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ZAMACE: Zambia Agricultural Commodities Exchange

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ZAMACE

Zambia Agricultural Commodities Exchange

Brian Tembo

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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***

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**

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*

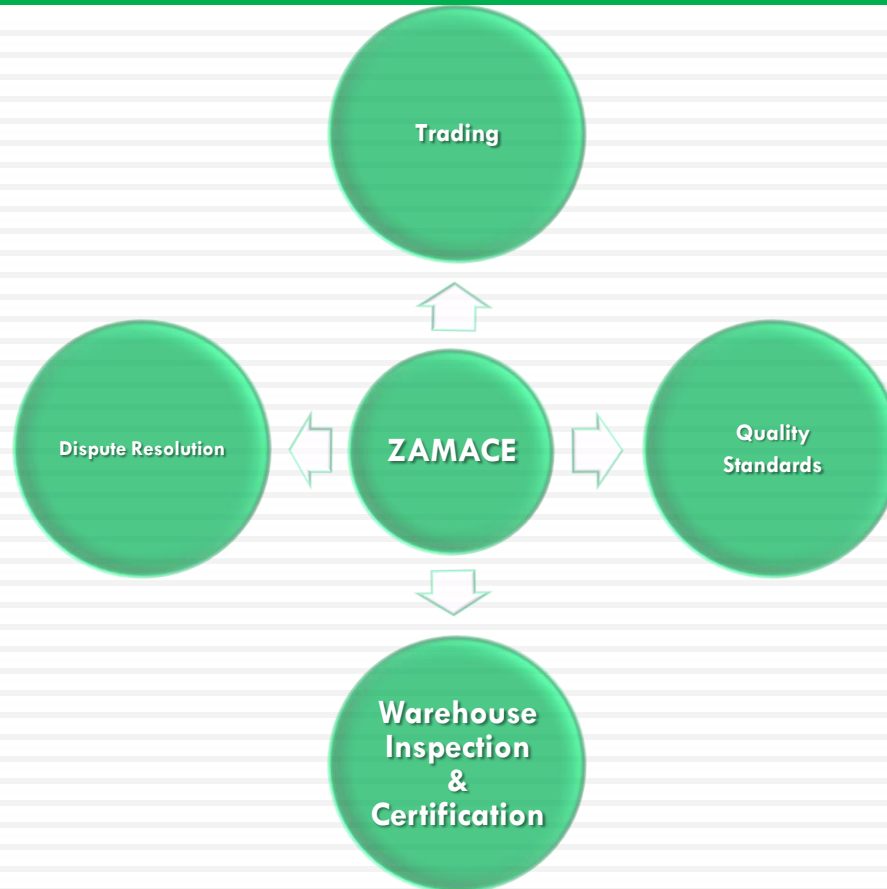
Ownership & Control

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

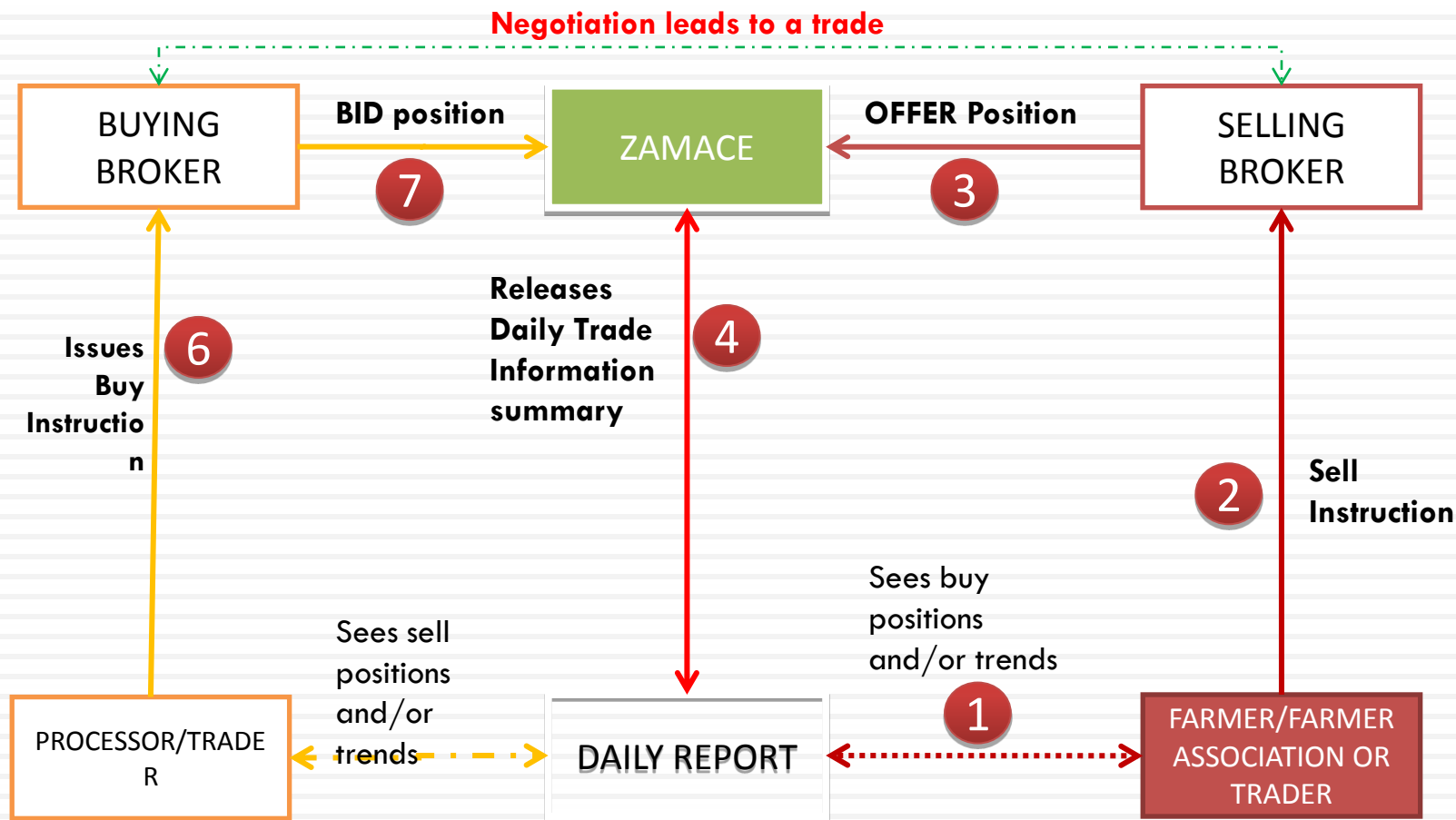
ZAMACE SERVICES



1. Commodity Trading

- Recorded first trade on 4th 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

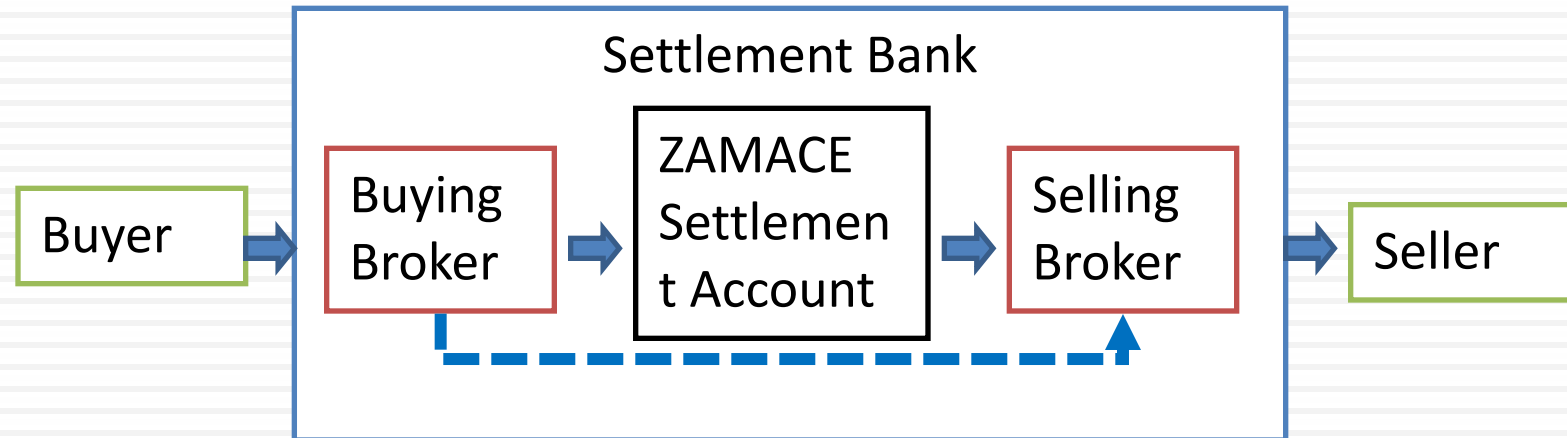
Basic Schematic





ZAMACE

Providing Guaranteed/Managed Settlement



Mitigating Delivery/Payment Default

Seller can use WR as proof of commodity/delivery

Seller can place a performance bond

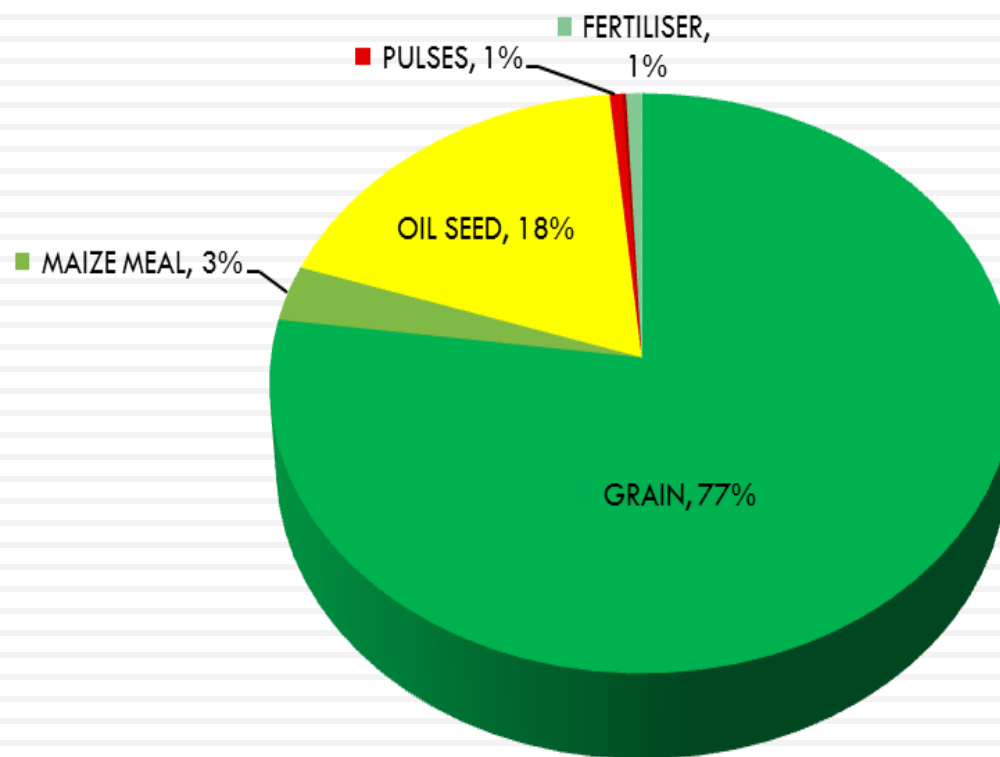
Buyer can deposit funds in broker settlement account ahead of transaction

Commodity Contribution

by Total Turnover Oct. 2007 – Oct. 2010

COMMODITY CATEGORY	TURNOVER (US\$)
GRAIN	55,228,922.94
MAIZE MEAL	2,212,979.59
OIL SEED	13,070,668.24
BRAN	27,875.00
PULSES	421,223.00
CEMENT	127,362.90
FERTILISER	527,050.00
GRAND TOTAL	71,616,081.67

Commodity Contribution by Total Turnover Oct. 2007 – Oct. 2010



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



Example: Maize Standard

QUALITY PARAMETER	UOM	GRADES		
		A	B	C
Moisture	%	12.5 max	12.5 max	12.5 max
Extraneous matters	%	1.0 max	1.5 max	2.0 max
Broken Grains	%	6.0 max	7.0 max	8.0 max
Other Coloured grains	%	3.0 max	4.0 max	5.0 max
Total other Defective grains of which:	%	11.0 max	18.5 max	26.0 max
a. Discoloured grains	%	3.0 max	6.0 max	9.0 max
b. Insect/pest damaged grains	%	3.0 max	6.0 max	9.0 max
c. Diseased grain	%	2.0 max	2.0 max	2.0 max
d. Immature or Shrivelled grain	%	1.0 max	1.5 max	2.0 max
e. Fugal damaged grains	%	0.5 max	1.0 max	1.5 max
f. Germinated grains	%	NIL	NIL	NIL
g. Pass thru 6.35mm sieve	%	1.5 max	2.0 max	2.5 max
Diplodia	%	NIL	NIL	NIL
Fusarium	%	0.5 max	0.5 max	0.5 max



ZAMACE

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



Chongwe Pilot 2008/09

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- 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



Chongwe Pilot 2008/09

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- 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



Newton Samangwe – ZAMACE Operations Manager training Chongwe farmers

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

GMEP Partners

- 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

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