

## Stakeholders' Consultative Workshop on the Agricultural Credit Act,

Organized by MACO, ACF and FSRP

Venue: Lake Safari, Siavonga 7-8 July, 2011

---

### Preamble

The Agricultural Credit Act No. 35 of 2010 was enacted by Parliament in November, 2010, and the Minister of Agriculture and Co-operatives issued a Statutory Instrument, to operationalize it in March, 2011. Thereafter, it was upon the experts to agree on implementation modalities of the Act given the prevailing environment in the country. It is in this vein, that the Ministry of Agriculture and Cooperatives (MACO), the Agricultural Consultative Forum (ACF), and the Food Security Research Project (FSRP) organized a stakeholders meeting in Siavonga from 7-8<sup>th</sup> July, 2011 to discuss the start up activities on the Warehouse Receipt System functions which were incorporated in the newly enacted Agricultural Credit Act No. 35 of 2010. The meeting was attended by 48 participants invited from the private sector, public sector and Non-governmental organizations. Appendix 2 provides details of stakeholders who participated in the consultative meeting.

### 1. Opening Speech by Director MACO (on behalf of PS MACO)

The Permanent Secretary highlighted that the thrust of the speech was on the operationalization of the Agricultural Credit Act. He also pointed out that MACO was desirous in improving the sector by facilitating Warehouse Receipt System through legal means. The Act was put in place after several consultations and it called for establishment of Warehouse Receipt System, provide charges on commodities, provide for the certification of warehouses, and provide for rights and obligations of warehouses amongst other items. Therefore, the PS encouraged the participants to debate the issues as they are presented so that at the end of the workshop, a roadmap is developed for the Ministry to follow in the implementation of the Act.

**Comments by Mr. Chance Kabaghe:** He thanked the Government for enacting the Agriculture Credit Act. He implored all participants to think of how to operationalize the Agriculture Credit Act.

### 2. OVERVIEW OF THE AGRICULTURAL CREDIT ACT - Hargreaves Sikwibele

In his presentation he highlighted that the Warehouse Receipt System (WRS) was critical in assisting Agricultural Development as it reduces scope of cheating on quality, ensures little or no post harvest losses and acts as security against financed secured warehouse receipts. Therefore, smallholder farmers could engage in commodity exchange/finance for better crop marketing and enhance wider interaction of smallholder farmers in the financial sector.

He pointed out that MACO requested/instructed for the legal framework of the Act and it was found that the necessary thing to do was not to introduce a new system but make amendments to the already in place 1995 Act. The main facets were introduction of a warehouse regulator; recognition of WRS as negotiable documents of title; fungibility and superiority.

It was highlighted that the current 2010 Act called for establishment of licensing authority and provides for its functions and powers; provide for registration of charges and certification of warehouses; and amongst others repeal and replace the 1995 Act. Additionally, the Act gives power to the minister to appoint/

suspend/ revoke an Authorized agent mandated to carry out the functions of the Licensing Authority in its place or absence.

### **Comments/ Questions**

-What are the financial implications for operationalizing the Agriculture Credit Act? It was reported that there was a *Budget line already allocated towards establishing the Authority as outlined in the last section of the Act. However, the amounts were low.*

-Will there be one inspector or many? *In response, it was highlighted that there would be many inspectors as the Minister see fit. However, the Minister may be able to appoint institution(s) to perform functions of inspectors.*

### **3. WHAT IS A WAREHOUSE RECEIPT SYSTEM (WRS)- Ian Groggin**

The presenter highlighted that farmers need to be savvy and reassert themselves in the market place without the support of subsidies. It was pointed out that WRS is a way of Smart Finance where there are fewer subsidies and the WRSs are nothing new but have been around since the era of the Goldsmiths. In Africa, the concept of WRS has been around since 1991.

The presenter further highlighted that ad hoc implementation of Non-Tariff Barriers (NTBs) by governments was the biggest single factor affecting development of credit/receipt in a number of countries and arises as a major issue in many training courses. He further highlighted that understanding WRS is important for Africa and avoids a continuation of doing things the hard way.

Several requirements for a viable WRS were highlighted as: integrity; economies of scale; correct balance of regulatory oversight; bond and insurance. While the requirements for a viable transferable/ negotiable receipts included: specific licensing; tracking system for WR; clear legal rights for receipt bearers (holders of document of title).

In his conclusion, the presenter highlighted that for the structured trade system to work required strong Farmer organizations; Pro-active private sector; enabling environment; increased transparency in markets; increased use of secure storage facilities; improved transport and improved road infrastructure and vibrant financial sector. However, the cardinal issue is to have foresight to manage risk and hindsight to control damage.

### **Comments/ Questions**

-Are there any duration caps on storage of grain in the warehouse? *It was highlighted that storage is variable depending on the facility being used. No hard rules and regulation, but of course depends on the management system which is adopted. For example, Silos are better than warehouses.*

-Can a Warehouse Receipt be substituted for title deed? *No. WRS cannot replace Title deeds. The former implies Assets with Banks.*

-How is the Legislative Framework in Malawi? *-No legislative framework, but the system run through commodity exchange.*

-Does CEEC see an opportunity to channel funds into storage warehouses in rural areas? In his response, it was highlighted that *agriculture is second highest beneficiary with 19% from CEEC. It was reiterated that WRS could be a powerful instrument through which to support farmers.*

-Are there any lessons we can learn from SAFEX? *Operations of SAFAX focuses on future exchanges while WRS deals with physical stocks*

-How did rural community in Malawi buy in the WRS without an Act? *WRS processes were discussed with farmer organizations on advantages of aggregation and storage. Then the all process made sure that all critical stakeholders bought in the idea of WRS. To ensure that the WRS succeeds, the system did not just deal on maize alone but expanded the number of crops included in the commodity exchange to pigeon peas, wheat, and groundnuts as well.*

-Has there been a time when financier had to hold stock and resell the stock to recover their money? And what are the implications on financier on export/import bans? It was reported that *defaults do exist but that has never happened where WRS has been operating. It was further highlighted that the main goal for the WRS is to add value by providing a systematic service.*

#### **4. LEGAL IMPLICATION OF THE ACT - Martin Musaluke**

In his presentation he highlighted some of the legalities of establishing the Warehouse Licensing Authority or Authorized Agent and its functions and powers.

He highlighted that issuance of warehouse receipts is an important mechanism that can be used to create access to credit and thereby create liquidity in the market. This is achieved through improving incomes of farmers.

With the Act in place, it means that farmers would be able to break the cycle of forced/ made to sell when prices are at their lowest. This is done by issuing a Warehouse Receipt to a farmer when he stores his surplus grain in a registered and secure warehouse facility. The farmer can then use the receipt issued against his stored grain as collateral for a loan. A loan could allow a farmer to operate until market prices are favorable and then he could choose to sell his grain.

It was further highlighted that the Act under Section 6 provides for the appointment of an Authorized Agent to perform the functions of the warehouse Licensing Authority. It was pointed out that the section gives a challenge to the market players who have technical knowhow and expertise to lobby Government so that they could be appointed as agents.

However, the many references in the Act to the Board which is created under Section 7 creates a major conflict with regards to corporate governance issues when the Minister has appointed an Authorized Agent from the private sector to perform functions of the Authority.

The presenter highlighted some legal issues that may affect the Warehouse Receipts and below are the following: 1) Whether laws recognize a security interest in stored commodities, 2) Whether recognition of security interest in warehouse receipts provide lenders protection with respect to third parties 3) Whether laws recognize a warehouse receipt as a document of title, 4) Whether laws recognize a warehouse receipt as a transferable and negotiable instrument.

## Comments/ Questions

-One of the participants wanted to clarification on whether Appeal to the Minister and Board and also Arbitration apply to similar cases. *It was highlighted that appeal situations apply to certain cases, while the arbitration cases also apply to other cases.*

-Another participant wanted to know if Cooperative Society or FRA can apply to be Authorized Agents? *It was also reported that the two institutions could perform the function of the Authority. There are no conflicts of interest from these two institutions.*

-Is there a situation where a financier/bank can decline a farmer to sale the products in the Warehouse? *It was highlighted that when products are taken into a Warehouse, it is either negotiable or non-negotiable. If the products are taken as non-negotiable a bank can decline a farmer to sale the products.*

-What do penalty units mean? *Penalty units are fines charged by the court of law for anyone who breaks a law under this Act. These fines are found under the Fine Act from which they could be referred to.*

-A participant wanted to find out if there was a provision in the Act which looks at the farm in two folds where a farm grows grain and horticultural crops. *It was reported that horticultural crops are also provided in this Act.*

-How do we prioritize the agricultural charges? *It was highlighted that this is provided under Section 7 of the Act.*

-There was a comment from the Commission that the provisions of the Agricultural Credit Act are similar with what the Commission does. He also highlighted that there are other legislations that can make the Warehouse Receipt System to work effective just like the commodity exchange. The participant highlighted that since the Commission works on the Commodity Act and now there is an Agricultural Credit Act, there is need to see the synergies between these two Acts.

## 5. ZAMACE - Brian Tembo

The presenter highlighted that ZAMACE strives 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.

The exchange was established in 2007 in response to the need for a market mechanism that addresses issues such as; 1) high transaction costs, 2) poor market information 3) low levels of transparency and trust  
Dispute resolution mechanism

It was reported that ZAMACE has about 15 members headed by an independent Chairperson. Initial funding and technical support of the institution comes from USAID - PROFIT.

ZAMACE Ltd operates Zambia's sole commodities exchange. The presenter defined an exchange as a market place where buyers/sellers interact under a clear set of rules and regulations. Commodity exchange is a structured market which has set industry accepted quality standards.

Among the services offered by ZAMACE include: 1) Trading platform 2) Grades and standard 3) Warehouse Receipt System and 4) alternative dispute resolution arbitration.

It was reported that PaViDIA, a project under MACO helped farmer build community sheds and through the trainings in commodity grading and quality parameters offered by ZAMACE farmers have started keeping maize in the sheds.

ZAMACE operates in Central, Eastern and Southern Provinces of Zambia.

The presenter also highlighted some basic ZAMACE requirements for Certified District warehouse which include: 1) Incorporate business owning/leasing warehouse, 2) working minimum of 200mt storage capacity, 3) Acceptable physical integrity of infrastructure as per Rules & Requirements for a warehouse.

It was pointed out that Government still has a role to play in the market through making transparent, market based interventions through provision of predictable policy environment (such as enabling legislation, predictable export policies, defining FRA buying areas and using ZAMACE to sell crops).

In his concluding remarks the presenter highlighted key points as: 1) ZAMACE can be used as a conduit for secure smallholder "commercialisation", 2) ZAMACE has started the ground work and has a comprehensive set of Rules and Requirements for WRS. 3) ZAMACE has embarked on a restructuring process so that it effectively serves its clients. 4) Current status quo means ZAMACE cannot effectively continue its WRS service without the "Licensing Authority" agency.

### Comments/Questions

-It was commented that there was need to ensure that WRS is in an orderly Act and commodity markets need to be discussed further beyond WRS as acceptable financial instruments. In that regard, there was need for convergence amongst the Acts (FRA, Credit, Commodity and Marketing Acts). Secondly there was need to be forward looking and ensure that those carrying out functions are not disrupted.

-How has ZAMACE managed with issue of market research? In his response, he pointed out that, institutions such as *FSRP have good papers from which we really on to make certain decisions. We also get information from the Stock and Monitoring Committee and also from other stakeholder's meetings.*

-Who guarantees quality and specs issue, buyer or seller? *There is a Lab at ZAMACE which is similar with those found at SAFAX. ZAMACE is also in talks with ZABS in ensuring doing independent tests.*

-Is Zambia ready for Commodity Exchange? *It is million dollar question, but the time is ripe since the Agriculture Credit Act is in place now. For it to succeed there is need for predictability from the government in terms of making agricultural policies.*

-Does ZAMACE really need to hold commodities of seller? *No, it does not hold commodities, but creates linkages among players.*

-It was commented that farmers should take a trustworthy position on the commodity exchange. Do you have any comment? *Farmers need to leave trading to trader and should not show that they know it all.*

## **1) CONSTRAINTS TO THE DEVELOPMENT OF COMMODITY EXCHANGES IN AFRICA: A CASE STUDY OF ZAMACE - Nick Sitko and Thom Jayne**

In his presentation he highlighted that developed agricultural markets, commodity exchanges serve to manage risk, reduce costs, provide transparent price discovery and increase market activity and decrease price volatility.

He pointed that in Africa, commodity exchanges have been viewed as a means of addressing many of the ills plaguing food markets, including such as high price volatility and poorly developed formal risk management strategies, limited price discovery, oligopolistic market behaviors, limited formalization of contracts and quality standards, low participation of smallholders in formal food market channels, and high transaction costs throughout the system.

The presenter highlighted that thin trade on an exchange is a reflection of 5 key underlying constraints as follows:

- 1) Limited capacity to enforce contracts, which elevates the potential transactions costs of using the exchange above costs of traditional trading;
- 2) Insufficient incentives to develop competitive brokerage services;
- 3) Costs of operating the exchange exceed the benefits of using it for many potential participants;
- 4) Exchanges perceived as vehicles for manipulating markets, rather than as fora to achieve price discovery; and
- 5) Uncertain food policy environments and poorly developed legal frameworks

In his conclusion, the presenter highlighted that making commodity exchanges work in the context of African food markets was not merely a matter of providing adequate funding and developing appropriate institutions. But by their very nature commodity exchanges are situated in the broader context of agricultural markets that are often characterized by inefficient legal systems, small spot markets, limited numbers of potential participants, passive financial institutions, vested political interests, and high levels of policy unpredictability.

So he pointed out that when assessing the feasibility of developing a robust commodity exchange governments and donors must look closely at whether or not existing market conditions are supportive of an exchange. The existence of one or more of these binding constraints could lead to a vicious cycle of exchange under-utilization, opting out by potential participants, and eventual collapse of the exchange, regardless of the degree of financial support offered.

Finally, he pointed that if exchanges could not attract market actors that are already in a position to effectively utilize an exchange; there was little hope that commodity exchange can facilitate a transformation in the ways in which smallholders interact with output markets.

### **Comments/Questions**

One of the broker was not pleased with many negative things the paper had brought. He highlighted that actually about 183 trade activities and trade arbitration costing about US\$20 million had taken place through ZAMACE. He also highlighted that, some known players had participated in the exchange and had defaulted for example ZAMBEEF and Cargill. He also highlighted that price fixing has happened before but those who were affected did not report because they did not have the guts. In terms of farmers complaining about trustiness in ZAMACE, he highlighted that it is the farmers themselves who are not trustworthy. *In responding to the comments, it was pointed out that the issues raised in the paper were perceptions.*

In amplifying the issue of arbitration, it was highlighted that the Act has provisions that can guide arbitrations according to what the client chooses.

## **2) FINANCIAL SECTOR - Andrew Bwalya**

The presenter highlighted some basic financing products which included traditional overdrafts, medium term loans which are balance sheet based and input financing, intermediary finance and stock financing (can be off- balance sheet)

He also pointed out that in the absence of the Act; very few banks in Zambia would provide stock financing by way of FAWR's. If the bank does, a collateral manager is required to issue non negotiable WHR's, monitor stock (quantity and quality) & additional legal charges incurred to secure position

It was further highlighted that collateral management costs could be prohibitive for the farmer/trader to benefit from stock financing under CMA or SMA. In that case benefits accrue mostly to the traders/farmers with financial muscle.

He also pointed out that insurance required would include Multi peril insurance for input financing and all risk insurance covering stock financing (FAWR).

He also highlighted that WHR presented to bank is normally discounted to account for price volatility & margin calls built in structure to secure bank position. Commodity must be marketable with price discovery mechanism (ZAMACE used locally as price reference).

The notable deals which Standard Chartered had done include the US\$140m maize purchases, \$175m fertilizer imports. Commodities include maize, wheat, Soya beans, Burley and cattle

It was highlighted that the banks (BAZ) welcomes the Agricultural Credits Act, 2010 as it brings the much needed improvement in stock credits and trade in agricultural commodities via the establishment of the Warehouse Receipt system.

The Act recognizes the warehouse receipt as document of title whether negotiable or non negotiable. The system is such that it can be self securing and self liquidating.

The Bank believes such an Act will provide an environment of methodical dealings in the warehouse receipts that could allow for orderly operation of the stock financing system and orderly trading of agricultural commodities and therefore help in the efficient operation of the commodity exchange such as ZAMACE.

An orderly warehouse receipts system should be able to promote the development of cheaper and more efficient financing to the agricultural sector (cost of financing).

It was highlighted that the small scale farmers remain to benefit also as they would be able to bulk their crop as groups into economical sizes that could be sold at better prices and also be able to defer sales through access to finance secured against the warehouse receipts. In that regard, the farmer would become the price maker and not a price taker.

In his concluding remarks he highlighted some of the challenges and the need to sort out them for the success of the commodity exchange:

- 1) Infrastructure (silos/warehouses, roads etc) need to be refurbished
- 2) Behavioral change on the part of the farmer, trader and financier
- 3) Limited linkages to the market via a commodities exchange. Therefore, price discovery needs to be enhanced
- 4) Efficient database management, integrity of system (tracking to ensure one title owner at a time) e.g. validity/charges on WHR's deposited (Banks may need to independently verify)

#### **Comments/Questions**

To what extent has Standard Chartered Bank (SCB) financed smallholder farmers? *SCB facilitated a deal of Maize \$140m and smallholder farmers were part of the beneficiaries*

#### **5) JSE LTD SAFEX - Chris Sturgess**

The presenter defined derivative markets as a trading operation that provides market participants with a price determination mechanism and a price risk management facility through which they can manage their exposure to adverse price movements on the underlying physical market and where performance by both counterparties to the contract is guaranteed.

It was highlighted that the strength of the commodity exchange is shown by the price convergence of the futures contract with the spot market.

He also highlighted the importance of authorized warehouse operators because they 1) guarantee the quality and quantity of product as indicated on the warehouse receipt according to clearly defined rules and regulations 2) meet stringent audit requirements and 3) provide minimum standards regards out loading and accessibility to product

The criteria and expectations from the market around trading product represented by SAFEX warehouse receipts include the following: 1) create awareness around the defined criteria that differentiates authorised warehouse operators and registered delivery points 2) Build market confidence as regards the use of warehouse receipts 3) Achieve and maintain integrity in the system where financial institutions and traders fully support the instruments

The presenter highlighted the opportunities that arise with WRS such as: 1) The ability to market your grain through additional trading opportunities 2) financing alternatives providing access to cash flow 2) more competition in the financing arena resulting in competitive rates 3) a structured process to facilitate delivery in completion of a futures contract and so improving access to the commodity

In his concluding remarks the presenter highlighted that for the way forward of the commodity exchange it requires to maintain integrity of the system, recognise and compliment the relationship with authorized operators and to continue adding value to the agricultural grains market.

### **Comments/Question**

Is there legislation for procedures to store with Silos and how did you convince if otherwise? *There is no legislation that governs the operations of SAFEX. The already efficient structure and organization of the system made it possible for farmers/traders to be convinced otherwise*

How do warehouse operators cover their cost? Through storage and handling fees

It was commented that there are a lot of factors that have led SAFEX to be successful. One notable is that the government has been consistent in its policies.

It was further commented that commodity markets can only operate in a market free economy. For example, as long as FRA continues to operate in the market, it would be difficult to operationalize the Act. However, there are documents that have been developed such as the SNDP and CAADP which have streamlined the functions of FRA.

Another participant highlighted that for the private sector to react to these new things, the policy environment has to be correct otherwise they would not. He reiterated that government intervention in the market is good but it has to be moderate. He urged all the players in the sector to change their behavior if WHR has to succeed.

It was further debated that public private partnership is critical in this exercise. So the question was how can the private sector engage government in dealing with these issues and understand why government behaves in way it does. It was emphasized that there must be some trade off, government has to instill confidence in the private sector and the private sector has to instill confidence in the public sector.

### **6) AFGRI-Twambo**

The presenter highlighted that AFGRI focuses on product development and specialized services. AFGRI Corporation Limited has been operating in Zambia since 2003 providing services that include; 1) Trading in grains; wheat, maize and soya beans 2) Grain storage service : open to farmers and millers 3) Mechanization

: farm implements and machinery 4) Leasing Services; crop and asset financing 5) Provision of weighing services and 6) Modern lab for grain testing and analysis

It was pointed that AFGRI has been operating in Zambia's key agricultural provinces namely; Southern, Central, Eastern, Copperbelt and Lusaka provinces.

The companies has been handling grain between 70,000 -100,000 mt annually. This is stored in silos, open slabs and closed sheds.

The presenter also shared with the participants the challenges the companies has been experiencing such as: 1) the major crop that farmers grow is maize 2) Government interference into the market (floor prices and offloading of grain - government subsidies) 3) High cost of infrastructure - silos and 4) Contracts - defaults easier option for exit

The Company sees opportunities in the enactment of the Agricultural Credit Act especially that the country is now experiencing massive grain production - improved grain storage financed by private sector. With the Act in place, there would be more investment in a reliable grain storage system and WHR will be enforceable easily and that allow farmer access financing with AFGRI.

## **7) GRAIN STORAGE SOLUTIONS ltd - Mwale**

The presenter highlighted that the Grain Storage Solutions Ltd is a company owned equally by Zdenakie Limited and CHC Commodities. The company is funded by Industrial Development Corporation (IDC) of South Africa, the total project cost is \$5.2m of which IDC has funded \$4.1m over 10 years. (current structures). It has built a warehouse complex for the storage of grain and other agricultural inputs. It has the capacity of 63,000MT of storage. The complex is situated in the heart of of the industrial area in Lusaka close to the FRA depots on Mwembeshi Extension Road and there are 11 milling companies in a radius of 2-5km.

In terms of future plans, the presenter said that the Grain Storage Solutions has only utilised 60% of the 23 acre site it occupies in terms of enclosed warehouse structures, the additional open space can be used to store grain under tarpaulins (estimated 60,000mt). The company intends to increase its storage capacity by introducing bulk storage in silos or bunkers and bring the total storage capacity to 100,000MT over the next 2-3 years. It also in the process of developing or building similar storage facilities at a smaller scale in Mkushi (secured land and commencing works before the end of 2011). However, it will build a similar complex in Kapiri Mposhi.

He also highlighted the services offered by GSS which include: storage, Fumigation Procurement and Logistics Selling.

The following are the products in which the company deals in: Maize, Soya beans, Wheat, Beans, Groundnuts, Sunflower, Rice, Sorghum, Cowpeas, Soya/Cotton cake, Barley, Fertilizers, Seeds and Cement.

The presenter highlighted the challenges which could be experienced when using a WHS. These include: 1) Uncertainty in the market: 2) Export & Import restrictions (adverse influence on the price of the commodity under warehouse receipt) 3) Government interventions in the market through FRA and 4) difficulties in banks acceptance of warehouse receipt (discount the receipt and avail finance to owner of receipt/certificate).

In responding to these challenges GSS feels that the policy environment has to be correct, secondly there must be consistency in policy environment (Reduce uncertainty), the sector players should stop immediate benefit behaviour (this may need explaining a little) and operations of the Stock Committee should be encouraged and lastly the legislation has to be put in place (Agricultural Marketing act)

In his concluding remarks he reiterated that GSS would support appointment of credible (possibly experienced agent - authority), it will sign up with the agency and it will also ensure compliance with Quality and Quantity

#### **8) ZNFU - Mainza Chibomba**

The presenter highlighted that agricultural marketing in Zambia has not developed due to Poor infrastructure such as roads, high cost of production, lack of mature future markets, inadequate information on demand and collusion of buyers.

In terms of post harvest losses, she highlighted that FAO estimates losses to be about 25% of all foods produced. The poor market information system contributes to post harvest losses. Need to improve on-farm storage to avoid quality and quantity losses. More storage facilities also need to be built. Improved storage will also help farmers enjoy benefits of warehouse receipt system.

She also highlighted issues affecting market financing where smallholder farmer find it difficult to access loans because credit is scarce and expensive and heavily skewed towards the larger corporate sector. It was also highlighted that banks find it difficult to lend because of the high risks associated with agricultural production, macroeconomic instability, price volatility, poor enforcement of contracts and lack of collateral from the farmers.

In her concluding remarks it was pointed out that the Agricultural Credit Act would increase platform for robust financial access through the WHS which farmers can use as collateral. Provision of arbitration process in the Act will boost confidence in Financiers lenders.

#### **9) FRA - Joseph Mulambu**

The presenter highlighted that FRA has 10 Regional Offices (1 in each province except Northern Province which has 2 offices because of its size). The agency operates in all the 74 districts of Zambia and has holding depots in 70 locations which are managed by co-operatives/Farmer Associations. It also operates on average 15 satellite depots per district, thus 1,110 buying points.

The Agency has operated in the market consistently starting 2002 to date though it was established in 1996. Maize purchases have been on the increase with the highest maize purchase of 883,036MT valued at ZMK 1,147.9 billion in 2010. The Agency has also been buying other crops such as rice, cassava, soya beans and groundnuts.

It also highlighted that FRA has facilitated exports and imports of maize grain. Since the Agency started 524,943MT and 277,486MT of maize have been exported and imported respectively.

In terms of operational challenges, the presenter highlighted that operational areas have still poor infrastructure with high marketing costs. Secondly small scale farmers' crop is not homogeneous in quality

therefore handling of the commodity requires additional care (quality control). Thirdly, market of some of the designated crops is limited because of the weak processing industry. Fourthly, most of the storage facilities are located in the southern part of the country yet more are required in the Northern part where production is on the increase. Fifth, the high production costs together with the low yields pose a challenge in offering farmers prices that are competitive. Sixth, there is lack of capacity of the co-operatives as warehouse managers. And Finally, he highlighted that the bulking of crops in district centers and distribution to the deficit areas of the country can be very challenging due to high transport costs.

In his conclusion he pointed out that the operationalization of the Agricultural Credit Act and enactment of the Agricultural Marketing Bill would mean that the FRA to undergo a through corporate reorientation and come up with a new business model that would suite the new environment.

## **10) ISSUES FROM PLENARY DISCUSSIONS**

There was a strong consensus by the participants for the immediate establishment of Warehouse Licensing Authority. However, the establishment of a Warehouse Licensing Authority by the government will take some time given the procedural requirements and the resources needed. In the meantime the stakeholders resolved that the Minister may use clause 6 of Agricultural Credit Act, No. 35 of 2010 to appoint an Authorized Agency to perform such functions of the Authority as the Minister may specify. This will circumvent the huge cost of setting up the Licensing Authority and the appointment of its Director in the interim for a specified period of time.

In that regard, three organizations were shortlisted to be considered as Authorizing Agencies for implementing the Agricultural Credit Act, No. 35 of 2010 given their experiences in agricultural marketing. These were: Zambia Agricultural Marketing Commodity Exchange (ZAMACE), Food Reserve Agency, (FRA) and Zambia Cooperative Federation (ZCF).

A Strength, Weakness, Opportunities and Threat (SWOT) analysis was done for each organization to determine their suitability as Authorized Agency. The Analysis conducted through group work identified ZAMACE as the first priority, seconded by Food Reserve Agency and Zambia Cooperative Federation came out third. Appendix 1 shows the detailed tabulation the SWOT analysis by each group.

It was highlighted that there was no need for Resource Requirements for appointing an authorized Agency.

### **Recommendations**

#### **Short Term Measures:**

It was agreed that in the short-term as the process of starting up the Licensing Authority, the following needs to be undertaken:

1. The Ministry of Agriculture and Co-operatives should seek advice from the Ministry of Justice on the possible use of the Authorized Agency.

2. Ministry of Agriculture and Co-operatives should conduct a Technical Review of the Act to address some flaws identified in the current Act. This includes among others: The reporting system of the Authorized Agency in the absence of the Authority and the role of the Ministry, exist strategy in the event that warehouses are closed; Negotiable and non negotiable aspects of the warehouse receipt should reviewed.
3. The recommended organization to be appointed as an Authorized Agency to address the identified weaknesses in order to comply with the functions of the Licensing Authority.
4. Ministry of Agriculture and Co-operatives, in collaboration with other stakeholders, to spearhead the sensitization of all stakeholders, at provincial and district level, about the new Agriculture Credit Act, No 35 of 2010 and the Warehouse Receipt System

### **Long Term Measures:**

In the long-term, stakeholders agreed that the following needs to be undertaken:

1. The Ministry of Agriculture and Co-operatives should facilitate the enactment of the long awaited Agricultural Marketing Act, which it is hoped, will play a major role in creating a predictable rules-based agricultural marketing policy environment;
2. The Ministry of Agriculture and Co-operatives should facilitate harmonization of all agricultural marketing legislation such as the Agricultural Credit Act, No 35 of 2010, Marketing Act, FRA Act, and the Commodities Exchange Act;
3. Deliberate strategy should be put into place to improve agricultural infrastructure, through the Private-Public arrangement.

Capacity Building of all stakeholders in the sector to achieve an efficient and effective Warehouse Receipt System in the country

**Impact:** Regulated warehouse receipt systems (WRSs) through the agricultural Credit Act 2010 will help to combat persistent problems in agricultural marketing and credit systems in the country. Such problems include highly variable seasonal prices (especially for staple grains), cheating on weights and quality, and limited access to credit. They stem from a lack of efficient storage facilities, poor rural transport, poorly developed systems of standard grades and measures, unreliable market information systems and lack of collateral for bank loans. The WRS in the agricultural Credit Act 2010 will address many of these issues, to the benefit of both producers and consumers. The systems are open to all players and include specific mechanisms to ensure access by smallholders.

## APPENDIX 1: SWOT ANALYSES

### GROUP 1

<b>ZAMACE</b>			
Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> <li>• Already performing function</li> <li>• Independent body</li> <li>• Rules and Regulations already established</li> <li>• Can co opt other stakeholders on the board</li> <li>• Strong management team</li> </ul>	<ul style="list-style-type: none"> <li>• Vested interest of shareholders</li> <li>• Financial constraints</li> <li>• Lack of capacity to handle additional functions</li> </ul>	<ul style="list-style-type: none"> <li>• Conducive policy environment</li> <li>• Increase activity on the exchange</li> <li>• Networking with other exchanges in the region</li> </ul>	<ul style="list-style-type: none"> <li>• Withdraw of Donor funding</li> <li>• Uncertain government policies</li> <li>• Private dominated board</li> </ul>
<b>FRA</b>			
<ul style="list-style-type: none"> <li>• Effective board which is well represented by various stakeholders</li> <li>• Governed by an act</li> <li>• Experience in managing storage/warehouse facilities</li> <li>• Financial capacity</li> <li>• Experience in commodity markets</li> </ul>	<ul style="list-style-type: none"> <li>• Operations are inefficient</li> <li>• Highly politicized</li> <li>• Over burdened with other functions</li> <li>• Conflict of interest</li> </ul>	<ul style="list-style-type: none"> <li>• Government support</li> <li>• Conducive policy environment</li> </ul>	<ul style="list-style-type: none"> <li>• Change of government</li> <li>• Change of government policy</li> <li>• Change in donor support</li> </ul>
<b>ZCF</b>			
<ul style="list-style-type: none"> <li>• Wide representation</li> <li>• Farmers are stakeholders</li> <li>• Experience in the industry</li> </ul>	<ul style="list-style-type: none"> <li>• Weak governance in the cooperatives</li> <li>• Negative track record</li> </ul>	<ul style="list-style-type: none"> <li>• Government support</li> <li>• Restructure internal systems</li> </ul>	<ul style="list-style-type: none"> <li>• Negative publicity</li> </ul>

## GROUP 2

<b>ZAMACE</b>			
<b>Strength</b>	<b>Weaknesses</b>	<b>Opportunities</b>	<b>Threat</b>
<ul style="list-style-type: none"> <li>• Existence of comprehensive rules and requirements for warehouses operators which has been harmonized by the lawyer</li> <li>• Certifying warehouses</li> <li>• Have relationships or linkages with regional commodity exchanges with the</li> <li>• More independent</li> <li>• Existing dispute resolution using arbitration</li> <li>• Lean structure that can act to the added functions</li> </ul>	<ul style="list-style-type: none"> <li>• Mutual ownership structure (compromise the functions)</li> <li>• Geographical capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Nature of ZAMACE can easily be reform corporate wise in relations to the Act</li> <li>• Given the mandate, it can easily scale up its operations</li> </ul>	<ul style="list-style-type: none"> <li>• Perceptions</li> <li>• Potential resistance</li> </ul>
<b>ZCF</b>			
<ul style="list-style-type: none"> <li>• Geographical presence in all districts and at village level</li> <li>• Performing the regulatory and supervisory functions of the lower organs</li> <li>• Direct linkage to smallholder producers</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of experiences with financial instrument (WRS)</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• ZCF can easily be reform corporate wise in relations to the Act</li> <li>• Potential to revitalize the cooperatives movement in Zambia</li> </ul>	<ul style="list-style-type: none"> <li>• vested interest in the operators at lower organs</li> <li>• Big and doing a lot of functions, so difficult to make things happens</li> </ul>
<b>FRA</b>			
<ul style="list-style-type: none"> <li>• Geographical presence in all provinces and most districts</li> <li>• Experience in the playing regulatory role in the sector</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Potential conflict of interest</li> <li>• Current FRA Act may not permit this function</li> <li>• FRA is operator</li> </ul>	<ul style="list-style-type: none"> <li>• Adaptability</li> <li>• Experience of handling</li> <li>• Opportunity to reform FRA</li> </ul>	<ul style="list-style-type: none"> <li>• Potential Political threat</li> <li>• vested interest in carrying out functions of Authority</li> </ul>

### GROUP 3

<b>ZAMACE</b>			
Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> <li>• Prior experience in warehouse certification</li> <li>• Market players represented on ZAMACE</li> <li>• Structure already in place (reducing costs)</li> </ul>	<ul style="list-style-type: none"> <li>• Conflict of interest (parties that operate storage facilities sit on ZAMACE Board)</li> <li>• Capacity issue (to be the inspection arm)</li> </ul>	<ul style="list-style-type: none"> <li>• Linkage between the trading platform and warehouse receipts</li> <li>• Ensure the integrity of the WRS</li> <li>• Revenue strength</li> </ul>	<ul style="list-style-type: none"> <li>• Flaws in the Act</li> <li>• Political oversight/supervision by Minister</li> </ul>
<b>FRA</b>			
<ul style="list-style-type: none"> <li>• Understand the small scale farmers</li> <li>• Countrywide physical presence</li> <li>• Technical expertise</li> <li>• Already and agency of the Ministry</li> </ul>	<ul style="list-style-type: none"> <li>• Massive conflict of interest (largest storage operator-would be their own biggest client)</li> <li>• Need to restructure the organization</li> </ul>	<ul style="list-style-type: none"> <li>• Restructure the organization</li> <li>• Revenue stream</li> </ul>	<ul style="list-style-type: none"> <li>• Flaws in the Act</li> <li>• Political oversight</li> <li>• Potential discomfort from the financial sector</li> </ul>
<b>ZCF</b>			
<ul style="list-style-type: none"> <li>• Understand the cooperative members</li> </ul>	<ul style="list-style-type: none"> <li>• Limited capacity</li> <li>• Members are operators</li> <li>• No experience in certification and licensing</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• Credibility issue</li> <li>• Flaws in the Act</li> <li>• Political oversight</li> </ul>

**APPENDIX 2:**

<b>Attendance List for the Stakeholders' Consultative Workshop on the Agricultural Credit Act, held at Lake Safari, Siavonga 7-8 July, 2011</b>				
<b>No.</b>	<b>Name</b>	<b>Institution</b>	<b>E-mail Address</b>	<b>Phone No.</b>
1	H.S Sikwibele	MACO	<a href="mailto:hssikwibele@yahoo.com">hssikwibele@yahoo.com</a>	250417
2	S. Kabwe	FSRP	<a href="mailto:kabwes@iconnect.zm">kabwes@iconnect.zm</a>	0955335928
3	Joseph Mbinji	ACF	<a href="mailto:joseph.mbinji@acf.org.zm">joseph.mbinji@acf.org.zm</a>	0976213806
4	Phillip Siamuyoba	CVFO	<a href="mailto:phillip_siamuyoba@yahoo.co.uk">phillip_siamuyoba@yahoo.co.uk</a>	
5	Ian Groggin	USAID/COMPETE	<a href="mailto:Igroggin@competeafrica.org">Igroggin@competeafrica.org</a>	254735411705
6	Chris Sturgess	SAFEX/BE	<a href="mailto:chriss@jse.co.za">chriss@jse.co.za</a>	27115207299
7	Andrew Nkunika	Ministry of Justice	<a href="mailto:ankunika@yahoo.com">ankunika@yahoo.com</a>	256926
8	Nicholas Sitko	FSRP	<a href="mailto:njsitko@gmail.com">njsitko@gmail.com</a>	979109790
9	Yokonia Ngoma	ZANACO	<a href="mailto:yokonia.ngoma@zanaco.co.zm">yokonia.ngoma@zanaco.co.zm</a>	977898758
10	E.C.J. Kalaba	MACO	<a href="mailto:eckalaba@maff.gov.zm">eckalaba@maff.gov.zm</a>	977328863
11	Charles Musonda	ZAMACE	<a href="mailto:charlesmusonda1@hotmail.com">charlesmusonda1@hotmail.com</a>	
12	Situmbeko Chocho	AFGRI CORP LTD	<a href="mailto:sc@afgri.com.zm">sc@afgri.com.zm</a>	977758970
13	Chanda Mwiko	SAVANNA COMMODITIES LTD	<a href="mailto:info@savannabrokers.com">info@savannabrokers.com</a>	966555555
14	Masiye Nawiko	ACF	<a href="mailto:masiyenawiko@acf.org.zm">masiyenawiko@acf.org.zm</a>	
15	Arthur Shipekesa	FSRP	<a href="mailto:arthur.shipekesa@iconnect.zm">arthur.shipekesa@iconnect.zm</a>	966888262
16	Abiton Phiri	TBZ	<a href="mailto:abiphiri@hotmail.com">abiphiri@hotmail.com</a>	977323270
17	Edwin Mulenga	ZANACO	<a href="mailto:edwin.mulenga@zanaco.co.zm">edwin.mulenga@zanaco.co.zm</a>	978894327
18	Constantine Hara	SEC	<a href="mailto:chara@sec.co.zm">chara@sec.co.zm</a>	977224167
19	Mathew Chisakuta	ZAMACE	<a href="mailto:mchisakuta@zamace.com">mchisakuta@zamace.com</a>	978965131
20	David M. Mundia	MACO-ABM	<a href="mailto:dmundia@maff.gov.zm">dmundia@maff.gov.zm</a>	955880176
21	Grey C. Mwale	MACO-ABM	<a href="mailto:mwaleg@yahoo.co.uk">mwaleg@yahoo.co.uk</a>	968666777
22	Choolwe Chiyala	ECR PLC	<a href="mailto:choolwe@ecrzambia.com">choolwe@ecrzambia.com</a>	977411569

**Attendance List for the Stakeholders' Consultative Workshop on the Agricultural Credit Act, held at Lake Safari, Siavonga 7-8 July, 2011**

No.	Name	Institution	E-mail Address	Phone No.
23	Brian Tembo	ZAMACE	<a href="mailto:bktembo@zamace.com">bktembo@zamace.com</a>	966799463
24	Darlington Kahilu	MACO-NAIS	<a href="mailto:dakahilu@yahoo.co.uk">dakahilu@yahoo.co.uk</a>	977789723
25	Nicholas Mwale	MACO-NAIS	<a href="mailto:nichomwale@yahoo.co.uk">nichomwale@yahoo.co.uk</a>	977468366
26	Enock Daka	MACO-NAIS	<a href="mailto:enockdaka26@yahoo.com">enockdaka26@yahoo.com</a>	969124876
27	Geoffrey Chomba	CEEC	<a href="mailto:chombag@ceec.org.zm">chombag@ceec.org.zm</a>	977174389
28	Rob Muan	PROFIT	<a href="mailto:rob@profit.org.zm">rob@profit.org.zm</a>	977475906
29	Chirwa James	ZCF LTD	<a href="mailto:lumbear@yahoo.com">lumbear@yahoo.com</a>	977753315
30	Chance Kabaghe	FSRP	<a href="mailto:kabaghec@iconnect.zm">kabaghec@iconnect.zm</a>	977794466
31	Chrissy C. Simukonda	Ministry of Commerce	<a href="mailto:chrissysimukonda@yahoo.com">chrissysimukonda@yahoo.com</a>	976903487
32	Mainza S. Chibomba	ZNFU	<a href="mailto:mainza@znfu.org.zm">mainza@znfu.org.zm</a>	977626487
33	Robinson Daka	MADISON INVESTMENTS	<a href="mailto:robinsondaka@yahoo.com">robinsondaka@yahoo.com</a>	976901650
34	Mutukelwa Mukelabai	MACO	<a href="mailto:mmukelabai@yahoo.com">mmukelabai@yahoo.com</a>	979241087
35	Andrew Bwalya	STANDARD CHARTERED BANK	<a href="mailto:andrew.bwalaya@sc.com">andrew.bwalaya@sc.com</a>	977752177
36	Twambo Muchimba	AFGRI CORP LTD	<a href="mailto:tm@afgri.com.zm">tm@afgri.com.zm</a>	978773947
37	Thomas Jayne	FSRP	<a href="mailto:jayne@msu.edu">jayne@msu.edu</a>	974001047
38	Dan Greenberg	SAZEX	<a href="mailto:dongreenberg55@gmail.com">dongreenberg55@gmail.com</a>	962087299
39	Rezia M. Katyamba	MACO/ABM	<a href="mailto:rmkatyamba@maff.org.zm">rmkatyamba@maff.org.zm</a>	977623936
40	Joseph Mulambu	FRA	<a href="mailto:jmulambo@fra.org.zm">jmulambo@fra.org.zm</a>	977604358
41	Jacob E Mwale	GTAZ	<a href="mailto:gtaz@zamnet.zm">gtaz@zamnet.zm</a>	977988897
42	Mushiba Mushiba	ACF	<a href="mailto:mushiba.mushiba@acf.org.zm">mushiba.mushiba@acf.org.zm</a>	258156

**Attendance List for the Stakeholders' Consultative Workshop on the Agricultural Credit Act, held at Lake Safari, Siavonga 7-8 July, 2011**

No.	Name	Institution	E-mail Address	Phone No.
43	M. Musaluke	M.MUSALUKE&CO	<a href="mailto:musaluke@gmail.com">musaluke@gmail.com</a>	966766246
44	M. Musepa	BOZ	<a href="mailto:mjmusepa@boz.zm">mjmusepa@boz.zm</a>	977773321
45	P. Bulundo	M.MUSALUKE&CO	<a href="mailto:bulando@yahoo.co.uk">bulando@yahoo.co.uk</a>	966453571
46	Nelson Nyangu	MACO-ABM	<a href="mailto:mnyangu@yahoo.com">mnyangu@yahoo.com</a>	967773386
47	Edward Zulu	MACO-SCCI	<a href="mailto:dalitsozulu@hotmail.com">dalitsozulu@hotmail.com</a>	978520048
48	F.Chongola	MOFNP EMD	<a href="mailto:chongola@yahoo.com">chongola@yahoo.com</a>	977858677