



PRESS RELEASE

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Ethiopia's Commodity Exchange Opens its Doors

Addis Ababa—Ethiopia opens a commodity exchange this week, the first of its kind in Africa. The exchange will trade in six commodities: coffee, sesame, haricot beans, teff, wheat and maize.

The Ethiopia Commodity Exchange (ECX), as it is officially known, will provide a marketplace where buyers and sellers can come together to trade and be assured of quality, delivery and payment. The exchange includes a trading floor in Addis Ababa, six warehouse delivery locations, and 20 electronic price tickers in major market towns. ECX was launched by Prime Minister Meles Zenawi at a ceremony on April 4. It will begin operations on April 15.

Agricultural markets in Ethiopia have long been plagued by high transaction costs and excessive risk. With only one third of output reaching the market, commodity buyers and sellers tend to trade only with those they know, to avoid the possibility of being cheated or default. Small-scale farmers, who produce 95 percent of Ethiopia's output, come to market with little information. Often, their local market is the only market they know, leaving them at the mercy of the local merchants, unable to negotiate better prices. If farmers in a particular region are especially productive, the local market is glutted and their prices drop precipitously.

Prime Minister Zenawi said that he expects that the exchange will “revolutionize the country's backward and inefficient marketing system.”

ECX is designed to provide a reliable system for handling, grading, and storing agricultural products. Traders will be able to match offers and bids for commodity transactions, with a risk-free payment and goods delivery system to settle transactions. The exchange will create a transparent trading environment through:

- aggressive market data dissemination to all market actors,
- clearly defined rules of trading, warehousing, payments, delivery and business conduct, and
- an internal dispute settlement mechanism.

Ethiopian economist Eleni Zaude Gabre-Madhin has been a driving force behind the development of the exchange. As a researcher for the International Food Policy Research Institute (IFPRI), she studied agricultural markets in her native country for several years. She was struck by the fact that Ethiopia can have a bumper harvest one year and severe shortages the next, or surpluses in one region and famine in another.

In a survey of grain traders in 2002, Gabre-Madhin found that the infrastructure and services required for grain markets to function effectively was lacking. Traders frequently did not have access to credit, market information, transport, contract enforcement and other vital resources.

In 2004, Gabre-Madhin relocated to Addis Ababa to lead an IFPRI program to support the government of Ethiopia in its efforts to improve market and agricultural policies. She also coordinated an advisory body that developed the plans for the exchange.

"We have been consulting with producers and traders to solve the chronic problems faced by the market. We have conducted research to set up a commodity exchange market that will bring a grass-roots level change in the marketing system," said Addisu Legesse, Deputy Prime

Minister and Minister of Agriculture and Rural Development, who supported efforts to launch the exchange.

As the third most populous country in Africa, Ethiopia represents a significant and growing market. Ethiopia's production of maize places it as the second largest producer of that crop in Africa. The country's total cereal production has reached 14 million tons, recently surpassing South Africa, home to the only other viable commodity exchange in Africa.

“When farmers can sell their crops on the open market and get a fair price, they will have much more incentive to be productive, and Ethiopia will be much less prone to food crises,” said Gabre-Madhin, who will serve as CEO of the new exchange. “ECX will allow farmers and traders to link to the global economy, propelling Ethiopian agriculture forward to a whole new level.”

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The International Food Policy Research Institute (IFPRI) seeks sustainable solutions for ending hunger and poverty. IFPRI is one of 15 centers supported by the Consultative Group on International Agricultural Research, an alliance of 64 governments, private foundations, and international and regional organizations. www.ifpri.org