ETHIOPIA COMMODITY EXCHANGE (ECX)
A MARKET TRANSFORMING ETHIOPIA

March 2013
I. Introducing the ET Agri Marketing Prior to ECX

A Story to Tell-Abdu’s trading deal to a trader 900kms away:

• Overproduction at Wellega area-South West Ethiopia in 2002;
• Shortage in the Northern Ethiopia;
• A trip of three days with a lorry but it took a week;
• Buyer changed mind for reason of poor quality;
• Abdu lost his deal.....like so many others;
What were the options...the tale of Abdu and so many farmers/traders
Ethiopian Ag-Marketing Features Prior to ECX

- Lack of order in the market and its actors,
- Lack of integrity in the market actors, product and transaction,
- Lack of transparency in the trading system,
- Limited efficiency in the market,
- Low farmer empowerment and price bargaining power,
- Limited awareness and market information.
What Did the Market Lack

- Information
- Efficiency
- Transparency
- Integrity
- Order
II. The Solution

A commodity exchange...

....for Ethiopia, Africa, and the World
The ECX Initiative

Ownership
(the ET Government)

Management

Members

Established in 2008 to revolutionize the Ethiopian agriculture through a dynamic, efficient, and orderly marketing system that serves all.
The ECX Model

An end-to-end market system...

....with in-house built technology solution.
# ECX’s Specific Solutions to Specific Problems

<table>
<thead>
<tr>
<th>Issues/Risks</th>
<th>Traditional Trading</th>
<th>Modern Trading Platform</th>
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</thead>
<tbody>
<tr>
<td>No Market Structure</td>
<td>➢ Fragmented markets,</td>
<td>➢ Efficient and reliable end-to-end trading system,</td>
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<tr>
<td></td>
<td>➢ Poor infrastructure,</td>
<td>➢ In-house built technology solution,</td>
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<td>➢ High cost of transaction.</td>
<td>➢ Low cost services to all users.</td>
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<tr>
<td>Lack of Order</td>
<td>➢ Loose market regulation</td>
<td>➢ Membership based participation</td>
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<td>➢ Unregulated market actors</td>
<td>➢ Trading on industry accepted standards</td>
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<td>➢ Compliance through monitoring and rule enforcement</td>
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## ECX’s Specific Solutions to Specific Problems Cont’d

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<th>Issues/Risks</th>
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<tr>
<td><strong>High contract performance risk</strong></td>
<td>- High counterparty default risk</td>
<td>- Standardized &amp; industry accepted contracts, grading &amp; certification.</td>
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<td>- Risk alleviation via regular trading partners</td>
<td>- Zero settlement default system</td>
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<td>- Inconsistent quality and supply</td>
<td>- Guaranteed payment in T+1 date – unique in Africa.</td>
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<td>- Secure inventory management</td>
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<td><strong>High market risk in quality</strong></td>
<td>- Sub optimal production,</td>
<td>- Incentive for improved quantity and quality production,</td>
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<td>- Low quality production,</td>
<td>- Expansion of processing facilities,</td>
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<td>- Limited or low processing (value adding) incentives</td>
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## ECX’s Specific Solutions to Specific Problems Cont’d

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<th>Issues/Risks</th>
<th>Traditional Trading Prior ECX</th>
<th>ECX - Modern Trading Platform</th>
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<tr>
<td>Lack of access to Finance</td>
<td>No collateral management</td>
<td>Warehouse Receipt Financing system</td>
</tr>
<tr>
<td>Low producer earning</td>
<td>Wide gap between farm gate price and consumer price; &lt; 35% of FOB value to the producer</td>
<td>Aggressive and reliable real time market data to all; &gt;60% of FOB value to the producer.</td>
</tr>
</tbody>
</table>
How ECX Works Cont’d

Membership and Compliance Monitoring:

• Membership seat (Trading and intermediary members); arbitration tribunal for dispute resolution,

Quality Certification and Warehousing Services:

• Sampling, weighing and grading of commodities deposited as per industry accepted grades, standards and lot size,
• ECX guarantees the integrity of the product deposited.
How ECX Works Cont’d

Trading:
• Spot market and open out cry bidding system, electronic and transferable Warehouse Receipts;

Market Data:
• Real time market data dissemination to all market actors including smallholder farmers via ticker board, IVR, SMS, website:

Clearing and Settlement:
• T+1 clearing and settlement system, zero default; partnership with 11 banks.
III. ECX Five Year Journey to Success

Membership/Participation:
- 2008: 100 founding members,
- 2013: 329 members, above 12,000 clients and almost 3 million farmers reached.

Delivery Sites:
- 2008: 1 delivery center
- 2013: 17 delivery centers.

Warehouse capacity:
- 2008: 1 warehouse
- 2013: 57 warehouses: 300,000 MT warehouse storage capacity

Trading volume:
- 2008: 47,734 MT of commodity
- 2012: 601,000 MT of commodity
ECX Success ........

Clearing and Settlement:
- 2008: 7 partner settlement banks,
- 2013: 11 partner settlement banks, 1.2 million value settled daily.

IT Infrastructure:
- 2008: integrated in-house spot trading IT infrastructure;
- 2013: IT in-house capacity building towards electronic trading, offline application for remote sites.

Market Data:
- 2013: IVR - 1,000,000 call-in/month,
  SMS - 888,000 txt/month and
  Website 10,826 hits/month
IV. ECX’s Benefits to Stakeholders

Producers (farmers/cooperatives and suppliers):
- Improved earning from <30% to more than 60% of FOB value,
- Improved productivity and premium for better quality supply,
- Improved market information and access to finance,

Members/Broker:
- Improved earning and market participation,
- Formalized and regulated brokerage,

Exporters:
- Assured quality through industry acceptable standards,
- Reliable supply, and
- Improved international market share.
ECX’s Benefits....

Banks:
- Increased customer base, earning and transaction turnover, foreign exchange earning,
- Technology transfer,

Government:
- Improved regulation, tax administration,
- Increased foreign exchange earning,
- Realization of the five year Ethiopian Growth and Transformational Plan,

Clients (Non-member Producers and Suppliers):
- Access to market, reliable payment and delivery without direct membership,

Others: Technology transfer, experience sharing, business reporting;
V. ECX Taking Africa to New Heights

ECX Research and Training Wing:
- A start-up research and technical advisory arm to upcoming and established commodity exchanges;
- Ghana and Nigeria obtained trainings from ECX;
- Some other African countries looking to learn from ECX’s success.

CIO-100 Honoree on 2011:
- A prestigious award for showing the power of innovative IT to transform Business.

Africa Investor Award 2011:
- Awarded for playing a leading role in African Commodities Initiative.

African Banker Magazine:
- “ECX leads African commodity exchange sophistication”
VI. The Future ECX

• **Electronic Trading:**
  - Decentralized electronic trading centers.
  - Web based trading access via mobile electronic equipment.
  - Direct client order entry.

• **Disinvesting on Warehouse Management**
  - Third party warehouse operation management.

• **Increasing number of commodities traded;**

• **Expanding the research and training wing;**

• **Assisting other exchanges;**

• **Integration with African exchanges;**

• **Address the issue of traceability as the buyers want it;**

• **ECX State-of-the-Art Headquarters.**
THANK YOU