Agriculture has always been the backbone of Ethiopia’s economy. Yet, lifting millions of Ethiopians out of poverty requires a transformation from centuries-old subsistence agriculture to dynamic, technology-driven, market-oriented production. This can only happen if the market itself functions in such a way as to serve the needs of all concerned.

Ethiopia’s marketing system, like its agriculture, is based on age-old tradition. To date, agricultural markets have been characterized by high costs and high risks of transacting, forcing much of Ethiopia into global isolation. With only one third of output reaching the market, commodity buyers and sellers tend to trade only with those they know, to avoid the risk of being cheated or default. Trade is done on the basis of visual inspection because there is no assurance of product quality or quantity, which drives up marketing costs, leading to high consumer prices. For their part, small-scale farmers, who produce 95 percent of Ethiopia’s output, come to market with little information and are at the mercy of merchants in the nearest and only market they know, unable to negotiate better prices or reduce their market risk.

It is time for a marketing system that coordinates better, that links faster, that protects the interests of both sides of the trade. It is time for a marketing system that is transparent, efficient, and innovative. It is time for a marketing system that will take Ethiopian agriculture into the new Millennium. Ethiopia, once a commercial trading hub in antiquity linking markets of East and West, can again claim a place in the global market arena.

The Ethiopia Commodity Exchange, or ECX, is a marketplace, where buyers and sellers come together to trade, assured of quality, delivery and payment. The first of its kind in Ethiopia, ECX is a national multi-commodity exchange that

- **provides market integrity**, by guaranteeing the product grade and quantity and operating a system of daily clearing and settling of
contracts

- **enhances market efficiency** by operating a trading system where buyers and sellers can coordinate in a seamless way on the basis of standardized contracts
- **enables market transparency** by disseminating market information in real time to all market players, and
- **allows risk management** by offering contracts for future delivery, providing sellers and buyers a way to hedge against price risk.

## Market potential

As the third most populous country in Africa, Ethiopia represents a significant and growing market. Ethiopia’s production of maize alone places it as the second largest maize producer in Africa, and a significant cereals producer with a total agricultural production volume of 14 million tons surpassing that of South Africa in recent years (at 11 million tons), where the only viable African commodity exchange exists.

Growth in the domestic market is likely to grow, as the overall economy grows, with increased cereals demand, as well as increased local food aid procurement and cash injections into the national safety nets program. In the first phase, ECX trading will cover six target commodities, selected in terms of their importance to either: coffee, sesame, pea bean, teff, wheat, and maize. Together, they represent roughly a total value of US $1 billion of physical trade.

## How it works

ECX aims to provide a low-cost, secure marketplace to benefit all participants.

First and foremost, ECX guarantees the integrity of the product. **Trading is on the basis of warehouse receipts issued by ECX operated warehouses** throughout the country, where commodities are graded, weighed, and certified. ECX guarantees the grading of the commodities and maintains a central registry of warehouse receipts.

ECX provides **standardized ECX commodity-based contracts**, which specify grade, delivery location, lot size, and other contract terms. The contracts will be either for immediate delivery or at a pre-specified date in the future.

The ECX trading system combines a **physical trading floor located in Addis Ababa**, where buyers and sellers may participate in “open outcry” bidding for commodities, with **electronic remote access to the trading system**. Market prices are constantly changing throughout trading hours and are transmitted in real time to producers and consumers directly using **electronic price tickers in rural areas**, as well as website and media.

ECX guarantees payment against delivery through an **internal system for clearing and settlement of contracts**, in collaboration with partner banks. Every trading day, ECX clears the net obligations of all of the market participants and transmits orders to partner banks and
warehouses to settle transactions through transferring funds in one direction and warehouse receipts in the other direction.

ECX provides additional layers of security through operating an Arbitration Tribunal with licensed arbitrators to assure the speedy and professional resolution of any commercial disputes that may arise. Additionally, ECX maintains a system of market surveillance where experts monitor the behavior of market actors to protect the market from manipulation, excessive speculation, fraud, or other malpractice.

A new way of doing business

ECX works on the basis of membership. Members buy seats that allow them to trade using ECX. While no one is ever restricted from legitimate trading on ECX, this simply means that non-members must use the services of a member to conduct trading.

**Why membership?** Members are the core actors of the exchange. Through seat ownership, members are committed to maintaining the integrity of the ECX marketplace. Together, they safeguard the interests of the marketing system. They also bear the liability for all transactions that they conduct on ECX.

**Who should be a member?** Membership is open to all who meet the ECX requirements and who are willing to comply with membership rules. Members of ECX, or even associates of Members, are required to be licensed by the Commodity Exchange Commission which regulates all aspects of the ECX system. Members are those who use the market regularly and frequently either as producers, intermediaries, or buyers.

**Who benefits from ECX?** Non-members stand to gain as much as members from the ECX innovation. All are better off from the security of trading through ECX, as well as the greater liquidity that offers better value and risk management, in a much more transparent market environment.

The “ECX Edge” is integration

The ECX design is unique in that it integrates the entire “eco-system” related to the market, spanning the central trading system, warehouse delivery centers, product grade certification, clearing banks, an arbitration tribunal, a market information system linking rural sites, remote electronic trading centers, and a secure data center to manage membership and market information. An over-arching legal framework and a government regulatory agency ensure the viability of this entire integrated environment. This integration enables a country such as Ethiopia, where none of the individual components may exist as stand-alone institutions, to mutually support and reinforce the ECX market objectives.
In terms of actors, ECX Members and their associates are required to be registered with a national association of commodity professionals, which offers training and skills enhancement and maintains licensing and other professional standards. Thus, the ECX design is based on partnership between the state regulatory body, the Exchange as a self-regulatory organization, and the national association of actors. The Ethiopian Commodity Exchange Commission is an independent body which approves and regulates contracts, membership, trading, clearing, and other ECX rules and safeguards the interests of society. With this integrated approach, the ECX environment thus offers outstanding value to all market players, in Ethiopia as well as to its global trading partners.

ECX represents a new way of doing old business, bringing global standards of efficiency and reliability to the age-old domestic agricultural trade and, in the process, transforming Ethiopia.

ECX is a unique partnership initiative of market actors, the Members of the Exchange, and its main promoter, the Government of Ethiopia, with a capital investment of Birr 194 million.

Want to know more? Interested in membership? Interested in employment?

Visit our offices at Al-Sam Tower2, Tel. 251-11-554-7007, Fax. 251-11-554-7010
www.ecx.com.et