



ZAMACE

Zambia Agricultural Commodities Exchange

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



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

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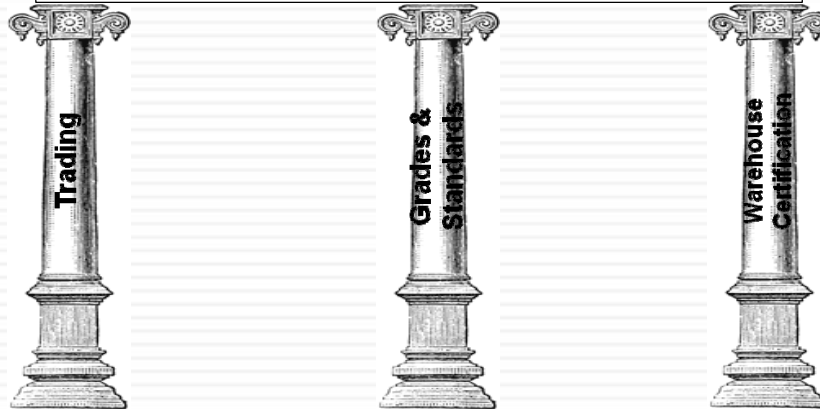
OWNERSHIP & CONTROL

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

- 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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PILLAR OF SERVICES



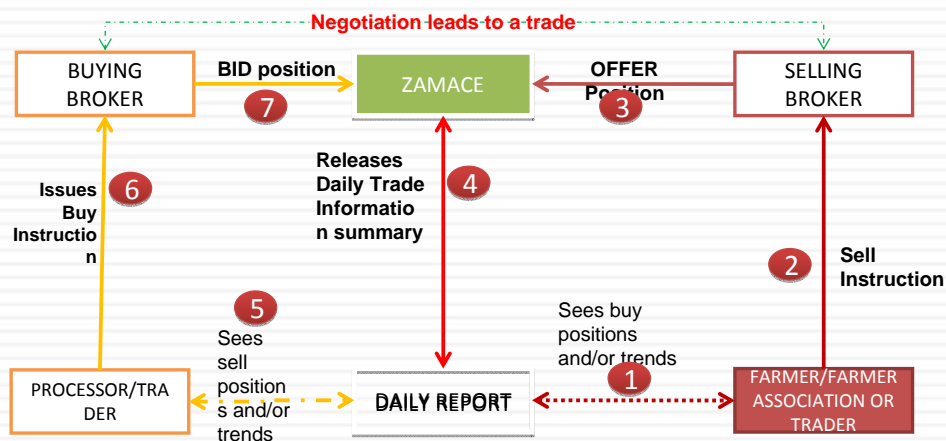
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ZAMACE SERVICES



1. Commodity Trading

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



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ZAMACE SERVICES



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*

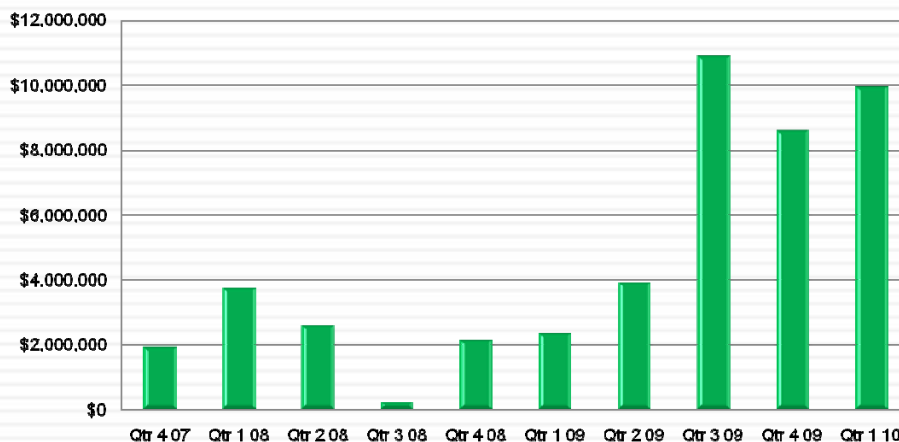
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Total Trading Activity



- *October 2007 –March 2010*

ZAMACE Trades by Value



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Platform Trading Activity

□ 4th October 2007 – 3rd March 2010

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

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Registered Trading Activity

□ April 2009 – 3rd March 2010

COMMODITY	TRADES	VOLUME (MT)	TURNOVER (US\$)
GRAIN	57	72,472	23,286,888
OILSEED	18	10,980	4,492,350
	75	83,452	27,779,238

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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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13

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?

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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

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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)

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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

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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



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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

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Background of WRs in Zambia

- **WRs commercially used under CMAs**
 - Collateral Management Arrangements use reputable and experienced companies to oversee stored commodity
 - Lenders secured by this arrangement for the stored value

- **Zambia Agricultural Commodities Agency (ZACA)**
 - USAID/IFAD supported not-for-profit body
 - Focused on certifying warehousing for storage of commodities and financing
 - Stored +16,000tons
 - Disbanded in 2006 after faced low buy-in by financial sector



Background of WRs in Zambia

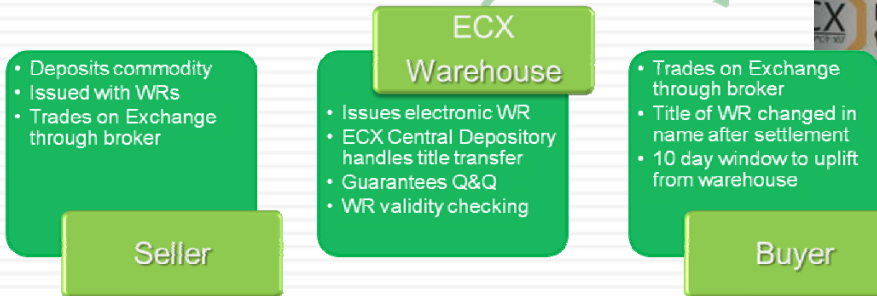
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A Look at Some Regional Models

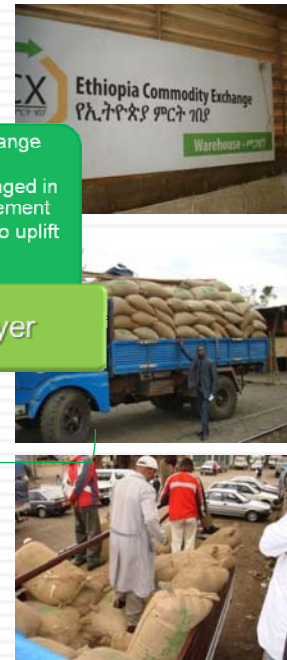


Ethiopian Commodity Exchange (ECX)



- 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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A Look at Some Regional Models



Uganda Commodity Exchange (UCE)

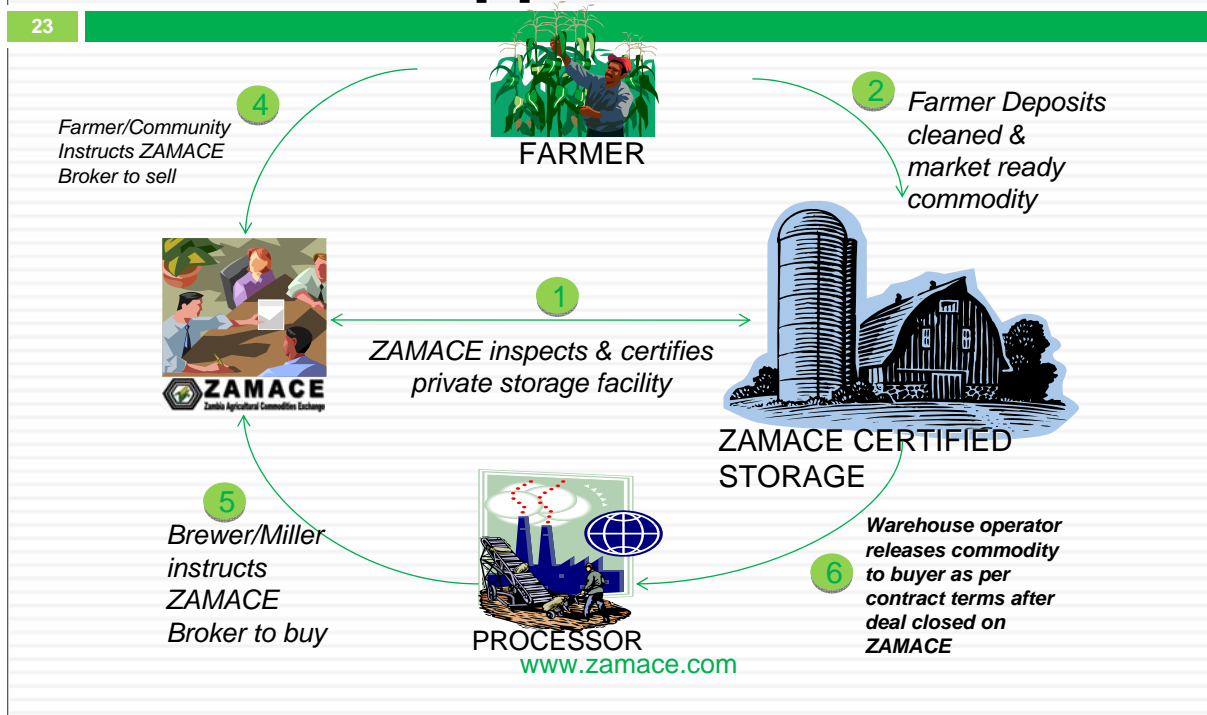


- Supported by Act enforced by Regulatory body
- 3 storage locations
- Under 10,000tons certified storage capacity

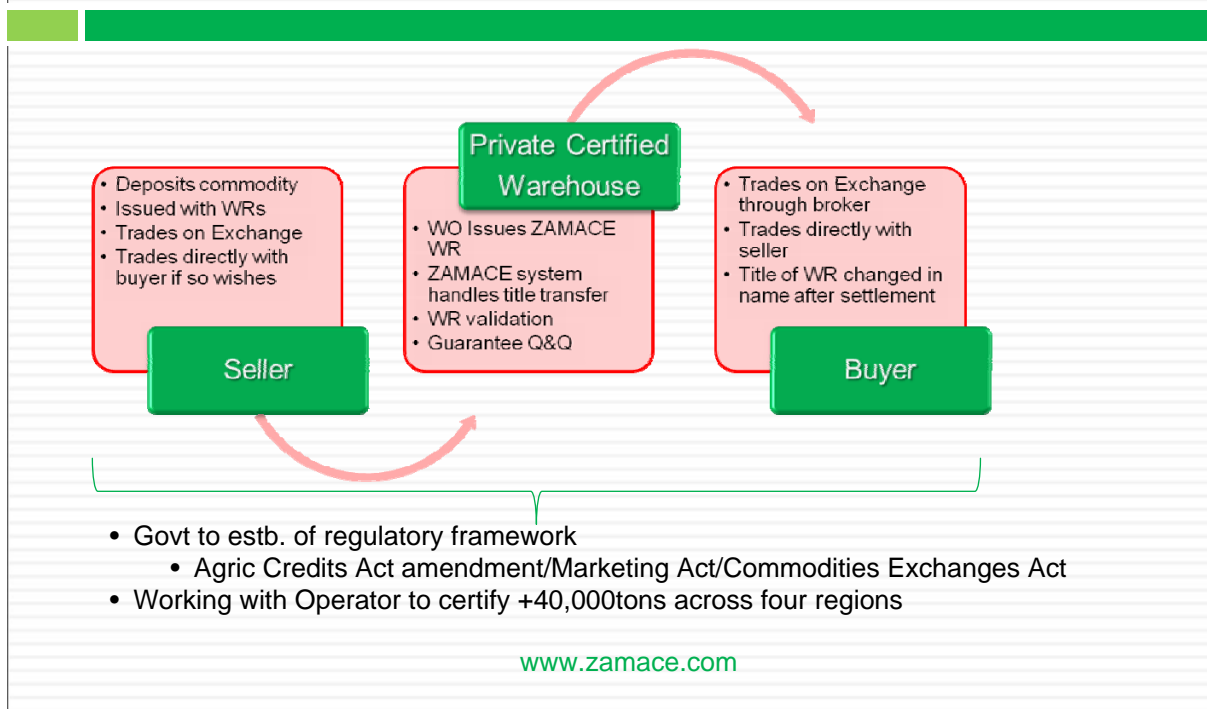
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ZAMACE Approach

23



ZAMACE Model





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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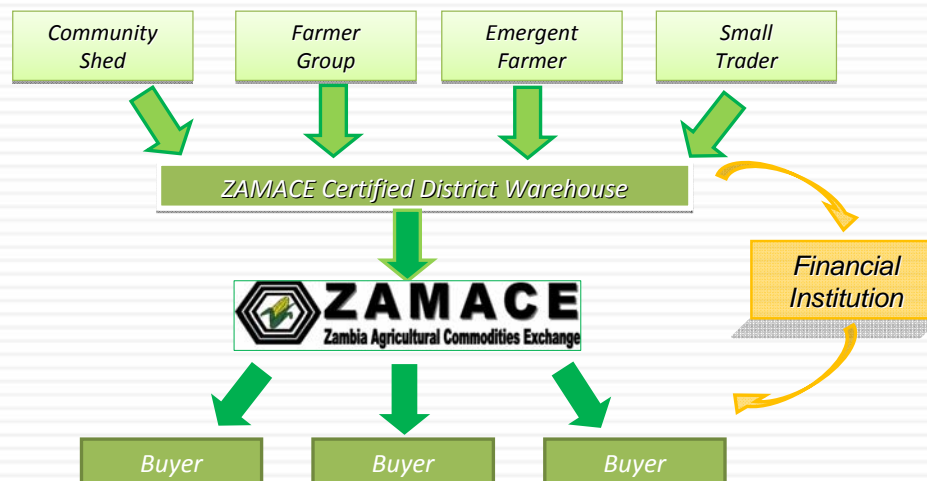
ZAMACE and the Smallholder

- 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

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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)

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