

## The ECX and sesame: an overview

The initiative to establish the Ethiopian Commodity Exchange (ECX) was based on a simple concept. If markets function in such a way that they reward quality and reduce transaction costs of market participation, they will increase returns to market activity, enable quick capital turnaround thus increasing market volumes, and reduce risk of market participation.

After its establishment in 2006, The Ethiopia Commodity Exchange (ECX) commenced trading operations in April 2008 and subsequently opened trade for white and mixed maize, hard and soft wheat, processed and unprocessed pea beans, coffee and sesame.

The establishment of the ECX was funded by a consortium of financing partners including UNDP, the World Bank, American development agency USAID, Canadian Development Agency CIDA and the World Food Programme and is co-financed by the Government of Ethiopia. Since 2006, UNDP has financed more than USD 3.5 million of the total USD 24 million needed to establish the exchange. In addition, UNDP support included initial project start-up, capacity

building, and technical advisory services over four years. UNDP would like to replicate the experience in other African countries. Among these, Tanzania, Kenya, Zambia and Uganda are considering replicating, customizing and scaling up the ECX model.

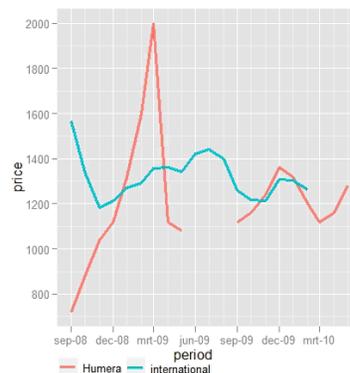
### Current sesame markets

Because of the scattered and small-scale nature of the Ethiopian production system, the role of aggregation in improving the agricultural marketing system is emphasised in the national agricultural marketing strategy. Cooperatives and their respective unions are expected to play an important role in this. The two most important cooperative unions for sesame marketing are the Setit-Humera agricultural marketing union in Humera areas and Metema agricultural Marketing union.

Currently, however, about 34% of the production is directly purchased by wholesalers from the farmers, followed by assemblers (22%) and cooperatives (18%),

The inefficiency of the Ethiopian sesame market is illustrated by the wide price differences of sesame in Humera (red line), a major sesame producing area and world prices

(blue line). A well-functioning ECX is expected to reduce such price differences.



### Experience with the ECX so far

Although the ECX was established in 2006 and it was expected that sesame would be traded through the ECX by the end of 2008, trade through the ECX was delayed because the required arrangements (mainly warehousing and quality certification of ECX) were not ready. During the season of 2008/09, two warehouses—one in Humera and the other in Metema—with a combined capacity of 50,000 quintals and the required facilities were ready. The two storage facilities are capable of storing sesame for 6 months without any loss of quality.

As of August 2009, the ECX had 496 Trading Members (99% private), 12%



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participation by smallholder cooperatives (representing over 250,000 farmers) and 7 partner banks integrated into a new electronic national payment system.

Beginning of 2010 there were also about 100 registered members of the ECX for sesame trade with buy and/or sell licenses. Most of these members are large traders or farm owners in the major sesame production areas (Humera, Metema, and Wellega). There are also some members in Gonder and Addis Ababa.

When the ECX finally opened for sesame trade beginning of 2010, trade was relatively slow. In a survey, conducted in 2010<sup>1</sup>, almost 65% of 194 traders interviewed indicated they had no interest in trading through the ECX.

One reason could be the fees included in transacting through the ECX. The costs of trade in the ECX are related to warehousing costs (storage and handling) and the ECX service fee:

- Exchange fee for ECX: 0.002 % of the value of each transaction
- Warehouse Storage cost: 0.04 birr/day/quintal (1.20 birr/month/quintal) (includes

fumigation, crop rotation, and other storage services

- Handling and product certification fee: 1.45 birr/quintal (Handling fee includes sampling, grading, weighting, loading and unloading)
  - Re-bagging cost if there be a need.
- Another may be that traders are more easily taxed by the Ethiopian Government when trading through the ECX.

The Ethiopian government has been contemplating of making sesame trade through the ECX mandatory. At the time of writing this brief, it was not clear if and when this would happen. This would circumvent the problem of lack of bulk achieved in sesame at the ECX, which at the moment makes the ECX an expensive way of trading sesame, but would entail other problems. One is that all kinds of specialty sesame (e.g. organic) would be included in the bulk.

In February 2010 the ECX launched Direct Specialty Trade (DST), a new platform in which producers of specialty coffee can transact directly with international buyers seeking to purchase premium beans on a fully traceable basis. This could also be used for sesame.

## Conclusions

Although the ECX may improve the functioning of Ethiopian sesame markets as a whole, considerable number of traders do not seem to be convinced that the benefits of the ECX outweigh the costs of using the ECX (consisting mainly of fees and greater likelihood of being of taxed).

Making the ECX mandatory may solve this problem, but will create other problems, such as how to deal with specialty sesame and contract farming (see the VC4PPD brief #5).

The ECX involves a rather big overhaul of the Ethiopian sesame market system, and it is expected that success will not be instant, but will be achieved over time. The question is whether Ethiopia and its donors are willing to support its costs of that period.

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<sup>1</sup> As part of the VC4PPD project