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ZAMACE: Zambia Agricultural Commodities Exchange

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SORGHUM FOOD ENTERPRISE AND TECHNOLOGY DEVELOPMENT IN SOUTHERN AFRICA WORKSHOP

Golfview Hotel, 6-9 December, 2010
Outline

- Who is ZAMACE
- Services
- ZAMACE and the Smallholder Farmer
- Partnerships
- Challenges

www.zamace.com
What is ZAMACE

- ZAMACE is Zambia’s sole commodities exchange
- An exchange is a structured market place where buyers/sellers can let the other know what they have for sale/purchase, quantity and price
- Commodity exchange transactions are governed by Rules and Regulations
- Transactions take place through ZAMACE authorised brokers

www.zamace.com
ZAMACE Mission Statement

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 commodities market.

- Established in 2007 as a response to a need for a market mechanism that addressed issues such as:
  - high transaction costs
  - poor market information
  - low levels of transparency and trust

- Exchange owned by 15 members, mostly from the agricultural sector, and financed through commercial services and through PROFIT

- Members governed by Exchange Rules & Regulations

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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. Quality Commodities
10. Sakiza Spinning
11. Savanna Commodities
12. Seaboard Commodities
13. Simba Milling
14. Zdenakie
15. Olam Zambia

- Currently owned by 15 Member-Brokers
- 2 Members seats on offer for sale (in red)
- Members governed by Exchange Rules & Regulations
- Board seats comprise; 1 Independent Chairman, 8 Member-brokers, 3 Institutional (ZNFU, MAZ & BAZ) and 3 Ex-officio (PROFIT, ED & FD)
- Total staff compliment of 6
- Initial financial and technical support by USAID-PROFIT
ZAMACE SERVICES

- Trading
- Dispute Resolution
- Quality Standards
- Warehouse Inspection & Certification
1. Commodity Trading

- Recorded first trade on 4\textsuperscript{th} October 2007
- Trade major grain and oil seeds (maize, wheat, soya beans and sunflower)
- Other commodities traded as well including processed products (soya/cotton cake, maize meal, bran, edible beans, fertiliser and cement)
- Public place positions to buy/sell through broker
Basic Schematic

Negotiation leads to a trade

1. Farmer/Farmer Association or Trader
   - Sees buy positions and/or trends

2. Processor/Trader
   - Releases Daily Trade Information summary
   - Sees sell positions and/or trends

3. Selling Broker
   - OFFER Position
   - Negotiation leads to a trade

4. Daily Report
   - ZAMACE
   - BID position

5. Buying Broker
   - Buy Instruction
   - Negotiation leads to a trade

6. Processor/Trader
   - Issues Buy Instruction
   - Negotiation leads to a trade

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Providing Guaranteed/Managed Settlement

Mitigating Delivery/Payment Default
Seller can use WR as proof of commodity/delivery
Seller can place a performance bond
Buyer can deposit funds in broker settlement account ahead of transaction
### Commodity Contribution

by Total Turnover Oct. 2007 – Oct. 2010

<table>
<thead>
<tr>
<th>COMMODITY CATEGORY</th>
<th>TURNOVER (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRAIN</td>
<td>55,228,922.94</td>
</tr>
<tr>
<td>MAIZE MEAL</td>
<td>2,212,979.59</td>
</tr>
<tr>
<td>OIL SEED</td>
<td>13,070,668.24</td>
</tr>
<tr>
<td>BRAN</td>
<td>27,875.00</td>
</tr>
<tr>
<td>PULSES</td>
<td>421,223.00</td>
</tr>
<tr>
<td>CEMENT</td>
<td>127,362.90</td>
</tr>
<tr>
<td>FERTILISER</td>
<td>527,050.00</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>71,616,081.67</strong></td>
</tr>
</tbody>
</table>
Commodity Contribution
by Total Turnover Oct. 2007 – Oct. 2010

- **GRAIN**: 77%
- **OIL SEED**: 18%
- **MAIZE MEAL**: 3%
- **FERTILISER**: 1%
- **PULSES**: 1%
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 South African Grain Laboratory (SAGL)
- More standards requested by market e.g. rice, barley, edible beans and groundnuts
- Can also look at sorghum

www.zamace.com
# Example: Maize Standard

<table>
<thead>
<tr>
<th>QUALITY PARAMETER</th>
<th>UOM</th>
<th>GRADES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>A</strong></td>
</tr>
<tr>
<td>Moisture</td>
<td>%</td>
<td>12.5 max</td>
</tr>
<tr>
<td>Extraneous matters</td>
<td>%</td>
<td>1.0 max</td>
</tr>
<tr>
<td>Broken Grains</td>
<td>%</td>
<td>6.0 max</td>
</tr>
<tr>
<td>Other Coloured grains</td>
<td>%</td>
<td>3.0 max</td>
</tr>
<tr>
<td>Total other Defective grains of which:</td>
<td>%</td>
<td>11.0 max</td>
</tr>
<tr>
<td>a. Discoloured grains</td>
<td>%</td>
<td>3.0 max</td>
</tr>
<tr>
<td>b. Insect/pest damaged grains</td>
<td>%</td>
<td>3.0 max</td>
</tr>
<tr>
<td>c. Diseased grain</td>
<td>%</td>
<td>2.0 max</td>
</tr>
<tr>
<td>d. Immature or Shrivelled grain</td>
<td>%</td>
<td>1.0 max</td>
</tr>
<tr>
<td>e. Fugal damaged grains</td>
<td>%</td>
<td>0.5 max</td>
</tr>
<tr>
<td>f. Germinated grains</td>
<td>%</td>
<td>NIL</td>
</tr>
<tr>
<td>g. Pass thru 6.35mm sieve</td>
<td>%</td>
<td>1.5 max</td>
</tr>
<tr>
<td>Diplodia</td>
<td>%</td>
<td>NIL</td>
</tr>
<tr>
<td>Fusarium</td>
<td>%</td>
<td>0.5 max</td>
</tr>
</tbody>
</table>
3. Warehouse Inspection & Certification

- Secure storage guarantees Q&Q (Quality & Quantity) of stored commodity
- ZAMACE trains and certifies warehouse operators to manage, grade and store commodities
- Critical to participation of emergent and small-scale farmers – trade confidence in aggregation
- Identifying and inspecting storage in districts to develop WRS (Warehouse Receipt System)
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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Chongwe Pilot 2008/09

- Collaboration with Participatory Village Development in Isolated Areas (PaViDIA)
- PaViDIA supported villages to setup community sheds
- ZAMACE role was to encourage farmers to fill the sheds with maize for onward placement on the Exchange
- Each community appointed a shed quality manager
ZAMACE conducted training sessions for targeted smallholder farmers on grain grading, handling and storage.

Operations of the Exchange were also explained to the participants.

ZAMACE inspected +50 community sheds for storage of maize.
GMEP Start-up Areas

- Southern, Central and Eastern Provinces
- USAID/COMPETE funding this outreach initiative cost share basis
- WFP purchased maize shellers, scales and sieves for ZAMACE on-ward lease to farmers
- District warehouse operators certified

Chiyobola Community - Sibanje Shed, Monze District, Southern Province
USAID-COMPETE is providing 12 months financial support to the initiative.

ZAMACE is facilitating the lease of smallscale shellers, scales and sieves to smallscale farmers through WFP/P4P support.

A technician from SARO Agric conducting training on use of the shellers to Twikatane participating community in Central Province.
4. Dispute Resolution

- ZAMACE transactions are backed by enforceable standardised contracts
- All disputes referred to Arbitration as per ZAMACE Rules of Arbitration
- Arbitration backed by Arbitration Act
- Encouraging respect for contracts

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Challenges
Some of our Challenges

- Absence of legal framework for commodities Exchange – working with Securities and Exchanges Commission (SEC) to develop framework
- Need for settlement guarantee structure – developing model with one of the banks
- ICT infrastructure for trading and WR issue and monitoring
- Training of stakeholders and legislators on importance of commodity exchange
- Enhancement of Laboratory equipment and expanded commodities (e.g. sorghum)
- Streamlining role of Government in commodity trade
- General public awareness of commodities exchange is low