



CATALYTIC INNOVATIONS IN AFRICAN AGRICULTURE CENTENNIAL SERIES

# MARKET CHANGE

ETHIOPIA COMMODITY EXCHANGE (ECX) ■ ETHIOPIA

The Catalytic Innovations in African Agriculture Centennial Series was developed as part of the Rockefeller Foundation's Centennial publications. The Rockefeller Foundation, as an institution with a long history in agricultural innovation, commissioned this series to highlight promising developments in African agriculture, agricultural markets, and value chains on the continent. The projects and programs featured were selected from a review of nearly 150 such initiatives based on criteria that included a focus on smallholder farmers.

**THE ISSUE** Currently, buyers and producers do not have a broad and coordinated market for the trade of agricultural products. Transaction costs are high, prices are not transparent, and smallholder farmers often don't have market information on prices. These farmers net only a small profit because they lack storage facilities and telecommunication and transportation infrastructure. Moreover, multiple middlemen at every stage of the market chain further erode their profits.

An improved mechanism for coordinating the various market actors would help farmers earn more and ensure that Ethiopia gains greater benefits from its agriculture sector.

**THE INNOVATIVE RESPONSE** The Ethiopia Commodity Exchange (ECX) was established in April 2008 to create a coordinated market in the trade of agricultural products. ECX's model provides an integrated system of central trading, warehousing, product grade certification, clearing, settlement, delivery, and market information and dissemination. The goal of the ECX it is to provide a marketplace where buyers and sellers can come together to trade, and be assured of quality, delivery, and payment.



**ABOVE:** Inside an ECX warehouse in Dila, Ethiopia, Banti Adugna, Tekalign Mengesha and Nuruaddis Abdi sample coffee as part of determining its grade. After each sip, they spit the coffee out before taking the next taste.

# MARKET CHANGE

ETHIOPIA COMMODITY EXCHANGE ■ ETHIOPIA



## PROJECT BACKGROUND

### THE STAKEHOLDERS

ECX was designed as a public-private partnership between the government of Ethiopia, market participants, and members of the exchange, who have purchased their seats and have trading rights. Any individual, company, public enterprise, or cooperative that meets the requirements of the Ethiopia Commodity Exchange Authority is eligible for membership. The ECX has an 11-member board of directors. The Ministry of Agriculture and Rural Development appoints six of those members, including the chairman. ECX members elect the remaining five. At the initial stage, the World Bank, United Nations Development Programme, International Food Policy Research Institute, United States Agency for International Development, the World Food Program, and the government of Ethiopia all provided financing.

**TRANSPARENCY, RELIABILITY, AND EFFICIENCY ARE THE KEY OBJECTIVES OF A SYSTEM THAT AIMS TO MODERNIZE ETHIOPIA'S COMMODITIES TRADE.**

### OVERVIEW

Those who want to use the exchange to sell their commodities—such as coffee or sesame—deposit them in ECX-operated warehouses in one of 16 locations around the country. There, warehouse staffers sample, weigh, grade, and store the commodities. The ECX central depository issues electronic receipts that serve as legal title to the stored goods and are transferable on the exchange. Trading takes place in Addis Ababa, in a bidding pit at ECX headquarters. Once a deal is made, an order ticket is electronically entered and reconciled in the ECX automated back office system. Exporters then collect the commodities from the warehouses.

### GOALS

Transparency, reliability, and efficiency are the key objectives of a system that aims to modernize Ethiopia's commodities trade. Before ECX was launched, traders and farmers faced serious limitations. Trade was confined to short distances, involved short storage periods, and included only close networks. Prices could be volatile. Handling costs were exorbitant. The quality and quantity of goods traded was often uncertain, and traders had little recourse when buyers defaulted. Farmers had limited access to information and storage and—in many markets—earned just a fraction of the value of the traded commodity.

ECX sought to address those impediments by:

- Creating a market system to promote increased participation by small-scale producers, while serving the needs of buyers, sellers, and intermediaries
- Harnessing technology to broadcast market information in a timely manner, allowing farmers to negotiate better prices for their products
- Conducting trade on the basis of grade certificates and guaranteed warehouse receipts
- Offering a mechanism for dispute resolution through arbitration
- Providing market surveillance to ensure the integrity of exchange members and the market.

## WHAT IS INNOVATIVE ABOUT THIS PROJECT?

In Ethiopia, only a third of agricultural output ever reaches the market. Yet 85 percent of the population relies on farming for its livelihood. As a result, Ethiopia saw the need to transform its agricultural markets to reduce poverty. ECX now includes 11 partner banks, 329 exchange members, and 11,800 clients. ECX reports that some farmers have seen their incomes double, which, in turn, is encouraging them to increase their production and the quality of their harvests.





## MARKET EFFICIENCY

Buyers and sellers now have access to standardized contracts that include details regarding the grade of the commodity, delivery location, and size of the lot that is being traded. The contracts allow traders to coordinate with each other more effectively. The 11 banks that work with ECX guarantee fast settlement.

## MARKET INTEGRITY

At warehouses across Ethiopia's surplus-producing regions, teams sample and grade commodities as they arrive, assuring their quality and weight before they are traded. Inventory management in the warehouses is designed to meet global standards, including environmental controls. Grading systems use reportedly state-of-the-art technology. Warehouses are insured at maximum coverage to protect against loss and damage of deposits. All of this helps to ensure that the beans and seeds that pass from farmers to consumers meet expectations.

## MARKET INFORMATION SYSTEM

Market information tickers—colorful electronic boards that broadcast the latest prices—are beginning to dot rural communities across Ethiopia. They are one of the components of ECX's strategy for a broad dissemination of market information among all participants, helping them to make smart decisions about buying and selling. It takes

just two seconds for ECX to transmit the latest prices to the 90 rural tickers. Mobile phones and services that transmit short messaging and interactive voice response also provide market news, along with TV, radio, newspapers, and the ECX website, which receives about 2,000 hits a day. Through its market bulletin, ECX provides a summary of local and international price comparisons, and analysis on market developments.

The hope behind all of this is that small-scale farmers will no longer be at the mercy of merchants in the nearest and only market they know. As farmers gain access to price information, they will be empowered to negotiate prices more effectively and to bring better-quality commodities to market. Being assured of full payment the next day, they can plan to invest in more inputs and improved farming practices. Traders can receive bank loans using their warehouse receipts as collateral, opening opportunities in rural finance.

**ABOVE:** Eneyew Bayih manages a warehouse stacked with 15,000 quintals of sesame that has been traded on the ECX. China and Israel are among the countries to which the seeds will be exported.



# MARKET CHANGE

ETHIOPIA COMMODITY EXCHANGE ■ ETHIOPIA

## THE FUTURE: OPPORTUNITIES AND CHALLENGES

### OPPORTUNITIES

**FARMERS AND FARMER COOPERATIVES** ECX has great potential to link farmers and their cooperatives to the market. More cooperatives will need to be members of ECX.

A commodity exchange also depends on the functioning of allied sectors like banking, insurance, transport, IT services, and even inspection services. Thus, as the development of ECX proceeds, it will be necessary to invest in these sectors.

**STANDARDIZATION** Although ECX is still in its infancy, it has brought order and transparency in market transactions, as well as the introduction of quality standards.

### CHALLENGES

**TRADING PRACTICE** ECX is currently using an open outcry system. Members (traders) therefore could fix prices outside of the trading floor with the buyers (mainly exporters) and beat the system. Thus, transparency and market integrity cannot be guaranteed. If the bidding were done anonymously, there would be less opportunity for corruption.

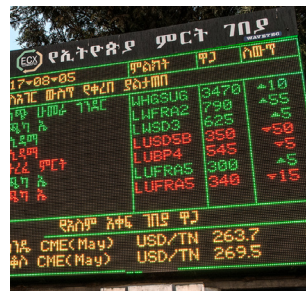
**TRACEABILITY** By law, the ECX has become the key institution for coffee trading. Yet one of the main challenges the exchange is facing is guaranteeing traceability for specialty, fair trade, and

organic coffees—a smaller but vital part of the broader coffee market. To solve this problem, ECX is working with various agencies such as USAID, Starbucks and GeoCertify in order to create a barcode system that allows beans to be traced to the farm level.

**DELAYS** The warehouse management system is not running as smoothly as it should in part because of limited internet connectivity. Exporters confront delays—sometimes days in duration—and exhausting streams of paperwork. One way ECX is working to address the connectivity problem is through the use of satellite phones.

**SHORTFALLS** Exporters also encounter weight loss—the spillage that occurs during the loading and unloading of commodities. They are obliged to cover that loss. In the former system, disputes over weight or quality were sorted out on the auction floor, even after delivery. ECX needs to improve its system and be accountable for the shortfall.

**MARKET INFORMATION SYSTEM** Despite the spread of ECX market information, many small farmers still do not have the power to use that knowledge to their advantage. They may know what the prices are on the exchange, but often the local traders through whom they deal continue to offer lower prices. The ECX and other actors need to find a way to bolster the authority of small farmers so they have increased bargaining power.



**CLOCKWISE FROM TOP LEFT:** In Gondar, Ethiopia, warehouse worker Tegabu Ale examines some of the sesame seeds that an exporter has purchased for delivery to India. ■ As part of spreading the word about commodity prices, ECX is installing boards like this in farming communities around Ethiopia. This one is in Gondar. ■ A worker sorts through coffee beans as part of the grading process at an ECX warehouse in Dila, Ethiopia. ■ Preparing coffee for tasters is part of the grading process at an ECX warehouse.

“ ”

I'll continue with my farming and I'm hoping to show the rest of the world what farmers can do.

MAMITE GOBENA, COFFEE FARMER  
WORKA, ETHIOPIA



# PROFILE: MAMITE GOBENA

In the village of Worka, Mamite Gobena has been striving to improve the quality of the coffee beans she harvests with an eye toward earning a better price for them. And for the first time this year, she had them graded by the Ethiopia Commodity Exchange.

Long wisps of fresh grass cover the floor and incense sweetens the air. For a moment, all is silent, save for a peaceful slurping. Here, in this room painted an exuberant green, the neighbors and guests of Mamite Gobena have gathered for a ritual repeated ever day in countless homes across Ethiopia: the coffee ceremony.

One cup won't do, Gobena insists, not if you are a true Ethiopian. You must have three, as custom dictates.

It's not easy to say no to Gobena.

A commanding woman of 55 and the mother of 11 children, she has seen to it that most of them have completed some form of higher education. And that's not all. This life-long coffee farmer is bursting with plans. For the first time this year, Gobena and her husband trucked their coffee to Dilla where it was graded by the Ethiopia Commodity Exchange (ECX) in preparation for export by the union to which they had sold it directly.

"It's hope for us," says Gobena, "that we're now reaching this new level—to take the coffee to get it graded."

## A question about price

From their 12-hectare farm, Gobena and her husband pick on average about 80 quintals of coffee a year—a harvest that has helped them build a solid foundation here in the village of Worka where Gobena also runs a small store. They have done well enough to own a house in Dilla and another in Gedeb, two larger towns nearby.

Still, for all their hard work, the price for freshly picked coffee beans is less than the price ECX reports for beans that have been washed and processed. Intended to bring transparency to the trade of

commodities to help ensure that farmers get a fair deal, the exchange broadcasts current prices via a number of venues, including radio, TV, and electronic tickers placed in some primary markets, as well as through short phone messages. But knowledge does not always translate into power for the growers.

"What we hear on the radio is not the price we get," says Gobena. "We work a lot, but what we get is not the same [as in the city]."

“ ”

It's hope for us that we're now reaching this new level—to take the coffee to get it graded.

In the past, she used to sell to akrabis—local traders who can drive a hard bargain and don't necessarily give farmers the best price.

"The akrabis say if you don't want to sell for this much, sell it to the radio," complains a nearby farmer, who harvests just two quintals of coffee a year from his half hectare.

Though akrabis can be tough, none of them ever crossed Gobena.

"Not me," she says. "Others are cheated but not me."

## Improving quality

More recently, she has been selling her coffee to a local cooperative that takes care of the processing, and she has been striving to improve the quality of the

beans her farm produces—with an eye toward getting a better price for them.

"We know which cherries to pick—the red ones. That's labor intensive. We have to go back [to the trees] three to four times. We have been trained how to do it," says Gobena. "This year we have done a lot, but we haven't seen much [difference] in price."

Proud of what she has accomplished, Gobena marches her visitors off for a quick tour of her farm. Every child in the village, it seems, wants to come along, but Gobena shoos them off before wading into the shade of the coffee trees interspersed with enset. At a second site, she shows off beds of new coffee seedlings, carefully shaded by bamboo, waiting to be transplanted—a sign of all the hope she has for the future.

"This is not the end. I still have a lot to do," says Gobena. "I'll continue with my farming and I'm hoping to show the rest of the world what farmers can do."



**RIGHT:** "I don't have that much money, but there are lots of things I want to do," says Mamite Gobena. Among them is to increase the size of her coffee farm.