
  - Agric Credits Act amendment/Marketing Act/Commodities Exchanges Act
  - Working with Operator to certify +40,000tons across four regions

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Benefits of WR to the Market

**To the Commodities Trade**
- Increases efficiency
- Generates confidence in dealing with lower end of market
- Aggregates crop in secure and accessible sites
- Reduces ‘transaction costs’ of trading smallholder crop

**To the Farmer and Small Trader**
- Reduces post-harvest losses
- Allows crop to become ‘commercial’ through Q&Q certification
- Rewards quality and reduces ‘discounting’
- Allows access to ZAMACE

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ZAMACE and the Smallholder

- Provides transparency and price discovery
- Removes all position-takers between the farmer/trader and the end market
- Offers the best possible market price under prevailing market conditions
- Mitigates substantial risks in transactions
- Empowers the farmer to evolve from price-taker to price-setter
- Eventually will create the opportunity to access credit

**ZAMACE provides the conditions for ‘commercialising’ the smallholder and emergent farming sectors**

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ZAMACE AND THE SMALLHOLDER: Grain Marketing Expansion Programme (GMEP)

WRS is one of a multitude of steps in developing a market

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Is ZAMACE there yet?

By no means...
- Behavioral change takes time...
- Still only a small % of the market
- Entrenched market positions on both demand and supply sides
- Market suffers from “FRA Floor Price” syndrome
- Staple grain low yields ~ 1.7tons/ha by smallholder farmers who grow 80% of crop
- Fragmented and weak storage industry
- No legal framework for commodities exchange or warehouse receipts
- Financial sector anti-agric approach to risk

But...

All stakeholders pulling in the right direction:
- Private sector ‘buying in’ to ZAMACE
- Regional interest; queries for commodities
- Cooperating partners providing financial and technical support (USAID-PROFIT/COMPETE)
- Public sector procurement/trade – through ZAMACE (WFP)
- Government starting to recognize importance of ZAMACE
  - Committed to pass enabling legislation in 2010 (Agric Credits Act Amendment, Marketing Act, Commodities Exchanges law)