



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
DEPARTMENT OF MARKETING MANAGEMENT**

**FACTORS AFFECTING THE CONTRIBUTION AND CHALLENGES  
OF MARKETING MEMBERSHIP PRACTICE:  
THE CASE OF ETHIOPIAN COMMODITY EXCHANGE (ECX)**

**By  
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**February 2017  
Addis Ababa**

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**ATHESIS SUBMITTED IN PARTIAL FULFILMENT OF THE  
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Addis Ababa**

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## Statement of Declaration

I, the undersigned, declare that this thesis is my original work and has not been presented in St. Mary's University or any other university, and source of materials used for the thesis have been duly acknowledged.

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## **List of Abbreviations/Acronyms**

AMC	Agricultural Marketing Corporation
CBOT	Chicago Board of Trade
ECX	Ethiopian Commodity Exchange
EGTE	Ethiopian Grain Trade Enterprise
ICT	Information communication Technology
IM	Intermediary Members
MLR	Multiple Linear Regression
SMS	Mobile Phone Short Message Service
SPSS	Statistical Package for Social Studies
TM	Trading Members
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
WRS	Warehouse Receipt System

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## Abstract

*The Ethiopian Commodity Exchange was established to revolutionize Ethiopian agriculture and transform the economy through a dynamic, efficient and transparent marketing system. Properly implemented and regulated, commodity exchanges can contribute greatly to the achievement of a country's economic and developmental goals and strengthen the bargaining power of participants. Hence the overall objective of this study was to assess the contribution and identify the challenges of marketing membership practice of the Ethiopian commodity exchange. And the variables that were assessed and identified were market information system, trading practice, liquidity, warehouse and quality grading and regulation. A survey questionnaires and interviews was prepared to collect a primary data, secondary data from the documents of the ECX and other sources were also used to augment the primary data. The questionnaire was distributed to 80 Ethiopian commodity exchange member participants randomly and out of which 68 were returned. The data was collected through cross-sectional survey. And the data was analyzed through descriptive analysis and multiple linear regression model by using SPSS version 20. The result shows Ethiopian commodity exchange was practicing an open outcry trading system and spot contract. The multiple linear regression model results verified that educational status, membership requirement, warehouse quality service, ICT facility, membership seat fee were found to be significant variables with the choice of membership. Apart from this according to the descriptive analysis lack of adequate warehouses, grading and sampling system, higher penalty cost for the delay made to withdraw commodities from the warehouses on time, availability of in store credit, corruption, bias, higher membership seat fee and transaction cost, were found to be some of constraints that hinder participants from the smooth functioning of transactions in the exchange.*

Finally, The paper recommend: the goal of risk management and reduced transaction costs in the Ethiopian commodity exchange might be achieved more effectively through investment in ICT facility, warehousing, market information system, electronic type of trading system, training and capacity building, measuring instruments, the financial membership criteria which could support future establishment of commodity exchange.

**Key words:** Clearing house receipt, ECX, ECX members, forward and Spot contract

# CHAPTER ONE

## Introduction

### 1.1 Background of the Study

Agriculture is a vital development tool for achieving the Millennium Development Goal that calls for halving by 2015 the share of people suffering from poverty and hunger...Three out of every four poor people in developing countries live in rural areas, and most of them depend directly or indirectly on agriculture for their livelihoods... In much of Sub-Saharan Africa, agriculture is a strong option for spurring growth, overcoming poverty, and enhancing food security...Today, rapidly expanding domestic and global markets; institutional innovation in markets and collective action...offer exciting opportunities to use agriculture to promote development..." (Robert B. Zoellick, President of the World Bank Group, World Bank 2007: foreword).

Commodity derivative exchanges provide a platform where traders and investors from various parts of the world can participate in the hedging and price discovery of any listed commodity (Bose, 2009). Instruments (contracts) traded on commodity exchanges include futures, options and other derivatives. Trading in these instruments began with floor trading, also called open outcry systems. In open outcry systems, traders assembled in a pit in the exchange and traded commodities by indicating their bids or offers to others in the pits. Commodity futures markets help with price discovery and provide a way to hedge for producers and buyers of commodities (Thomas, 2008).

The Ethiopian Commodity Exchange was established in 2008 to revolutionize Ethiopian agriculture and transform the economy through a dynamic, efficient and transparent marketing system that serves all and essentially turns commodity into assets. And properly implemented and regulated, commodity exchanges can contribute greatly to the achievement of a country's economic and developmental goals and strengthen the bargaining power of weak groups such as small farmers. Despite its establishment there were not adequate studies that identified the contribution and challenges of marketing membership participants of the commodity exchange.

As findings of Tollens, (2006) revealed that market information and commodity exchanges can be powerful instruments to inform participants about market conditions and prices, to find willing buyers, to empower them by making the transactions more equal and fair, to inform them about the optimal timing of buying and selling, to induce them to store optimally and to plan ahead, making better informed optimal production and marketing decisions. This helps to break the vicious poverty trap, inducing resilience and better coping mechanisms, and reducing inequality in the markets.

ECX's mission is:

"To establish a Commodity Exchange in Ethiopia of the highest integrity, available to Ethiopian as well as regional and international traders, based upon an open free market system for the mutual benefit of sellers and buyers, and to facilitate the procurement and marketing of any commodity provided or desired by any consenting parties through the auspices of the Commodity Exchange."

ECX has the following three goals:

- ❖ To serve as a market for sellers and buyers, exporters and importers of agricultural commodities in Ethiopian, regional and world markets.
- ❖ To provide reliable commodity market information on supply, demand, prices and their trends in domestic, regional and world markets.
- ❖ To establish fair commodity market prices for both sellers and buyers through a system of competitive and transparent trading on the floor of the Exchange, i.e., price discovery.

Since its establishment, ECX has set up a trading floor at the Mexico sub-city Show Grounds in Addis Ababa, where trading of commodities is conducted. The floor is open for trading limited types of agricultural commodities: crops such as coffee, sesame, Haricot bean, Maize and Wheat.

However, the performance of ECX since its launch a four year ago has been less than impressive (ECX 2008).

The main purpose of the this study is to assess the contribution and identify the challenges of marketing membership practices that arise from market information, storage (warehouse), price, quality grade (standard), regulation, and liquidity, of the Ethiopian commodity exchange.

## **1.2 Statement of the Problem**

Some of the research findings in the area were verified that how commodity exchange market can be coordinated efficiently, at minimum transaction costs, among the myriad of actors in the rural economy, the diverse and spatially dispersed producers and consumers, in such a way as to enhance livelihoods and lead to the optimal allocation of resources will not given higher concern in most developing countries.

The Ethiopian commodity exchange is young established with bright vision and mission to contribute to the economic development of the country in general and to the individual participants at the grass root level. High contract default, unreliable supply, volatile prices, poor information, unregulated actors, unreliable trading partners are taken as the major initiatives to establish commodity exchange and as interest in commodities has risen the range of available products has developed to meet the needs of new and existing investors.

In a country like Ethiopia where a predominantly agrarian society dominates, agriculture is the backbone of the countries development endeavor. Despite this agricultural product marketing will not given much attention and will not getting its real value for the last consecutive decades.

Gebremedhin and Ian Goggin (2005) found that producers of agricultural products and the country at large were facing different challenges due to ineffective use of commodity exchange.

Demeke (2007) conducted study on performance of coffee marketing cooperatives and members' satisfaction in Dale district, Southern Ethiopia. The result of probit model revealed that age, family size, terms of payment for red cherry and dry cherry significantly affected the satisfaction of members of the coffee marketing cooperatives. This study has basically focused only on the members of cooperative in addition to using single coffee market outlet. But, this study did not touch what factors that affect the contribution and challenges of marketing membership (trading member and intermediary member) practice look like. Therefore, this study was used multiple linear regression model to know the effects of Ethiopian Commodity exchange membership on sales volume of market participants.

### **1.3 Research Questions**

The study tried to give answers to the following research questions.

- ❖ What does the ECX marketing membership practice looks like?
- ❖ Does the ECX or authority effectively regulate the exchange?
- ❖ What are the effects of ECX membership on the participant's sales volume?
- ❖ What are the major constraints/challenges of the ECX member participants?

### **1.4 Objectives of the Study**

#### **1.4.1 General Objective**

The over all objective of the study is to assess the contribution and identify challenges of marketing membership practice in the Ethiopian commodity exchange.

#### **1.4.2. Specific Objectives**

In relation with the above general objective of the study, the researcher were identified the following specific objectives:

- ❖ To assess the marketing membership practices of the Ethiopian Commodity Exchange
- ❖ To describe the regulation system of the exchange
- ❖ To analyze the effects of ECX membership on the participants sales volume
- ❖ To identify the challenges of Ethiopian Commodity Exchange member participants

### **1.5 Significance of the Study**

The growth of Ethiopian commodity exchange was impressive in the last 3/4 years. Despite this only little attention was given to variables which influence Ethiopian commodity exchange membership or market actor's success. Thus study were assess the contribution and challenges of marketing membership of the Ethiopian commodity exchanges that hinder the smooth functioning of the exchange.

Hence, such studies are beyond doubt important for the success of lately emerged Ethiopian commodity exchange. Policy makers, planners and Ethiopian commodity exchange to make

clued-up decisions regarding their service deliverance mechanisms for better. And also the study was contributed or draws lessons on the issue under consideration for better success in the field. Besides adding a brick to the body of knowledge on the subject, the output of the study will also be informative for development practitioners and donors interest to operate and strengthen Ethiopian commodity exchange. Furthermore the findings of this study were also serve as a spillover for further research in the area.

## **1.6 Scope of the Study**

At the study period there were other commodity exchanges in the regional parts of country. But to make the study narrow and manageable the scope of the research should be delimited to the Addis Ababa city commodity exchange members. Considering the manageability of data, budget, time and resources availability, the target population was only limited in Addis Ababa.

## **1.7 Limitation of the Study**

Though the study presents a comprehensive theme over the succeeding chapters, it will not free from limitations. There were confronts in conducting the study due to limited time frame, manageability of data, budget constraint, and limited access information the researcher was delimitate its sample size in to 80 respondents. And these may have limitation on the results of the study. It was also difficult to gather sufficient information for the study due to the limited number of related prior research works regarding the commodity exchange marketing membership practices in Ethiopian context.



# CHPATER TWO

## Review and Related Literature

### 2.1 Theoretical Literature

#### 2.1.1 Definition of key Concepts and Terms

- ❖ **Commodity Exchange** is an exchange where various commodities and derivatives products are traded. Most commodity markets across the world trade in agricultural products and other raw materials (like wheat, barley, sugar, maize, cotton, cocoa, coffee, milk products, pork bellies, oil, metals, etc.) and contracts based on them. These contracts can include spot prices, forwards, futures and options on futures(UNCTAD report,2009)
- ❖ **Membership Seat** is a permanent and transferable right to trade on the Exchange. Members can be any individual, company, public enterprise, or cooperative that meets the membership requirements (www.ecx.com.et)
- ❖ **Clearing house Receipt** a document certifying possession of a commodity in a licensed warehouse that is recognized for delivery purposes by a commodity futures exchange (Gideon Onumah, 2010).
- ❖ **Spot contracts** are contracts to buy and sell the physical commodity resulting in immediate physical delivery (UNCTAD report, 2009).
- ❖ **Forward contract** is a legally binding agreement between two parties calling for the sale of an asset or product in the future at a price agreed upon today.

#### 2.1.2 Contracts of Commodity Exchange

Commodity exchange is an exchange where various commodities and derivatives products are traded. Most commodity markets across the world trade in agricultural products and other raw materials (such as wheat, barley, sugar, maize, cotton, cocoa, coffee, milk products, pork bellies, oil, metals) and contracts based on them. These contracts can include spots, forwards, futures and options on futures.

Commodity exchanges usually trade futures contracts on commodities, such as trading contracts

to receive something and it protects the farmer (seller) from price drops and the buyer from price rises. Speculators also buy and sell the futures contracts to make a profit and provide liquidity to the system (Meijerink et al., 2010).

### **2.1.2.1 Spot Contract**

Spot contracts are contracts to buy and sell the physical commodity resulting in (near-) immediate physical delivery (UNCTAD report, 2009).

A spot contract is an agreement between a buyer and a seller at time zero, when the seller of the asset agrees to deliver it immediately for cash and the buyer agrees to pay in cash for that asset. Thus, the unique feature of a spot contract is the immediate and simultaneous exchange of cash for securities, or what is often called delivery versus payment (Ross et al., 2002).

### **2.1.2.2. Future Trading Contract**

According to Sahadevan K.G. (2002) Futures contracts are an improved variant of forward contracts. They are agreements to purchase or sell a given quantity of a commodity at a predetermined price, with settlement expected to take place at a future date. The futures contracts as against forwards are standardized in terms of quality and quantity, and place and date of delivery of the commodity.

Parvez (2009) cited in the literature futures market contract in commodity exchange are largely used as risk management or hedging mechanism on either physical commodity itself or open positions in commodity stock. This purchase or sale of commodities must be made through a broker or trading member who must be a member of the exchange and the trade should be done under the terms and conditions of the exchanges. Due to the bulky nature of the underlying assets, physical settlement in commodity derivatives creates the need for warehousing, the quality of the asset underlying a contract can vary largely and this becomes an important issue to be managed. Participants of a commodities exchange are not free from risk.

In futures contracts, inexperienced investors may face price risk as all futures prices respond to many factors. Such factors may include unexpected high inflation, general strikes, natural calamities, reports on economic forecasts, politics and even on rumors and many other internal and external matters. The factors that can influence commodities prices may occur any time. In

addition to the above Frank.Fabozzi and Franco Modigliani (1996) stated that the basic economic function of future markets is to provide an opportunity for market participants to hedge against the risk of adverse price movements. Future contracts products created by exchange to create a particular future contract; an exchange must obtain approval from the commodity future trading commission, government regulatory agency. Futures contracts more commonly used as financial instruments for hedging, speculation and arbitrage, which may result in the future delivery of commodities.

### **2.1.2.3. Forward Contract**

A forward contract is a legally binding agreement between two parties calling for the sale of an asset or product in the future at a price agreed upon today. The terms of the contract call for one party to deliver the goods to the other on a certain date in the future, called the settlement date. The other party pays the previously agreed-upon forward price and takes the goods. Forward contracts can be bought and sold. The buyer of a forward contract has the obligation to take delivery and pay for the goods; the seller has the obligation to make delivery and accept payment. The buyer of a forward contract benefits if prices increase because the buyer will have locked in a lower price. Similarly, the seller wins if prices fall because a higher selling price has been locked in. Note that one party to a forward contract can win only at the expense of the other, so a forward contract is a zero-sum game (Ross et al., 2002).

### **2.1.3 Functions and Possible Benefits of Commodity Exchange**

The purpose of a commodity exchange is to provide an organized marketplace in which members can freely buy and sell various commodities in which they have an interest. The exchange itself does not operate for profit. It merely provides the facilities and ground rules for its members to trade in commodity futures and spots and for non-members also to trade by dealing through a member broker and paying a brokerage commission (Lerner, 2000).

In addition commodity exchange reduces transaction costs by offering services at lower cost than that which participants in the commodity sectors would incur if they were acting outside an institutional framework. These can include – but are not limited to – the costs associated with finding a suitable buyer or seller, negotiating the terms and conditions of a contract, securing finance to fund the transaction, managing credit, cash and product transfers, and arbitrating

disputes between contractual counterparties. Therefore, by reducing the costs incurred by the parties to a potential transaction, a commodity exchange can stimulate trade. Moreover, properly functioning commodity exchanges can promote more efficient production, storage, marketing and agro-processing operations, and improved overall agriculture sector performance (Newman S, 2008). And Gideon O.E, 2003) describes commodity exchanges can be an important part of interventions to address the identified constraints because of the following economic benefits:

- A) Exchange trading generally saves time and cost of transacting as well as reduces risks faced by counterparties, who are assured of a fair deal (arising from competitive trading), guaranteed payment for what is sold and delivery of what is paid for.
- B) The system creates a means by which sellers and buyers are brought together to trade on the basis of reliable information on the quality, quantity and location of commodities to be traded. This reduces the cost of sourcing produce for traders and processors, while lowering the cost of accessing markets for farmers, especially for premium quality produce. It avoids the high-cost and time-intensive process of physical sampling of goods before purchase, which is predominant in the informal agricultural trade in the country. This is because the quality and quantity of the traded product is assured, thus making sight-unseen" trade possible, implying sellers can sell to buyers in a wider geographical area than their immediate location.
- C) Guarantee of delivery by the exchange, based on the guarantee by warehouse operators, reduces the risk of non-performance of trade contracts. Sellers are also assured of payment for the commodity sold, with systems being in place to minimize the risk of default by buyers, especially when the market moves against them. The greater security in trade transactions provided, leads to significantly lower cost (including time lost) associated with contract enforcement, especially where litigation is time consuming and expensive.
- D) Increased availability of inventory finance is also likely to boost non-traditional exports by reducing uncertainty regarding contract performance faced by importers. This will be through enabling exporters to stockpile using inventory finance, thereby assuring more regular supply and to guarantee delivery on schedule of commodities of known quality and quantity.

- E) Exchange trading improves collection and dissemination of market information to all players. Prices on the exchange, discovered through a transparent process, are widely disseminated. Brokers, who are expected to facilitate trade and provide market advice to their clients, receive and analyses price-sensitive market information, thereby assisting buyers and sellers in making trade decisions.
- F) The exchange represents a transparent and often reliable means by which lenders can liquidate collateralized commodities in the event of default by the borrower. Therefore it facilitates access to commodity finance.
- G) As the exchange matures from a spot market into offering various risk management instruments, including futures and options contracts, lenders will use such instruments to hedge price risks. By so doing, they will reduce credit risks, leading to lower cost of borrowing. The formal market in commodities will also attract investors intending to profit from price movements. Their involvement will bring added liquidity to the market to the benefit of all players.

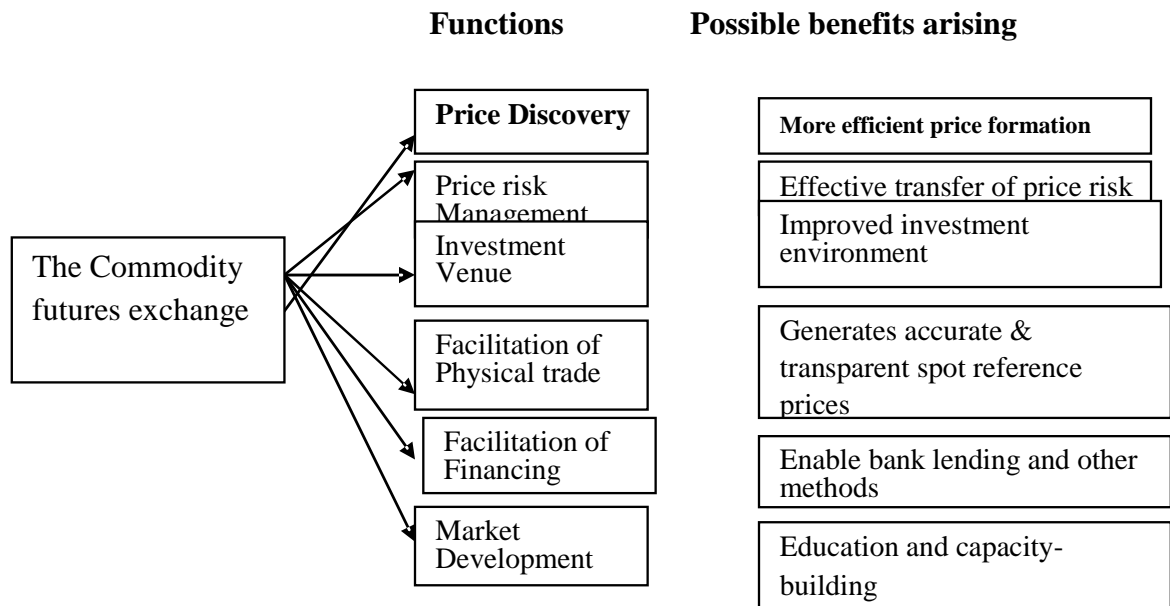


Figure -1- Exchange functions and benefits (source: UNCTAD, 2009)

### 2.1.4 History of Commodity Exchange

Exchange trading emerged in the 1840s, when Chicago became a commercial centre with railroad and telegraph lines connecting it with the East of the United States of America. Prior to that, grain traders in Japan had experimented with the idea in 1730. Chicago

attracted Midwest farmers hoping to sell their wheat for a good price. In 1848, a central place was opened where farmers and dealers could meet to deal in "spot" grain -that is, to exchange cash for immediate delivery of grains such as wheat. The Chicago Board of Trade (CBOT) was launched in 1864 and followed in 1877 by the London Metal Exchange. Though there were early initiatives in India and Argentina to promote commodity exchanges, it was only in the 1990s that the number located outside of the OECD countries grew very rapidly (Rashid et al. 2008).

A commodity exchange is an institutional response, at a basic level, to the fundamental problem of achieving self-coordinating market order in the trade of agricultural products, which by their nature, are risky. One of the world's largest and oldest commodity exchanges, the Chicago Board of Trade, was established in 1848 by 82 grain traders in what was then a small Midwestern town, in conditions not too different from that of Ethiopian agriculture today, in response to a bumper harvest when farmers who went to Chicago and could not find buyers had to dump their unsold cereal in Lake Michigan.

This strikes a hauntingly familiar chord for those who recall that Ethiopian farmers left grain to rot in the fields in 2002 as prices collapsed. The challenges that US markets faced 150 years ago were not much different from what they face today, or what Ethiopian markets face today: to coordinate the exchange of grains and livestock produced across dispersed locations and dispersed producers to major markets hundreds of miles away (Tafara, 2005).

A brief history of the development of the Chicago market reveals that, while responding to the initial problem of coordinating exchange in a low-cost manner, the market system itself evolved as the sophistication of the market increased and as economic growth progressed. In other words, the Chicago exchange did not start as the sophisticated market it is today. In the 1840s, as grain production increased in response to technological innovations in the American Midwest, farmers used to come to Chicago to sell their grain to traders, who would ship it all over the country. When farmers came to the market, they came without prior knowledge of market prices and the city had few storage facilities and no established procedures for weighing and grading the grain, leaving the farmer at the mercy of the trader. In 1848, the Chicago Board of Trade (CBOT) opened as a central place where farmers and traders could meet to exchange cash for immediate delivery of wheat, but

with certain established mechanisms by the Board for grading and weighing the wheat, for storing it if no trade occurred, for bidding on its price, and for resolving disputes that occurred. As both producers and buyers experienced the advantages of this system, it was a matter of a few years before farmers and traders evolved the practice of forward contracts in 1851. Thus, a farmer would agree with the trader on a price to deliver a certain quantity of grain at a future time. The deal was advantageous to both parties in that the farmer knew in advance his market price and the trader knew his costs. As these contracts common, they began to be used as collateral against bank loans and began to exchange hands before the physical delivery itself. Thus, a farmer might pass on his obligation to deliver to another farmer, with the price going up or down depending on what was happening in the market. As these “forward contracts” became common over a 15 year period, CBOT introduced in 1865 a standard contract known as a “futures contract” with a pre-specified delivery date and a margin requirement to act as a performance bond. This innovation reduced the risks and costs associated with negotiating forward contracts on an individual basis (stiglitz, J.E., 1974).

Alongside these developments, CBOT was chartered officially by the state in 1859 (a decade after first opening), and therefore mandated to set standards of quality, product uniformity, and undertake routine inspections of the grain traded in the exchange, in order to maintain the integrity of the market. It was not until 1922, some 74 years after the Chicago market first opened, that the government established the Grain Futures Administration, as a regulatory body to oversee the expanding grain market. It was not until 1967 that CBOT began the electronic display of market prices, reducing the price reporting time to seconds. What is salient from this quick historical overview is that the Chicago market was established and evolved to resolve the real problems of transaction costs and risks faced by farmers in the market and the need to coordinate the exchange of agricultural goods across actors, across space and time. It is also important to note that state regulation, increasing in scope as the market grew, followed the market rather than led it (UNCTAD Report, 2009).

Following the sweep of market liberalization across the globe, emerging exchanges are apidly growing in developing or transition countries to fill the gap left by marketing boards and fixed price systems. There are currently more than 100 of these exchanges across developing countries: 28 in Latin America (15 of them in Brazil), more than 20 in Asia, 3 in Africa, 4 in Eastern Europe, and several in Russia (UNDP Report, 2006).

### **2.1.5 Commodity Exchange Actors**

In modern commodity exchange system the number of exchange market actors who participate in the exchange is very limited as compared to the number of people who wish to trade in the exchange. This is due to the limited capacity of the trading floor to accommodate large number of traders on one hand and other limitations that involve market and marketing infrastructure and the degree of complexity of monitoring and regulatory requirements of the system on the other. Moreover, increasing the number of members that directly participate in the commodity exchange market would complicate the healthy function of the market system. In countries where commodity exchange market is available different producers, processors, wholesalers and retailers as well as consumers trade through intermediary members that are granted recognition from the commodity exchange authorities (Gebremedhin,2007). In the commodity system of Ethiopia, there are different types of membership of which the main are of two types trading and intermediary member .trading members are those members that can trade (buy and /or sell) only for themselves. Intermediary members on the other hand are members that can trade for themselves as well as on behalf of other market participants who have not got the chance to be members of the commodity exchange (ECX, 2008). Commodity exchange actors can be defined as any person recognized by the authority who engage in the business of buying and selling exchange trade contracts for others or for his own account. According to Gebremedhin (2007) there are three types of actors or participants in an Exchange. First, there are those interested in the physical commodity itself, such as producers, processors, or consumers. These actors either have a product they want to sell, or they wish to buy a product for a particular purpose. Typically, these actors are least willing to take risk and actively seek to reduce their risk to as little as possible so, if they can, they prefer to pass on their risk to someone else in the market.

Both brokers and dealers, as market intermediaries, play an important role in the market by offering options to trade. Through their actions, they ensure that prices do not vary much across markets. When prices diverge, dealers buy goods in cheaper markets and sell in more expensive markets, thus connecting sellers and buyers across these markets.

Second, there are those who are interested in arbitrage, which is taking advantage of the opportunity to buy at one price and sell at another to make a profit. These actors, such as dealers



and brokers, are interested in taking calculated risks involving the sale and purchase of commodities.

A third category of market participant involves those who are even less interested in the physical commodity, and even more willing to take risks based on their predictions or informed guesses about the direction of the market. These actors are speculators, who profit from information they have about future prices. Well-informed speculators can predict future prices better than other traders in the market. They provide the market with signals about the future based on their ability to judge market trends and are willing to take a risk on their judgment. Unlike the arbitrageurs in the second category, speculators only exist where there is uncertainty over time, leading to a given degree of price volatility in the market. Tse et al, (2001) a floor trader is an Exchange member or employee of a member, who executes trades by being personally present in the trading ring or pit. The floor trader has no place in electronic trading systems.

### **2.1.6 How Does an Exchange Work?**

Most exchanges, even when they have a virtual or electronic trading system, operate in a physical place, with an exchange “floor” on which trading occurs. The exchange floor is typically organized by commodity. A common misperception is that a commodity exchange determines or establishes the prices of traded commodities. This is incorrect. Prices are determined solely by supply and demand conditions. If there are more buyers than sellers, prices will be forced up. If there are more sellers than buyers, prices will be forced down. Thus, buy and sell orders, which are channeled to the exchange floor for execution, are what actually determine prices. The orders to buy or sell are done by public outcry, rather than by private negotiation, and the prices at which transactions are made are recorded and released publicly by the exchange as soon as possible, generating market transparency. In comparison to an auction where the emphasis is on selling, trading on a commodity exchange is like a continuous two-way auction, in which bids to buy are going on simultaneously with offers to sell. This is possible because the graded product needs no description with a standardized contract and because there is sufficient volume of both buy and sell orders. The exchange itself does not operate for profit, but merely provide an organized market place for buyers and sellers.

Clearly, the key to a successful exchange is to bring about the needed highest possible

concentration of buyers and sellers into a single market mechanism in an efficient, low- cost, and manner. To do so requires that the market operate with certain basic rules and with certain types of actors. These characteristics or operating modalities are precisely what distinguish what is known as a commodity exchange from a typical central wholesale or terminal market (Ethiopian Development Research Institute, 2005)

### **2.1.7 Commodity Exchanges and Regulation**

**Regulation:** Commodity exchanges typically institute and robustly enforce relevant procedures, rules, regulations and guidelines to regulate the conduct of members, brokers and transactors. They are often able to take disciplinary action against parties in the event of non-compliance with the rules and procedures. They also tend to establish formal systems for quick and low cost resolution of trade disputes (Gideon O.E, 2003).

Government has two important role to play - an oversight role by which the government disciplining those who try to manipulate the markets for their own benefit, and ensuring the sanctity of contracts; and secondly, an enabling role by which the government providing the necessary legal and regulatory framework for the smooth functioning of the system.

The regulatory intervention should be most active at the time of the establishment of the exchange and of contracts. If the contracts are well formulated, and delivery modalities provide effective line of defense against attempts at manipulation, government has to only act as a watchdog intervening only when necessary. The goal of regulatory agency is not only to regulate but also to inculcate the culture of self-regulation among the participants. This in turn, over a period of time, will give way for more self-regulation supported by the advisory role of state regulation (Sahadevan, 2002)

As it was stated in UNCTAD (2005) intermediaries play a role in the market on behalf of end users; the activities of these intermediaries need to be overseen to ensure that they fulfill obligations. When either of these thresholds is crossed, there is a requirement upon the exchange to act as a self-regulatory of activities taking place in its markets, and for Government to provide an overall framework for oversight.

### **2.1.8 Trading System of Commodity Exchanges**

A movement towards electronic trading has taken place in recent years. This has been driven by technological advances and by the advantages in speed, cost, transparency and functionality that such trade typically offers over the established “open outcry” form of trading, which brings traders together on a trading floor. And in addition Computer technology has the potential to increase the efficiency, transparency, and liquidity of the commodity markets by increasing the speed of transactions and lowering transaction costs. Electronic trading typically brings a number of other potential advantages. These include limiting informational asymmetries between trading interests, allowing potentially longer trading hours, and increasing access to markets regardless of one’s geographical location (Thomas, 2008).

It was also explained by Gbremedhin et al (2005) that trading on a commodity exchange is like a continuous two-way auction, in which offers to buy are going on simultaneously with offers to sell. This is possible because the graded product needs no description with a standardized contract and because there is sufficient volume of both buy and sell orders.

#### **2.1.8.1. Clearing and Settlement of Services**

A clearing and settlement system that assures payment to sellers as well as minimizes overexposure of counterparties is essential. Financial institutions which are members of the exchange usually offer clearing services. Reliable and timely dissemination of such market information as would ensure informed decisions by various parties, local and regional, who intend to trade. Informed decisions are critical to market efficiency (Gideon, 2003).

Clearing is the process of determination of obligations, after which the obligations are discharged by settlement. Settlement is a two-way process that involves legal transfer of the title to funds and securities/other assets on the settlement date. The clearing bank services are a highly time critical activity as delays directly impact the members/exchange. Banks can play an important role in settlement of obligations in the overall ecosystem including exchanges, members, clients, custodians, etc. This is highly transactional nature of the business. Dedicated infrastructure, trained manpower, and use of technology are the key parameters to doing this business (Sahadevan, 2002).

And the banking settlement system plays a crucial role in the overall risk management of the exchange mechanism, wherein daily settlement of trades/obligations, ability to manage fund flows in volatile days, coordination with exchanges and members, etc contribute towards effective functioning of the exchange mechanism. Apart from clearing services, banks also provide fund and non-fund based facilities to the members of the exchange for managing their working capital requirements and, thus, earn revenues through float funds, interest earned on overdrafts/loans, commission income, etc.

All members of an exchange are required to clear their trades through the clearing house at the end of each trading session, and to deposit with the clearing house a sum of money (based on clearinghouse margin requirements) sufficient to cover the member's debit balance (Lerner,2000).

#### **2.1.8.2. Price Determination**

Prices of commodity exchange are determined solely by the interaction of supply and demand conditions. If there are more buyers than sellers, prices will be forced up. If there are more sellers than buyers, prices will be forced down. Buy and sell orders, which originate from all sources and are channeled to the exchange trading floor for execution, are actually what determine prices. These orders to buy and sell are translated into actual purchases and sales on the exchange trading floor, and according to regulation this must be done by public outcry across the trading ring or pit and not by private negotiation.

The prices at which transactions are made are recorded and immediately released for distribution over a vast telecommunications network (Lerner, 2000). As cited in Chicago Mercantile Commodity Exchange trading futures contracts, it is essential that you know how to make a reasonable estimate of what will happen to prices in the future. Of course, no one can know for certain what prices will be, but it pays to have an educated opinion as to whether prices will rise or fall (www.cme.com.retrived 5<sup>th</sup> April 2011).

#### **2.1.8.3. Market Information System**

According to Gebremedhin and Goggin (20005) the core attribute of an exchange, is to enhances market transparency through generating and disseminating information. Through its own functioning, the exchange creates market information about the underlying supply and demand

conditions in the economy. Thus, contrary to popular perception, commodity exchange does not require an external market information system as a pre-requisite to its proper functioning.

A market information system is a service that involves the collection on a regular basis of information on prices and, in some cases, quantities of widely traded agricultural products from rural assembly markets, wholesale and retail markets, as appropriate, and dissemination of this information on a timely and regular basis through various media to farmers, traders, government officials, policy-makers and others including consumers.

Market information helps potential buyers and sellers to make market decisions and gives them the assurance that the market is transparent and can handle their market needs. Once the market is established, market information is disseminated by word of mouth, as market user's travel to and from the market to other locations. As the market evolves, market information is also often carried by newspapers that are distributed within the market's catchment area; today such information can also be disseminated by radio, TV, telephone links and via the web (Ibid).

#### **2.1.8.4. Warehouse and Quality Grading System**

Warehouse can be defined as a place in which goods or merchandise are stored; a storehouse. And the development of warehousing has positive knock-on effects up and down the supply chain. The warehouse receipt system (WRS) provides a platform for the introduction of other institutional innovations, notably grading, contracting and exchange trading. It facilitates public procurement as national and international agencies can simplify their activities by dealing in paper such as warehouse receipts, rather than trade directly in physical commodities. WRS is also a valuable instrument for financing agricultural commodity chains, especially in countries where the shortage of alternative forms of collateral constitutes one of the most important obstacles in access to finance. Warehouse receipts are issued by warehouse operators as evidence that specified commodities of stated quantity and quality have been deposited at particular locations by named depositors. The warehouse operator holds the stored commodity by way of safe custody; implying he is legally liable to make good any value lost through theft or damage by fire and other catastrophes but has no legal or beneficial interest in it (Gideon ,2010). The quality of warehouse and storage management skills tends to be highly variable in most developing countries. Improving professional skills in the warehousing industry is necessary if

storage losses are to be kept at a minimum. Similar training and capacity building is required to enable traders and processing companies to utilize the WRS in cost-effectively managing their inventories (ibid).

#### **2.1.8.5. Membership**

ECX works on the basis of membership seat that is a permanent and transferable right to trade on the exchange. Only members can trade on the exchange which means that non members use the services of a member to conduct trading. Members purchase permanent and freely transferable trading rights known as seats. By owning a seat, members become core stakeholders maintaining the integrity of the commodity exchange market place. They also bear the liability for all transactions that they conduct on ECX.

##### **Membership Conditions**

Any individual, company, public enterprise, or cooperative that meets the requirements for exchange actor and recognized from the Ethiopian Commodity Exchange Authority is eligible for ECX membership. Members are those who use the market regularly and frequently either as producers, intermediaries, or buyers. The memberships that ECX offers are classified in to two types: (i) *Trading Member (TM)* (ii) *Intermediary Member (IM)*

*Trading Members (TM)* - are those members who allowed buying or selling any commodity but only their own account.

*Intermediary Members (IM)* - are those members who allowed buying or selling any commodity either in their own account or on behalf of their clients. They are required to hold separate settlement accounts for client trading and is expected to maintain a system for reporting on payment to clients.

In order to be a member in Ethiopian commodity exchange one has to fulfill requirements. As to the financial requirements, members are required to pay annual membership fees and put refundable security deposit in ECX settlement guarantee fund for the duration of membership. These criteria vary depending on the type of member. The annual membership fees currently are 50,000 Birr for trading members, and 5,000 Birr for intermediate members. The expected refundable security deposit are 200,000 Birr for trading members, 300,000 Birr for intermediate members, In addition, a minimum net worth of 500,000 Birr for trading members and 1,000,000 Birr for intermediate members in order to ensure immediate payment of the contracts. The other

requirements are; recognition by the Ethiopian Commodity Exchange Authority as an exchange actor, evidence of commercial activities in exchange-traded commodities either on own account or on behalf of others, tax registration and maintenance of tax clearance according to Ethiopian law.

## **2.1.9 Overview of Commodity Exchanges in Ethiopia**

### **2.1.9.1. The Post-Reform Market Challenges**

Like many other countries in sub-Saharan Africa, the Ethiopian grain economy underwent a dramatic market reform in the early 1990s with the nearly complete liberalization of the grain market. Prior to these reforms, for sixteen years until 1990, the Dergue government tightly controlled trade, through cooperatives and its parastatal agency, the Agricultural Marketing Corporation (AMC), initially set up in 1976 with World Bank support for the purpose of purchasing grain and distributing it to consumers (Lirenso, 1993). In this period, policies included fixed pan-territorial grain prices, restricted private inter-regional grain movements, limited private sector participation, and a producer grain quota (Fisseha, 1994; Lirenso, 1987; Franzel, Colburn, and Degu, 1989).

Farmer quotas to the AMC amounted to 10 to 50 percent of the harvest at fixed AMC prices that were consistently below market prices, which had the effect of depressing rural incomes and production (Dercon, 1995).

In March 1990, a dramatic market reform lifted, overnight, all restrictions on private trade and eliminated official prices and quotas. Subsequently, in 1992, the Transitional Government continued reforms through eliminating wheat consumer subsidies and downsizing the AMC, through closing all eight zonal offices, reducing its branch offices from 27 to 11 and its grain purchase centers from 2013 to 80. It was renamed the Ethiopian Grain Trade Enterprise (EGTE) with a new mandate of stabilizing prices and maintaining buffer stocks. Unlike most post-reform African states where marketing boards continued to dominate trade, the EGTE plays a relatively minor role, with only a 2 to 5 percent share of the domestic market (Jayne, Negassa, and Myers, 1998). In 1999, further reforms involved merging EGTE with the Ethiopian Oil Seeds and Pulses Export Corporation (EOPEC) and re-establishing it as a public enterprise, no longer required to stabilize grain prices, with the major objective of

operating for commercial profitability by focusing on exportable grains (Bekele, 2002). Because market reforms resulted in the nearly total withdrawal of government intervention from the market, it was considered by an MSU study in 1998 that the reforms enacted in Ethiopia constituted a particularly important test of the hypothesis by the international community that the liberalization of markets would reduce costs and catalyze growth in production (Jayne, Negassa, and Myers, 1998).

What then were the impacts of these market reforms? Numerous studies have documented the effects of these policies (Dadi, Negassa, and Franzel, 1992; Lirensso, 1993; Dercon, 1995; Negassa and Jayne, 1997; Dessalegn, Jayne, and Shaffer, 1998; Gabre-Madhin, 2001, Gabre-Madhin et al, 2003). As predicted, these analyses revealed that liberalization did indeed result in a significant re-engagement of the private sector in grain trade, improved market integration, and the reduction of marketing margins. However, very importantly, these studies also pointed out the reforms did not have the envisaged impact on agricultural growth and poverty reduction. Why? First, despite the narrowing of price spreads or margins, market reforms did not reduce the volatility of grain prices and may have indeed exacerbated it. Linked to this, significant constraints to market performance remained which led to the persistence of “thin” markets, defined as markets in which there are few purchases and sales. Thus, because these market constraints limit the scale and Scope of market activity, they ultimately limit the potential of the market to catalyze Production, growth and boost rural incomes in the country.

What are these constraints to market performance? Major constraints can be identified as either linked to weak infrastructure or to missing institutions. In terms of infrastructure, major concerns are the weak access of smallholder farmers to roads, as well as limited telecommunications and storage infrastructure. These weaknesses contribute to the high cost of transport as well as of other physical marketing costs, such as storage, handling, etc. Thus, marketing costs amount to some 40 to 60 percent of the final price, of which some 70 percent is due to transport. However, beyond the infrastructural issues, studies also point to the significance of “transaction costs” which are equally or more constraining to trade. These costs, distinct from physical marketing costs, are costs related to conducting or coordinating market transactions between actors, such as the costs of searching for and screening a trading partner, the costs of obtaining information on prices, qualities and



quantities of goods, the costs of negotiating a contract, the costs of monitoring contract performance, and the costs of enforcing contracts. Because these costs are difficult to identify and to measure, they are often overlooked, yet they offer powerful explanations of the persistence of missing markets or of market failures.

In fact, these transaction costs also influence the extent of the physical, more observable, marketing costs. For example, handling costs in Ethiopian grain markets are roughly 25 percent of the margin, which is far above the norm in sophisticated markets. These costs are particularly high in Ethiopia because the lack of grade and standards and the problem of contract enforceability forces buyers of grain at every transfer of ownership in the chain to off-load the shipment and re-sack every bag of grain. Similarly, because there is little coordination in the transport sector and thus no information regarding whether trucks can load shipment on the return trip, or “backhaul,” this results in very high transport rates.

In the Ethiopian context, the presence of prohibitively high transaction costs, evidenced by the lack of sufficient market coordination between buyers and sellers, the lack of market information, the lack of trust among market actors, the lack of contract enforcement, and the lack of grades and standards, implies that buyers and sellers operate within narrow market channels, that is, only those channels for which they can obtain information and in which they have a few trusted trading partners. Extensive empirical analyses of Ethiopian market behavior thus reveals that market actors conduct business across short distances, with few partners, in few markets, and with limited storage, implying that opportunities for expanding market activity, otherwise known as arbitrage across space (transporting significant distances to market goods) and across time (storing for significant periods), are limited (Gebre-Madhin et al, 2003). This limited arbitrage in turn reduces the responsiveness of the market to changes in supply and demand. The weakness of the market was most starkly highlighted in the food crisis of 2002-2003, when a significant surplus of grain in 2002 led to the collapse of market prices, significantly compromising rural incomes and leading to disincentives to further technology adoption by farmers.

The persistence of these market constraints in Ethiopia points to the fact that market reforms alone, defined as the removal of policy distortions, are necessary but not sufficient to enhance market performance. This suggests that the new development

agenda, not only in Ethiopia but throughout post-reform Africa, is to move beyond market reform to market development. In addition to policy incentives, key interventions are required to develop appropriate market institutions and build needed infrastructure, defined together as the “3 I’s of market development” (Gabre-Madhin, 2005). In recognition of this, the Government of Ethiopia restructured the Ministry of Agriculture and Rural Development and established a state ministry on agricultural input and output markets in 2004. At present, both the government and its international partners are engaged in dialogue on a concerted set of interventions to enhance the performance of agricultural markets.

#### **2.1.10 Ethiopia Commodity Exchange (ECX)**

The Ethiopia Commodity Exchange (ECX) is the most recent Spot/Cash exchange in Africa, which was launched in 2007. It is owned by the Government of Ethiopia, which funded the initial capitalization of about US\$20 million, with some contribution by external partners. Government also underwrites all performance risks. However, ECX is run by a board representing farmer cooperatives, the state-owned grain trading enterprise and trading members. The trading platform involves the use of open outcry but an electronic trading system is being developed and is expected to be launched in the near future. Coffee is the main commodity traded by ECX but Maize, Wheat, Sesame and Beans are also listed for trading. The standard lot size is five (5) tones – tailored to current average load per small trucks in rural Ethiopia and to ensure broad participation, including small-scale market players. Clearing and settlement are handled by seven (7) partner settlement banks and the contracts are for immediate delivery of the physical commodities. The ECX owns and operates a network of 10 warehouses in the main production areas in Ethiopia as well as additional 20 remote terminal centers in major market centers. It also operates an electronic warehouse receipt (EWR) system controlled by the Exchange Central Depository. The EWR represents legal title and is transferable and negotiable on the exchange. It may be used for purposes of securing collateralized finance and may, upon request, be materialized into a paper receipt (UNCTAD report, 2008).

## **2.2. Empirical Literature**

Sarkar and Tozzi (1998), suggest that although open outcry systems were more effective to trade highly active contracts, electronic trading has the potential to enhance operational efficiency and reduce costs. In contrary to the above Tse and Zobotina (2001) found that electronic trading systems reduce spreads while open outcry systems have higher market quality due to smaller variance of pricing error and higher information content. Information content is measured by studying the bid-ask spreads in response to trades. In addition according Robin Thomas (2008) Electronic trading leads to reduced price movement, then it would lead to lower volatility and hence lower risk in the market.

Adebusuyi's (2004) finding reveals that communications and transportation infrastructure is critical to a functioning exchange and outstanding constraints, and challenges to the stabilization of commodity prices were identified to include the small scale nature of production and low level of further processing, poor performance of state and public institutions, poor infrastructure which made production uncompetitive and inadequate market information as well as poor access to productive assets. And as per his finding one of the major factors influencing the fluctuation of commodity prices is cyclical income fluctuations in the consuming countries.

Shahidur et al (2010) found that Countries with successful exchanges have far more developed communications and/or transportation infrastructure than countries with less successful exchanges and the researchers added that the real challenge in African commodity exchange is not the development of grades but the enforcement of contracts that use those goods.

Celeste Aida (2010) also found inadequate market information, a weak system to enforce contracts, lack of standards and grades and the inexistence of the necessary institutions that support proper market functioning are some of the constraints of coffee market in Ethiopia.

According to Shahidur et al (2010), erratic price behaviors that are inconsistent with transaction costs could undermine a commodity exchange by making risk unacceptably high. Prices can also vary significantly across space due to inadequate infrastructure or information asymmetry, both of which are important sources of market failures. The non-competitive situations resulting from market failures can make it difficult to identify how to structure contracts to be traded on an exchange.

According to Gideon (2010) quality of warehouse and storage management skills tends to be highly variable in most African countries. Improving professional skills in the warehousing industry is necessary if storage losses are to be kept at a minimum. Similar training and capacity building is required to enable traders and processing companies to utilize the WRS in cost-effectively managing their inventories.

According to the study made by Alemu et al (2010) limited availability of international market information in terms of prices and production levels, which is reflected in poor linkage / transmission of price trends with the national market, is expected to be another challenge considerably affecting the competitiveness of the Ethiopian sesame in the international market and this is expected to create disincentives for sesame exporters to engage in the sesame market through ECX.

And the researchers added that exporters in Ethiopia face several quality problems in terms of quality grading and sampling representation commodities and adulteration especially by mixing sesame seed of different origin and the Ethiopian Quality and Standard Authority (EQSA)s", quality grading and certification which has been reported to take a long time as well as prone to corruption.

In addition Celeste Aida (2010) found that Internet and telecommunications in the ECX are still quite deficient (sometimes non- existent) to disseminate information to the participants.

And as it is explained by Francesconi ( 2009) his study "Lack of capital, remoteness, poorly developed roads and telephone lines are only some of the barriers that keep farm households far away from markets, and therefore from the potential benefits of the ECX".

As the findings of Mukhebi (1998) Kenyan Agricultural Commodity Exchange faces several constraints that impede the KACE from the successful accomplishment are ;first, poor quality of produce that farmers deliver combined with the fact that most small-scale farmers find it difficult to deliver in bulk which is ideal for an exchange; and secondly, most of the commodities in Kenya are heavily regulated by boards and are grown and marketed in an environment of struggling cooperatives, which are inefficient, mismanaged and have cumbersome internal bureaucracies. And the other major factor identified in the study was intervention of Kenyan government, in grain markets distorts prices and discourages increased private sector participation in commodity markets.

In addition to the above Gabremedhin and Ian Goggin, (2005) before the establishment of the ECX found that the Ethiopian grain markets faced some constraints such as; lack of sufficient market coordination between buyers and sellers, the lack of market information, the lack of trust among market actors, the lack of contract enforcement, and the lack of grades and standards, implies that buyers and sellers operate within narrow market channels, that is, only those channels for which they can obtain information and in which they have a few trusted trading partners .and their concluding showed that establishing of a commodity exchange will eliminate constraints that the Ethiopian commodity market faced.

Tollens (2006) in his study cited that the absence of easily accessible market information for farmers or small traders leads to lack of market transparency, low bargaining power of the buyers and sellers, low and highly variable prices due to market inefficiency, coexistence of surplus and deficit areas due to weak spatial integration of markets, high risks, low produce quality and high losses, high transaction costs and insufficient production to satisfy consumer demand.

Another important finding made by Ian Goggin (2007) showed that no perceived need for market transparency in the market ,Lack of credit, Lack of understanding of the exchange concept ,New concept-particularly for small-scale operators, including farmers, resistance to change and non-performance on contracts are considered in the study as the main constraints for the successful accomplishment of commodity exchanges.

### **2.3. Conceptual frame work**

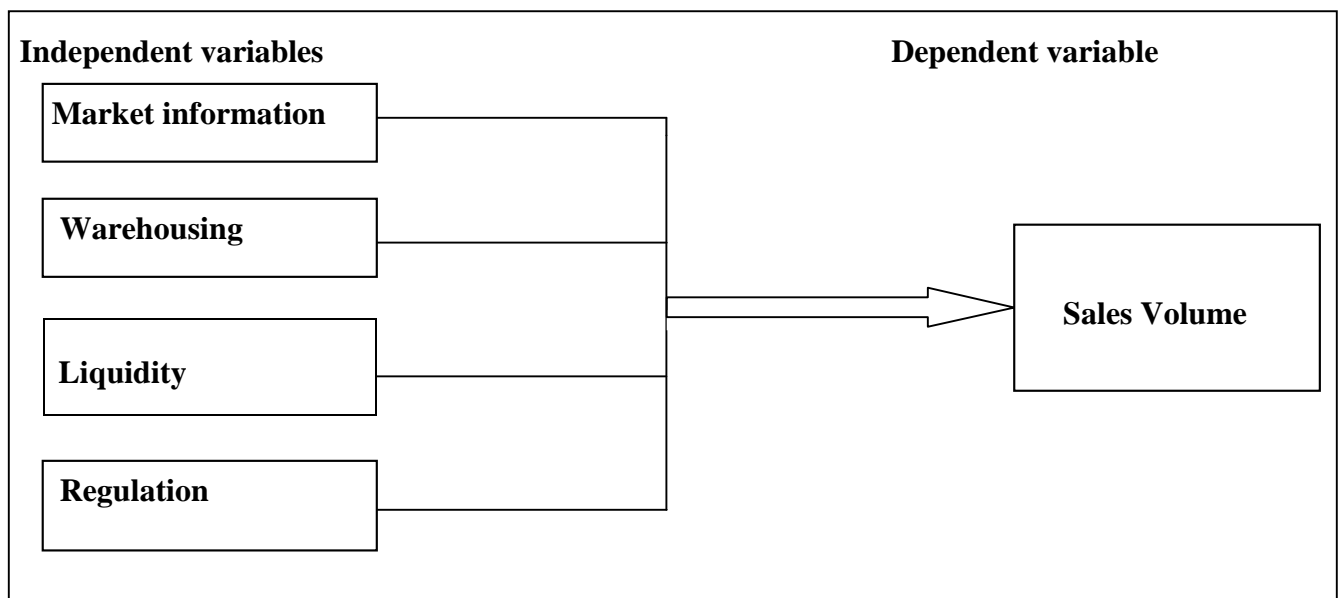
ECX Members are the core actors of the market. Membership is acquired through the purchase of a Membership Seat, provided other requirements are met. A Membership Seat is a permanent and transferable right to trade on the Exchange. Members are required to follow the rules of the Exchange and thus maintain the integrity of the ECX marketplace. Members are liable for the transactions they conduct through ECX.

According to Gebremedhin and Goggin (2005) the core attribute of an exchange, is to enhances market transparency through generating and disseminating information. Through its own functioning, the exchange creates market information about the underlying supply and demand conditions in the economy. Thus, contrary to popular perception, commodity exchange does not require an external market information system as a pre-requisite to its proper functioning.

According to Gebremedhin & Goggin (2005) transferable warehouse system is highly complementary to the functions of the exchange. The receipts system goes hand in hand with a commodity exchange in that: Grades and standards are essential to warehouse operations as well as to a commodity exchange with standardized contracts; price transparency is achieved because receipts indicate a specific grade, which generates price information that can also be used on the exchange; Risk is transferred by selling receipts on the exchange; and, Integrity and order: the legal enforcement of quality and of the transferability of the receipt is vital for both the warehouse receipts system and the functioning of the exchange.

Commodity exchanges typically institute and robustly enforce relevant procedures, rules, regulations and guidelines to regulate the conduct of members, brokers and transactors. They are often able to take disciplinary action against parties in the event of non-compliance with the rules and procedures. They also tend to establish formal systems for quick and low cost resolution of trade disputes (Gideon O.E, 2003).

The conceptual framework of the research looks like the following.



**Figure 2.2: Conceptual framework of the research**

**Source: Own Source (2016)**

## **CHAPTER THREE**

### **Research Methodology**

#### **3.1 Research Approach**

The study was used both quantitative and qualitative techniques. Quantative approach was used to analyze the findings and do statistical analysis to infer the findings. Qualitative approach to research is concerned with subjective assessment of marketing membership. Research in such a situation is a function of researcher's insights and impressions. Such an approach to research generates results either in non-quantitative form or in the form which are not subjected to rigorous quantitative analysis. Generally, quantative approach was used for questionners and the informant interview was analyzed using a qualitative approach. So the study was used mixed approach on factors that affect the contribution and challenges of marketing membership practice in Ethiopian Commodity Exchange.

#### **3.2 Research Type**

The study employed both descriptive and multiple linear regression techniques in order to describe and specify the existing marketing membership practice of ECX.

Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. In this case, describing the marketing membership practice. The main characteristic of this method is that the researcher has no control over the variables; he can only report what has happened or what is happening.

The multiple regression models allows us to effectively hold other factors fixed while examining the effects of a particular independent variable on the dependent variable.

#### **3.3 Source of Data**

The source of data for this study comprises of both primary and secondary sources. Primary data source were collected through employing questionnaire and key informant interviews in order to assess the contribution and to identify the main challenges of the Ethiopian commodity exchange

marketing membership participants. To support the collect primary data sources direct observation were also conducted. In addition to this, Secondary source of data were also used for the study inter alias include data from ECX, published and unpublished materials and electronic sources.

### **3.4. Data Collection Method**

Self-administered questionnaires was distributed to around 80 ECX members in order to find out the factors that affect the contribution and challenges of marketing membership practice towards ECX. Questionner was the main instrument of data collection. To increase the reliability of the study, interviews was also employed to support the result found out of the questionner. After all questionners result have been analyzed and computed, a focus group discussion was used to enhance and support the result found by the questionner.

### **3.5 Sampling Design**

Sampling design is the selection of a part of population or a material to represent the whole population. The objective of sampling is to make correct inference about the aggregate and is only justified if the selected part-the sample population is a true representative of the main population.

#### **3.5.1. Population of the Study**

The target population for the purpose of this study is marketing membership (trading Members and an intermediary members) of Ethiopian Commodity Exchange. And individual members of ECX were randomly taken from the sampled Ethiopian Commodity Exchange (ECX) members. Considering the manageability of data, budget, time and resources availability, the target population was only limited in Addis Ababa.

The Ethiopian commodity exchange participants include in the sample were those commodity actors such as buyers, sellers and exporters of coffee, sesame, haricot bean, maiz, and wheat which are the legal members of the Ethiopian commodity exchange. Furthermore, key informant interview was held with knowledgeable informants, who among others include warehouses operation officers, quality grading officers, member participants and others are the potential informants.



### 3.5.2. Sampling Technique

The researcher was used probability sampling techniques. Among the different probability sampling techniques, the researcher employed a two-stage stratified random sampling and simple random sampling technique using proportional size allocation, which in this case was the major unit of analysis. Stratified random sampling is a sample obtained by separating the population into non-over-lapping groups, called strata and then selecting a simple random sample from each stratum. Since the sampling frame consists of heterogeneous membership type categories (TM and IM) the appropriate sampling technique for the study were found to be stratified sampling technique.

### 3.5.3. Sampling Size

To determine the sample size the researcher preferred to use a method developed by Carvalho (1984), as cited in Malhorta Naresh, K. (2007) sample size determination.

Table 3.1 Sample size determination

Population Size	Sample size		
	Low	Medium	High
51-90	5	13	20
91-150	8	20	32
151-280	13	32	50
281-500	20	50	80
501-1200	32	80	125
1201-3200	50	125	200
3021-10,000	80	200	315
1001-35000	125	315	500
3501-150000	200	500	800

(Source: Malhorta Naresh, Marketing Research: an applied approach, 2007)

From the total study population of 347 ECX member participants, (27 trading members (TM) and 320 intermediary members (IM)), engaged in buying, selling and exporting of commodities in Addis Ababa city, 80 sample respondents were taken according to Malhorta Naresh, K. (2007) sample size determination.

### 3.5.4. Data Collection Procedure

Secondary data is analyzed first to form research frame work. This secondary data were analyzed in the form of literature review. The secondary data was lead the direction of the study and

initiate the base for the analysis. From the secondary data collection in the form of literature review, theoretical frame work and working model were produced. From the working model and theoretical frame work, questioners were developed. After testing the questionners and correcting errors in developing, the questionners were distributed randomly to 80 respondents. After giving reasonable time for the respondents, questionners were collected and analyzed using SPSS. The results was obtained and the final result was submitted and presented.

### **3.6. Data Analysis Method**

The Data collected through the aforementioned research tools were organized in a way suitable for analysis using computer software. A descriptive method of data analysis was employed using Statistical Package for Social Sciences (SPSS). To this end version 20 SPSS software was used to analyze the data collected through different instruments and t-test was also used to test whether the dependent variables have differences on the constraining variable. Besides multiple linear regression was used to sort out the relative strength of explanatory variables which are expected to influence the decision and status of participants" membership category (trading and intermediary membership categories).

#### **3.6.1. Multiple Linear Regression Model Specification**

An econometric model is one consisting of a set of behavioral equation derived from the economic theory each of which involves some observed variables and some disturbance – a statement of whether there are errors of observation in the observed variables and a specification of the probability distribution of the disturbance. Multiple linear regression models is amongst the most popular categories of econometric techniques that allows us to effectively hold other factors fixed while examining the effects of a particular independent variable on the dependent variable. It explicitly allows the independent variables to be correlated. Although the model is linear in its *parameters*, it can be used to model nonlinear relationships by appropriately choosing the dependent and independent variables. Multiple Linear Regression (MLR) analysis is more amenable to the ceteris paribus assumption b/se it allows us to explicitly control for many other factors which simultaneously affect the dependent variable. It increases the explanatory power of the model. The residual,  $\hat{u}$ , is an estimate of the error term,  $u$ , and is the difference between the fitted line (sample regression function) and the sample point.

The model can be specified as follows:

$$\text{Annual sales volume } (V) = \beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \beta_3 x_{3i} + \dots + \beta_k x_{ki} + u_i \quad \text{Where } k=1, 2, \dots, N \dots \dots \dots (1)$$

Where  $V$  is annual sales volume,  $\beta_0$  is the intercept,  $\beta_1$  is the parameter associated with  $\beta_1 x_1$ ,  $\beta_2$  is the parameter associated with  $\beta_2 x_2$ ,  $\beta_3$  is the parameter associated with  $\beta_3 x_3$ ,  $u_i$  is error term and so on. Since, there are  $k$  independent variables and an intercept.

$\beta_i \equiv$  effect (on the mean response) of increasing the  $i^{\text{th}}$  predictor variable by 1 unit, holding all other predictors constant, partial regression coefficients or  $\beta_1$ : measures the *change* in the mean value of  $Y$ ,  $E(Y)$ , per unit change in  $X_1$ , holding the value of  $X_2$  and  $X_3, \dots, X_k$  constant.

$\beta_1, \beta_2$  and  $\beta_3$ : partial regression or partial slope coefficients

$R^2$  is the proportion of the sample variation in the dependent variable explained by the independent variables, and it serves as a goodness-of-fit measure.

The coefficient of determination  $R^2$  (multiple regression) measures that tells how well the sample regression line fits the data. The most common goodness of fit statistic is known as  $R^2$ . One way to define  $R^2$  is to say that it is the square of the correlation coefficient between  $y$  and  $\hat{y}$ .

$$R^2 = \text{SSE/SST} = \text{TSS-RSS/TSS} = 1 - \text{SSR/SST} \dots \dots \dots (2)$$

In order to get around these problems, a modification is often made which takes into account the loss of degrees of freedom associated with adding extra variables. This is known as  $\bar{R}^2$ , or adjusted  $R^2$ :

$$\bar{R}^2 = 1 - \left[ \frac{n-1}{n-k} (1 - R^2) \right] \dots \dots \dots (3)$$

### 3.7 Validity and Reliability

#### 3.7.1. Validity

The purpose of research is to provide valid conclusions regarding a wide range of researchable phenomena. *Validity* refers to the conceptual and scientific soundness of a research study or investigation, and the primary purpose of this study is to produce valid conclusions. To produce valid, or meaningful and accurate, conclusions researchers must strive to eliminate or minimize the effects of extraneous influences, variables, and explanations that might detract from the accuracy of a study's ultimate findings. Put simply, validity is related to research methodology because its primary purpose is to increase the accuracy and usefulness of findings by eliminating

or controlling as many confounding variables as possible, which allows for greater confidence in the findings of any given study. The researcher's advisor has checked the validity of questionnaires. This study also addresses content validity through the review of literature.

### **3.7.2. Reliability**

When talking about measurement in the context of research, there is an important distinction between being accurate and being reliable. *Accuracy* refers to whether the measurement is correct, where as *reliability* refers to whether the measurement is consistent. In the context of measurement, both accuracy and reliability are equally important.

*Reliability* refers to the consistency or dependability of a measurement technique, and it is concerned with the consistency or stability of the score obtained from a measure or assessment over time and across settings or conditions. Reliability is defined as the proportion of the variability in the responses to the survey that is the result of differences in the respondents. That is, answers to a reliable survey will differ because respondents have different opinions, not because the survey is confusing or has multiple interpretations. To check the reliability of variables used in the study, the researcher employed reliability analysis on SPSS version 20. Adequate reliability exists when the correlation coefficient is .80 or higher so that this study was reliable based on the measurement of questionnaires.

### **3.8. Ethical Consideration**

The study considered some ethical issues. The respondent has the right to respond or not, the respondent has the right to participate or not, the study were inform respondents the purpose of the questioner and the study considers the confidentiality of the response by not asking to state name. While conducting the study, emerging ethical issues should be considered and will be given attention.

To increase the ethical standard of the questioners and the right of the respondents, the following statements would be included on the questioners;

- ✓ Introduction, rationale for study and specific aim(s)
- ✓ Outcomes to be measured
- ✓ Considerations of statistical power in relation to enrollment
- ✓ Study procedures for protecting against or minimizing potential risks.

## CHAPTER FOUR

### Results And Discussion

The study employed both quantitative and qualitative research tool in order to produce a richer and more factual report. To describe the contribution and identify challenges of the marketing membership practice in the Ethiopian commodity exchange, the study employed a survey questionnaire. To this end, a total of 80 questionnaires were distributed to ECX members and out of which 68 were returned.

#### 4.1 Description of the Study Population

As depicted below in table 1, about 77.9% of the respondents were male and only 22.1% were females. This shows that the major participants in the Ethiopian commodity exchange was dominated by male participants.

With regard to the age category of the respondents in table 1 below, 50% of the respondent's age was found to be within the range of 31-59 age groups, which is believed to be highly committed age group, while the rest of the participants 48.5% and 1.5% were found to be 18-30 and 60 and above age groups respectively.

With respect to the educational level of respondents, Table 1 below shows that most of respondents were at degree level with 66.3%, 19.1% were at diploma level. The remaining 8.8%, 2.9% were at post graduate, secondary and others educational level.

Besides the result of the survey portrayed below revealed, as the level of the participant's educational status increases, the level of accessing market information through internet and SMS was also found increasing.

Concerning respondents' occupation, as table 1 below shows, majority ( 69.1% respondents) were found to be private sector employees, while the remaining 30.9% responded as they were merchants on the space provided to fill their occupation.

A t-test analysis for equality of means between trading and intermediary members of ECX for the aforementioned socio-demographic variables, have shown a significant difference with regard to gender, age and occupation. Unlike the aforementioned variables, the two variables under consideration, trading and intermediary member participants, educational status were insignificant.

**Table 1: Socio-Demographic Characteristics of ECX Participants**

	Response	No of respondents	Percentage	t-test for Equality of Means between trading and intermediary participants Sig. (P-value)
Gender	Male	53	77.9	.000***
	Female	15	22.1	
	Total	68	100.0	
Age	18-30 years	33	48.5	.000***
	31-59 years	34	50	
	60 and above years	1	1.5	
	Total	68	100.0	
Educational status	Secondary	2	2.9	.840***
	Diploma	13	19.1	
	Degree	45	66.3	
	Post-graduate	6	8.8	
	Others	2	2.9	
	Total	68	100.0	
Occupation	Private	47	69.1	.000***
	Merchant	21	30.9	
	Others	0	0.0	
	Total	68	100.0	

Trend of ECX membership participation

.000\*\*\*

\*\*\* Significant at 1%,

\*\* Significant at 5%

\*Significant at 10%

*Source: Own Survey (2016)*

## 4.2 Trends and Membership Categories of ECX Participants

As results of the study indicate, about 11.8% of the respondents were replied as they were started participating in the Ethiopian commodity exchange since its establishment in 2008. Where as, 13.2 % of the respondents joined the commodity exchange after 1 year of its establishment (2009).

The majority (29.4 %) of the respondents joined the Ethiopian commodity exchange after 4 years of its establishment (2012). The remaining 17.6%, 8.8%,7.4% and 4.4% of the respondents were replied as they were started in ,2011,2010, 2013& 2015 and 2014 respectively.

As the figure depicted below reveals the trend of ECX membership participation was found to be inconsistent, more specifically in 2010,2013 & 2015, and 2014 the figure indicated upward and downward trend. Results of the t-test analysis also verify the existence of a significant difference between trading member participant and intermediary membership participant at1% level of significance with regard to the variable under consideration. And as results of respondents interviewee verifies, the trend is highly associated with the mis-conception related to unbalanced demand and supply, bias, corruption and limited promotion of ECX and well organized system that can attract the participant to the exchange system.

**ECX Par.**

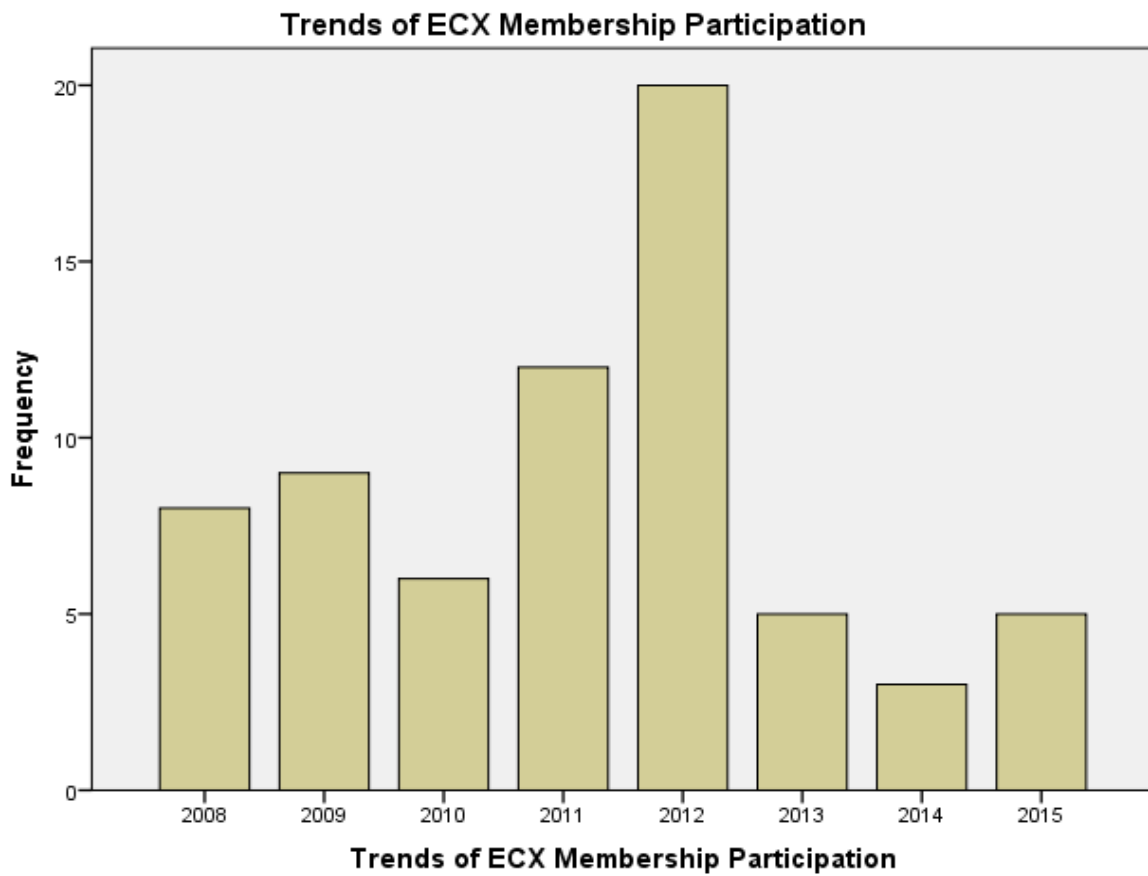


Figure 2: Trends of ECX Membership Participation

## 4.3 Trading Practice and Challenges of the Ethiopian Commodity Exchange

### 4.3.1. Trading Practice

As results of on spot observation and document analysis revealed, the ECX was applying open outcry trading system. Although electronic trading is practically preferred and employed all over the world as a means of facilitating the exchange system, the system is not yet considered here in ECX as a means due to poor ICT infrastructure and awareness problem of the ECX participants. According to results of key informant interviewees, price movement, ICT related problems, lower speed of transactions were found to be the major problems associated with the open outcry trading system. Consistent with this, findings of Thomas (2008) revealed that electronic trading leads to reduced price movement, lower volatility, lower risk in the market and higher liquidity by increasing the speed of transactions and lowering transaction costs.

**Table 2: Trading practice**

Characteristics	Response	No of respondents	Percentage
Membership seat fee	Expensive	48	70.6
	Cheap	1	1.5
	Fair	19	27.9
	Total	68	100.0
Membership requirement	Encouraging	28	41.2
	Discouraging	40	58.8
	Total	68	100.0
Transaction costs	Increased transaction cost	41	60.3
	Reduced transaction cost	22	32.4
	No difference with the traditional trading system	5	7.4
	Total	68	100.0
Factors that affect participating membership in ECX	Limited membership seat	22	32.4
	Shortage of capital	38	55.9
	Technology	8	11.7
	Total	68	100.0
Types of exchange trading contract currently used	Organized spot trading	33	48.5
	Future contract trading	24	35.3
	Electronics	11	16.2
	Total	68	100.0

*Source: Own Survey (2016)*



As the results of the study in table 2, revealed 48.5% of the respondents replied as organized spot contract type of exchange system currently used while the remaining 35.3% and 16.2% of respondents replied as future contract trading and electronics types of exchange system were used respectively.

Concerning the membership requirement in table 2, above about 58.8% of the respondents were discouraged by ECX membership requirement while 42.2% of the respondents replied as it were encouraged by ECX membership requirement.

As results of the study indicate, above 55.9% of the respondents were replied as the major factors that affect in participating membership of ECX was shortage of capital while the remaining 32.4% and 11.7% of respondents replied as the major factors that affect in participating membership of ECX were limited membership seat and lack of technology respectively.

Although ample literatures confirmed the immense role of commodity exchange in reducing transaction cost, results of this study revealed the otherwise. According to the findings of this study, about 60.3% of the respondents replied as participating in the Ethiopian commodity exchange increased the transaction costs than the traditional trading system. Costs for warehousing, quality grading, transportation services, insufficient infrastructure, unbalanced demand and supply, exchange rate, market fluctuation, intermediary among others were mentioned as the probable reason for high transaction cost. Unlike the aforementioned result, 32.4% of the respondents who participate in ECX were verified that as participating in ECX reduced their transaction cost while insignificant number of respondents (7.4%) replied as transaction cost in ECX and the traditional trading system were the same. In contrary to the findings of this study, findings of Gebremedhin, et al (2005) verified that commodity exchange plays a pivotal role in reducing transaction costs by offering services at lower cost than that which participants in the commodity sectors would incur if they were acting outside an institutional framework.

With regard to the contractual agreement, on spot observation and document analysis result revealed that Ethiopian commodity exchange were practically employing spot contract agreement system. As results of key informant interviewee revealed this trading agreement system was not such encouraging and promising due to problems associated with price fluctuation. As results of

the finding portrayed above in table 2 verifies, about 70.6% of the respondents replied that the ECX membership seat fee is expensive while 27.9% and 1.5% revealed the membership seat fee is fair or easy to afford and cheap respectively . According to information obtained from key informant interview verified the membership seat fee was decided by the members bid agreement not by the ECX.

#### **4.3.2. Market Information System Related Analysis**

As depicted in table 3, below about 44.1% of the respondents confirmed that the available information communication technology of the Ethiopian commodity exchange facilities were satisfactory. In contrary to this a relatively higher percent of the respondents (55.9 %) of the survey result shows that the information communication technology of the Ethiopian commodity exchange was not providing satisfactory service. Consistent with this, key informant interviewee also confirmed the limited and unsatisfactory service of ECX with regard to the point of discussion. Although much has been left to be done in this regard, a positive momentum has been seen in the use ICT in the exchange system. Consistent with these findings of the study by Tollens (2006) revealed that with full application and development of ICT, the commodity exchange market information system will have lower transaction costs and improve market efficiency, and there by enhance small holder farmer access to markets and lower market risks.

Despite this, the vast majority of the respondents confirmed as they are getting market related information from the ECX. According to these respondents the Ethiopian commodity exchange disseminates prevailing market prices, commodity volumes and market conditions and also price trend data through the use of different market information communication systems. In terms of access to market information, survey results of the study revealed that a considerable percent of the respondents (55.9% and 26.5%) revealed as their sources of market information were SMS and internet data base system respectively. While only 14.7 % and 2.9% of the study participants replied as they are using newspaper and mass media respectively. This was also confirmed by key informant interviewee. As results of the key informant interviewee verifies the Ethiopian commodity exchange disseminates market related information to participants through magazines, news papers and mass media.

Consistent with these findings of Shahidur et al (2010) found out that Communications and

transportation infrastructure is critical to a functioning exchange. In line with key informant interviewee also argue that presence of a reliable and functioning system for transportation and distribution, that facilitate a credible delivery system, is a pre requisite for successful commodity exchange system establishment.

As results of the finding depicted in table 3 verified, below 77.9% of the respondents who use SMS and internet were found not satisfied with the network of ECX. In contrary to this 22.1% of the survey participants were satisfied with network of the SMS and internet of the ECX.

Consistent with this finding of a study conducted by Celeste Aida Molina Fernandez (2010) revealed that internet and telecommunication services in the ECX are still poor and quite deficient (sometimes non- existent) to disseminate information to the participants. As the results of the study in table 3, revealed 23.5% of the respondents replied that the actual price at the time of sale and buy were similar with the information they have in the local and foreign markets.

In contrary to this a considerable percent of respondents (76.5%) verified that the actual price at the time of sale and buy were not similar with the information they have in the local and foreign markets.

According to information obtained from respondents and key informant interviewee price fluctuations, lack of market information, transportation cost, labor cost, warehousing cost, tender (bidding), unfair competition, contraband, exchange rate fluctuation, market instability were mentioned as the probable reason for the aforementioned difference.

**Table 3: Market information System dissemination of ECX**

	<b>Response</b>	<b>No. of respondents</b>	<b>Percentage</b>
Source of information	SMS	18	26.5
	Internet	38	55.9
	Mass Media	10	14.7
	News Paper	2	2.9
	Total	68	100.0
Satisfied with ICT network condition for internet and SMS users	Yes	15	22.1
	No	53	77.9
	Total	68	100.0
ICT facility of ECX	Yes	30	44.1
	No	38	55.9
	Total	68	100.0
Time lines of market information	Yes	44	64.5
	No	24	35.5
	Total	68	100.0
Accessibility of market information	Yes	65	95.6
	No	3	4.4
	Total	68	100.0
Accuracy of markets information	Yes	51	75
	No	17	25
	Total	68	100.0
Actual price at the time of sale or buy usually the same as compared to the local market	Yes	16	23.5
	No	52	76.5
	Total	68	100.0

**Source: Own Survey (2016)**

#### **4.3.3. Warehousing and Quality Grading Related Analysis**

According to the key informant interview and secondary data analysis result, Ethiopian commodity exchange has 35 privately and 16 government owned warehouses in 16 different parts of the country. As results of the aforementioned source confirmed these warehouses are not adequate enough to accommodate all the requests of participant's commodities. In line with this, survey results of the study verify that about 57.4% of the respondents responded as ECX did not have adequate storage service which accommodates request of the participant's commodities. Whereas, 42.6% of the respondents revealed that the Ethiopian commodity exchange have adequate warehouse to accommodate commodities in case of request from the participants.

Likewise findings of this study depicted below in table 4, indicated that a relatively higher percent of the respondents (60.3%) responded as the Ethiopian commodity exchange recording

and management system of the warehouse was not as such satisfactory while 39.7% of the respondents were found satisfied with the recording and management system. As findings by Gideon O.E. (2010) indicated a professional skill in the warehousing is necessary if storage losses are to be kept at a minimum.

Concerning the warehouses storage costs, about 63.2% of the respondent replied as it were fair and affordable while 36.8% of the respondents replied as it were not fair and affordable. Likewise findings portrayed in table 4 revealed that about 26.5% and 8.8% of the respondents replied as the penalty cost for the delay made to withdraw the commodity on time from the warehouse was fair/ affordable and low respectively. In contrary to the above findings majority (64.7%) of the respondents revealed that the penalty cost for the delay made to withdraw the commodity on time from the warehouses was very much higher. consistent with this, key informant interviewee was also said that the penalty cost for not withdrawal on time from the warehouses was 2% of the price of the commodity (2% of the price of 1 quintal) and added that because they were transacting in millions of birr 2% of penalty was much higher.

**Table 4: warehouse and quality grading System ECX**

Characteristics	Response	No. of respondents	Percentage	t-test for Equality of Means between trading and intermediary participants Sig. (P-value)
Adequacy warehouse	Adequate	29	42.6	.000***
	Not adequate	39	57.4	
	Total	68	100.0	
Do warehouse storage cost fair and affordable?	Yes	43	63.2	.000***
	No	25	36.8	
	Total	68	100.0	
Penalty cost for the delay made to withdraw	Low	6	8.8	.000***
	Fair	18	26.5	
	High	44	64.7	
	Total	68	100.0	
Recording and management system of the warehouse	Yes	27	39.7	.000***
	No	41	60.3	
	Total	68	100.0	
Do the warehouse is secured for risky?	Yes	43	63.2	.000***
	No	25	36.8	
	Total	68	100.00	
Time given to store and transfer commodity is adequate enough	Yes	25	36.8	.000***
	No	43	63.2	
	Total	68	100.0	
Quality of the service of the warehouse satisfactory	Yes	17	25	.000***
	No	51	75	
	Total	68	100.0	
Satisfied with the grading and sampling system	Yes	33	48.5	.000***
	No	35	51.5	
	Total	68	100.0	
Is the warehouse equipped with grading laboratory?	Yes	13	19.1	.000***
	No	55	80.9	
	Total	68	100.0	
Does the warehouse operate with quality control specialist?	Yes	59	86.8	.000***
	No	8	13.2	
	Total	68	100.0	

Source: Own Survey (2016)

The table 4, above indicated that 36.8% of the study participants replied the time given to store

and transfer commodities were adequate enough. In contrary to the aforementioned result, 63.2% of the respondents revealed that the time given to store and transfer the commodities are not adequate enough. This, according to key informant interviewee, is highly associated with the absence of the warehouse in the vicinity. According to the information obtained from this source, the Ethiopian commodity exchange warehouses were found out of Addis Ababa and the infrastructure development /transportation was not much developed. As depicted in the above table 4, of study, a relatively higher percent of the respondents (63.2%) believed the security of the warehouse in case of risky casualties like theft and fire were secured. According to the key informant interview the exchanges were insured by the insurance companies, if anything happens to the stored commodities. According to this source the exchange will take the risk for stored commodities, not the participants. But 36.8 % of the respondents were not secured enough in the warehouse for risky casualties like theft and fire According to Gideon E. Onumah (2010) finding shows network of secure, well-run warehouses which are accessible to various depositors is essential prerequisite for a successful accomplishment of commodity exchange.

As the finding of the research found the relatively higher percentage of the respondents (86.8%) revealed the Ethiopian commodity exchange warehouses were equipped with quality control specialist. On the other hand a considerable percent of the respondents (13.2%) replied as the exchange lacks well equipped quality control specialists. In line with this, key informant interview also confirmed that the ECX warehouses have well equipped quality control specialist.

Even if the ECX have grading laboratories, about 80.9% of the respondents as depicted above indicated that the members were not satisfied with the grading and sampling of commodities conducted in the warehouses while 19.1% of the respondents replied as there were satisfied with the grading and sampling of commodities conducted in the warehouses. Corruption, lack of knowledge in sampling and grading, bias, lack of accurate measuring equipment were the probable reasons for the unsatisfied participants by ECX equipped grading laboratory. A t-test analysis for equality of means between trading and intermediary members of ECX for the aforementioned warehouse and quality grading variables, have shown a significant difference with regard to adequacy of warehouses, storage cost, penalty cost for the delay to withdraw, recording and management system, security, time given to store and transfer

commodities, quality of service, grading & sampling, laboratory system and warehouse quality control specialist.

#### 4.3.4. Liquidity Related Analysis

**Table 5: Liquidity characteristics of ECX**

Characteristics	Response	No. of respondents	Percentage
Sources of credit	Government	5	7.4
	Micro finance institution	7	10.3
	Families	11	16.2
	Banks	45	66.2
	Total	68	100.0
Interest rate	Low	3	4.4
	Fair	40	58.8
	High	14	20.6
	No Interest	11	16.2
	Total	68	100.0
Credit availability	Easily available	14	20.6
	Not available	54	79.4
	Total	68	100.0
Availability of in store credit	Yes	23	33.8
	No	45	66.2
	Total	68	100.0
Matching up of each buy and sell transaction	Yes	55	80.9
	No	13	19.1
	Total	68	100.0
Ability to manage funds flows volatile days	Yes	38	55.9
	No	30	44.1
	Total	68	100.0
Coordination of exchanges and members	Yes	50	73.5
	No	18	26.5
	Total	68	100.0
Availability of Adequately equipped ECX clearing and settlement system	Yes	56	82.4
	No	12	17.6
	Total	68	100.0
Infrastructure, technology and trained manpower of the ECX banking settlement	Yes	58	85.3
	No	10	14.7
	Total	68	100.0

**Source: Own Survey (2016)**

As result of the study verified in table 5, about 79.4% of the respondents replied that credit was not easily available and the requirements to take credit were difficult to apply and time consuming to the participants. Where as 20.6% of the respondents replied that credits were easily



available if needed by the participants. Inconsistent with this majority (66.2%) of the respondents confirmed their sources of credit were banks, while the remaining 16.2%, 10.3%, and 7.3% of the respondents sources of credit were families, micro finance institution and government respectively and the interest rate that the participants paid for the aforementioned financial institution was fair and affordable.

The result of the study revealed 66.2% of the respondents replied that the Ethiopian commodity exchange did not provide fully articulated and managed warehouse receipt system or in store credit for the participants. Besides, key informant's interview verified that the exchange did not fully applied WRS. In contrary to this 38.8% of the respondents verified the exchange was provided in store credits.

As the above table 5, shows about 82.4% of the respondents revealed the Ethiopian commodity exchange clearing and settlement system was well equipped in providing effective and efficient services for the participants in assuring payment to the seller, matching up each buy and sell transaction, and integrating the market place of the exchange. In line with this, key informant interview verified that ECX is well equipped and adequate enough to provide the clearing and settlement service.

In connection with the above findings 55.9% show that the ECX banking settlement provided responsible service for the members in order to manage their fund flows in volatile days and 73.5% of the respondents revealed that the banking system of the exchange was good in coordinating members and the exchange for the effective transaction and in providing service for the participants to manage their working capital. In addition to this the results portrayed in the above table 5, indicated that about 85.3% of the respondents were satisfied with the infrastructure, technology and trained manpower of the ECX banking settlement where as the remaining 14.7% of the respondents are not satisfied by the infrastructure, technology and trained manpower of the ECX banking settlement . Consistent with this, key informant interview also confirmed as the ECX were working with different banks which provided a liquidity (banking settlements) and day to day transaction service for the members.

**Table 6: The Distribution of Membership Categories of ECX Participants**

	Response	Frequency	Percentage
Membership Category	Trading member	18	26.5
	Intermediary member	50	73.5
	Total	68	100.0
Best ( desired) Membership category	Trading member	29	42.6
	Intermediary member	39	57.4
	Total	68	100.0

*Source: Own Survey (2016)*

With regard to membership category in table 6 above, majority (higher) percent of the respondents 73.5% replied as intermediary members. While the remaining 26.5% of the respondents were trading member categories. A perusal of the analysis with regard to best membership category, a considerable percent of respondents (57.4%) indicated intermediary membership as the best compared with others.

The opportunity associated with the membership including buying and selling all types of commodities for their own account or on behalf of other clients and gaining sufficient profit or commission was the reason for the participant to designate it as best membership category. On the other hand, about 42.6% of the respondents replied that their best membership category is trading membership as this membership gives them the advantage to buy or sell any types of commodities only for their own account (themselves).

#### **4.3.5. Analysis of Market Regulation**

As results of regulation related analysis of the study depicted in table 7, verified about 75% of the respondents confirmed the sole control of dishonest and irresponsible practice in the exchange process by the ECX authority. In contrary to the aforementioned result, 25% of the respondents replied that the authority did not control the irresponsible and dishonest act of the exchange. In addition, according to the results of the study 83.8% of the respondents verified that dishonest or irresponsible practice by counterparties, intermediaries or banks effectively controlled by the exchange authority and the remaining 16.2% were not satisfied with the controlling of dishonest and irresponsible practice by the counter parties, intermediaries or banks. This also confirmed by key informant interview. According to information obtained from key informant interview, all the illegal acts of the participants and the exchange are controlled or supervised by the ECX authority. As results of the analysis revealed 58.8% of the respondents were confident enough in the Ethiopian commodity exchange in enforcing contracts that were made among the participants while only 41.2% were portrayed the ECX did not enforce contracts that were made by the participants in the exchange. In contrary to findings of this study, findings of Shahidur etal (2010) verifies that the real challenge in African commodity exchange is not the development of grades but the enforcement of contracts that use those goods.

Concerning the arbitration mechanism of ECX, about 66.2% of the respondents were satisfied with the Arbitration mechanism for dispute settlement of the Ethiopian commodity exchange. In the other side 33.8% of the study result was verified that the Ethiopian commodity exchange did not provided arbitration mechanism for dispute settlements.

As table 7, below verified 82.4% of respondents said that the ECX was committed in regulating the market to truly reflect the market price information known about the market While 17.6% of the respondents revealed that the ECX did not regulate the market too truly reflect the market price information known about the market.

As in table 7, depicted majority (73.5%) of the respondents portrayed that the ECX authority regulates the speculative excess of the member participants. In contrary to this, 26.5% of the respondents replied that the ECX authority did not control the speculative excess of the member participants. The key informant interview verified that the regulator was used 5% up

and down price ceiling in order to control the exchange market.

As results of the analysis revealed in table 7, below 70.6% of the respondents were confident enough in the Ethiopian commodity exchange in free and transparent dissemination of data that were made among the participants while only 29.4% were portrayed the ECX did not ensure free and transparent dissemination of data that were made by the participants in the exchange.

According to the results of the study 69.1% of the respondents verified that ensuring the system as whole is sufficiently flexible to withstand with shocks controlled by the exchange authority and the remaining 30.9% were not satisfied with the controlling system as whole in sufficiently flexible to withstand with shocks of the exchange market.

**Table 7: Regulation of ECX**

<b>Do the regulations made to the following to protect the members is satisfactory?</b>	<b>Response</b>	<b>No of respondents</b>	<b>Percentage</b>
Dishonest or irresponsible practice by the exchange	Yes	51	75
	No	17	25
	Total	68	100.0
Dishonest or irresponsible practice by counterparties, intermediaries or banks	Yes	57	83.8
	No	11	16.2
	Total	68	100.0
Enforcing contract	Yes	40	58.8
	No	28	41.2
	Total	68	100.0
Arbitration mechanism for dispute settlement	Yes	45	66.2
	No	23	33.2
	Total	68	100.0
<b>Do the regulators ensure the following major Characteristics of the exchange market?</b>			
ECX regulators market price truly reflect the information known about the market	Yes	56	82.4
	No	12	17.6
	Total	68	100.0
ECX regulator constrains speculative excess	Yes	50	73.5
	No	18	26.5
	Total	68	100.0
Free and transparent dissemination of data	Yes	48	70.6
	No	20	29.4
	Total	68	100.0
Ensuring the system as whole is sufficiently flexible to withstand with shocks	Yes	47	69.1
	No	21	30.9
	Total	68	100.0

*Source: Own Survey (2016)*

## 4.4 Factors Affecting the Volume of Sales at ECX

### 4.4.1. Results of the Multiple Linear Regression Model

A range of socio-demographic and institutional variables was found to have influence on ECX participant's decision to participate in different categories. The relative strength and direction of effect of the variables on the status of participation through their estimated coefficient are described as follows.

The Model Summary table 8 below, shows that the multiple correlation coefficient ( $R$ ), using all the predictors simultaneously, is .458 ( $R^2 = .683$ ) and the adjusted  $R^2$  is .503, meaning that 50% of the variance in *annual sales volume* can be predicted from educational status, membership requirement, warehouse quality service, accessibility of market information, ICT facility, membership seat fee. Note that the adjusted  $R^2$  lower than the unadjusted  $R^2$ . This is, in part, related to the number of variables in the equation. The adjustment is also affected by the magnitude of the effect and the sample size.

The ANOVA table 9 below, shows that  $F=2.281$  and is significant. This indicates that the combination of the predictors significantly predict *annual sales volume*.

The  $t$  value and the Sig opposite each independent variable indicates whether that variable is significantly contributing to the equation for predicting *annual sales volume* from the whole set of predictors.

The coefficients tables 10 below shows educational status, membership requirement, warehouse quality service, ICT facility, membership seat fee are significant variables, but the other variables will always add a little to the prediction of *annual sales volume*. Because so many independent variables were used, a reduction in the number of variables might help us find an equation that explains more of the variance in the dependent variable.

**Table 8: Model Summary**

Model	R	R Square	Adjusted R square	Std. Error of the Estimate
1	.458 <sup>a</sup>	.683	.503	254347.76447

a. Predictors: (Constant), Educational status, membership requirement, warehouse quality service, accessibility of market information, ICT facility, membership seat fee.

b. Dependent variable: Annual sales volume

**Table 9: ANOVA**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	885466488235.268	6	147577748039.21114	2.281	.047 <sup>b</sup>
Residual	3946259902821.364	61	64692785292.154		
Total	4831726391056.632	67			

a. Dependent Variable: Annual sales volume

b. Predictors: (Constant), Educational status, membership requirement, warehouse quality service, accessibility of market information, ICT facility, membership seat fee.

**Table 10: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	995241.495	449359.190		2.215	.031		
ICT facility	108649.762	186542.859	.202	.582	.076	.111	9.018
Accessibility of market information	58136.740	566301.073	.099	.103	.919	.014	69.984
Warehouse quality service	277715.717	215196.980	.544	1.291	.000	.075	13.254
Membership requirement	102067.875	201079.563	.188	.508	.021	.097	10.294
Membership seat fee	-27866.135	344284.696	-.094	.081	.094	.010	100.099
Educational status	204597.650	61191.716	.545	3.344	.000	.504	1.984

**a. Dependent Variable: Annual sales volume**

Enormous literatures and findings verified as education status of commodity exchange participant is a key variable in the overall participation. In light of this it was hypothesized that those participants who have secured tertiary level of education have better chance of being full participant than the otherwise might be. Due to this expectation, results of the multiple linear regression model analysis revealed as it is a significant variable at 1% the level significance.

The other determinant variable in the multiple regression analysis was limited membership seat. In line with this the result of the regression model revealed that the variable was positive and highly significant at 10% which indicates limited membership seat has its own impact on member participates to participate in to the full membership participation. In other way the higher the membership seat the better the participants will participate in full membership categories than the other.

On the other hand the other variable which determines the membership category was the membership requirement. And it was hypothesized that the membership criteria's are expected



to have an impact on the participant's membership category choice. As the results of the regression analysis revealed that membership requirement was found to be significant to the choice of membership categories at 5% level of significance: means that membership requirement criteria was as such pre request to participate in to the membership category. However the relationship between the two variables was found to be positive as hypothesized. This suggests that the probability of membership requirement criteria of ECX have positive relation to be member participant.

Similarly the coefficient for accessibility of market related information was found to be a statistically insignificant factor that determine of member participant in the exchange which shows as the participants were not having sufficient information to participate in ECX.

The other determinant variable in the multiple linear regression analysis was ECX clearing & settlement provide satisfactory service by matching up of each buy and sell transaction and satisfied with the quality service in the warehouse. In line with this the result of the regression model revealed that the variable was positive and highly significant at 5% level of significance.

On the other hand the other variable which determines the membership category was ECX warehouse service quality. As the results of the regression analysis revealed that the Ethiopian Commodity Exchange warehouse service quality was found to be significant to the choice of membership categories at 1% level of significant : means that warehouse service quality was as such pre -request to participate in to the intermediary and trading membership category.

# CHAPTER FIVE

## Summary, Conclusion and Recommendation

### 5.1. Summary of the major finding

The purpose of this study was to assess the contribution and identify challenges of membership practice in the Ethiopian commodity exchange. In order to achieve this purpose, the following basic questions were set:

- ❖ What does the ECX marketing practice and regulation system looks like?
- ❖ What are the effects of ECX membership on the participant's sales volume?
- ❖ What are the major constraints/challenges of the ECX member participants?

According to the discussion and analysis of the data presented in chapter four, the researcher summarized the main point of the study findings as follows:

- ❖ Based on the demographic characteristics majority (77.9%) of the participants/members in the Ethiopian commodity exchange was dominated by male participants. Also most of the respondents (94.2%) are well educated with all of them having diploma and above. With regard to the age category of the respondents 50% of the respondent's age was found to be within the range of 31-59 age groups, which is believed to be highly committed age group.
- ❖ The majority (29.4 %) of the respondents joined the Ethiopian commodity exchange after 4 years of its establishment (2012).
- ❖ Concerning the membership requirement about 58.8% of the respondents were discouraged by ECX membership requirement while the remaining respondents were encouraged.
- ❖ The major factors that affect in participating membership of ECX were shortage of capital, limited membership seat and lack of technology.
- ❖ According to the findings of this study, 60.3% of the respondents replied as participating in the Ethiopian commodity exchange were increased the transaction costs than the traditional trading system. Costs for warehousing, quality grading, transportation services, insufficient infrastructure, unbalanced demand and supply, exchange rate,

market fluctuation, intermediary among others were mentioned as the probable reason for high transaction cost. And also about 70.6% of the respondents replied that the ECX membership seat fee were expensive. According to information obtained from key informant interview verified the membership seat fee was decided by the members bid agreement not by the ECX.

- ❖ Higher percent of the respondents (55.9 %) of the survey result shows that the information communication technology of the Ethiopian commodity exchange was not providing satisfactory service.
- ❖ In terms of accessibility of market information, the survey results of the study revealed that a considerable percent of the respondents (55.9% and 26.5%) revealed as their sources of market information were SMS and internet data base system respectively. Since the majority of information was reached with SMS and internet data based system, 77.9% of the respondents who use SMS and internet were found not satisfied with the network of ECX.
- ❖ As results of the aforementioned source confirmed the ECX warehouses are not adequate enough to accommodate all the requests of participant's commodities. In line with this, survey results of the study verify that about 57.4% of the respondents responded as ECX did not have adequate storage service which accommodates request of the participant's commodities.
- ❖ Concerning the warehouses storage costs, about 63.2% of the respondent replied as it were fair and affordable while 36.8% of the respondents replied as it were not fair and affordable. In contrary to the above findings majority (64.7%) of the respondents revealed that the penalty cost for the delay made to withdraw the commodity on time from the warehouses was very much higher. A relatively higher percent of the respondents (63.2%) believed the security of the warehouse in case of risky casualties like theft and fire were secured.
- ❖ As the finding of the research found the relatively higher percentage of the respondents (86.8%) revealed the Ethiopian commodity exchange warehouses were equipped with quality control specialist.

- ❖ Because of corruption, lack of knowledge in sampling and grading, bias, lack of accurate measuring equipment, 80.9% of the respondents were unsatisfied participants by ECX equipped grading laboratory.
- ❖ Based on liquidity, about 79.4% of the respondents replied that credit was not easily available and the requirements to take credit were difficult to apply and time consuming to the participants. Inconsistent with this majority (66.2%) of the respondents confirmed their sources of credit were banks.
- ❖ About 82.4% of the respondents revealed the Ethiopian commodity exchange clearing and settlement system was well equipped in providing effective and efficient services for the participants in assuring payment to the seller, matching up each buy and sell transaction, and integrating the market place of the exchange.
- ❖ With regard to membership category majority (higher) percent of the respondents 57.4% indicated that intermediary membership were best members as compared with trading members. The opportunity associated with the membership including buying and selling all types of commodities for their own account or on behalf of other clients and gaining sufficient profit or commission was the reason for the participant to designate it as best membership category.
- ❖ Ethiopian commodity exchange and the authority was found playing an important role in controlling dishonest or irresponsible practice by the exchange, in enforcing of contracts, in controlling dishonest or irresponsible practice by counterparties, intermediaries, banks, arbitration mechanisms for dispute settlements, constraining speculative excess.

## **5.2. Conclusion**

The Ethiopian Commodity Exchange was established to revolutionize Ethiopian agriculture and transform the economy through a dynamic, efficient and transparent marketing system. Properly implemented and regulated, commodity exchanges can contribute greatly to the achievement of a country's economic and developmental goals and strengthen the bargaining power of farmers and other participants.

Practically the exchange is employing open outcry trading system and spot contracts. Instruments (contracts) traded on commodity exchanges include futures, options and other derivatives. Trading in these instruments began with floor trading, also called open outcry

systems. In open outcry systems, traders assembled in a pit in the exchange and traded commodities by indicating their bids or offers to others in the pits.

The over all objective of the study was to assess the contribution and identify challenges of membership practice in the Ethiopian commodity exchange.

To this end, ECX and the authority was found playing an important role in controlling dishonest or irresponsible practice by the exchange, in enforcing of contracts, in controlling dishonest or irresponsible practice by counterparties, intermediaries, banks, arbitration mechanisms for dispute settlements, constraining speculative excess.

In addition to the above as the finding of the study found the availability of adequate equipped ECX clearing and settlement system , ability to manage funds flows in volatile days, infrastructure, technology, and trained man power of the ECX banking settlement, coordination of members and exchange, in matching up of each buy and sell transaction.

Based on the overall analysis, price fluctuation, difficulty of network access, market instability, higher transaction cost, higher penalty cost for the delay made to withdraw their commodity from the warehouses, lack of adequate warehouses that accommodate ECX participants request ; lack of knowledge in quality grading and sampling system of the exchange, poor recording and management system of the warehouses; lack of accurate measurement equipment, corruption, bias, limited promotion of ECX, unfair membership requirement, inefficient and inadequate store credit, expensive membership seat fee, shortage of time to store and transfer commodity, unbalanced demand and supply were the major constraints to the development and success of ECX.

According to the results of multiple linear regression model educational status, membership requirement, warehouse quality service, ICT facility, membership seat fee were found to be significant variables and the most determinant factors that hinder ECX participants to participate in to the membership category.

### 5.3. Recommendation

Even if ECX is not evolved in to a mature and competent commodity exchange, results of the finding revealed that it was gaining a promising progress and positive momentum towards achieving its intended goal. In light of this and other important findings of the study, the following priority areas are forwarded for consideration for future intervention endeavor

- ❖ As results of the study verified, starting time of participation were found to be the most determinant factor to participate in to membership. Thus reconsidering the preset waiting time by ECX is incontestable, if ECX wants to increase the number of member category participant, which is by far considered as a key for successful exchange in the existing system.
- ❖ The survey result shows that the information communication technology (ICT) facility of the Ethiopian commodity exchange was not providing satisfactory service. Therefore, ECX should to expand their ICT facility in modern way and reaches/address to their member participants.
- ❖ As results of the finding revealed that most of the participants/members were dissatisfied by the ECX membership requirement. So ECX need to consider and overlook the membership criteria to allow limited members to participate and accommodate higher number of participants.
- ❖ Membership seat fee paid by the member participants was very high and if this continued the purpose of its establishment will be in question. With the current trend the exchange membership will be dominated by richer families excluding farmers and other middle income participants. So ECX authority and the exchange should evaluate the financial membership criteria effectively and should adjust it to include all the participants from all parts of the region without income discrimination.
- ❖ Since the penalty cost for the delay made to withdraw of the commodities from the warehouses was higher, it should apply reasonable penalty cost for the delay made to withdraw commodities on time.
- ❖ The ECX currently used spot contracts due to these, members of the ECX were faced a price fluctuation in buying and selling of commodities. So as to minimize the aforementioned problem, ECX should try to apply a future contracts/derivatives and electronics type of

trading in addition to that of spot contract to reduce price risk. Futures contract market in commodity exchange is largely used as risk management or hedging mechanism.

- ❖ The exchange system was carried out using open outcry trading however it should use electronic trading in addition to the open outcry. Since electronic trading system reduced price movement, it would lead to lower volatility, lower risk in the market and higher liquidity by increasing the speed of transactions and lowering transaction costs, limiting informational asymmetries between trading interests, and increasing access to markets regardless of one's geographical location.
- ❖ ECX warehouses were not adequate for the accommodation of the request of the member participant's commodities; the ECX should build adequate warehouses in order to satisfy members/participants.
- ❖ Since most of the warehouses were found out of Addis Ababa, ECX should evaluate effectively and efficiently the time given to the member participants to store and transfer their commodities.
- ❖ One of the major problems in participating in the ECX was quality grading and sampling system. The quality grading specialists of the exchange should treat all participants equally and should be free from corruption. In addition to this training and capacity building should be given for the quality grading specialists in order to upgrade their knowledge and skills.
- ❖ Another obstacle in participating ECX was grading laboratory, so ECX should use effective and efficient measuring instruments and build modern laboratory in order to satisfy their members.

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**APPENDIX- 1 Questionner (English version)**

*St. Mary's University*

*School of Graduate Studies*

*Department of Marketing Management*

**Dear participants:**

The questionnaire is prepared by Masters of Marketing Management graduate student for the purpose of writing thesis on 'the contribution and challenges of marketing membership practice the case of Ethiopian Commodity exchange (ECX)'. Your genuine, frank, timely response is vital for the success of my study. I want assure you that your privacy for responding to this questionnaire is completely kept in secret. I know that your time is valuable, and I hope that you will take the time to complete the questionnaire.

Please attempt to answer all the questions and click one in appropriate box that best suits your perspective for each statement.

**Thank you very much for your time and assistance!!!**

**Sincerely yours,**

**Sisay Dessale**



7. is the actual price at the time of sale or buy usually the same as the information you have in the local market?      Yes            No     

8. If your answer to question no 7 is no why do you think are the probable reasons?

-----

9	Do you satisfy with the following major characteristics of market information that ECX have/providing?	Yes	No
9.1	Accuracy of markets information		
9.2	Time lines of market information		
9.3	ICT facility		
9.4	Accessibility of market information that ECX have		

### III. Warehousing and Grading related questions

10. Do you think that these warehouses are adequate enough to accommodate all the requests from ECX participants?      Yes            No     

11. Do the quality of the service of the warehouse satisfactory?      Yes            No     

12. Do the warehouse storage cost fair and affordable?      Yes            No     

13. How do you evaluate the penalty cost for the delay made to withdraw the commodity on time from the warehouse?      Low            Fair            High     

14. Do you think that the time given to store and transfer your commodity is adequate enough?      Yes            No     

15. Are you satisfied with the recording and management system of the warehouse?      Yes            No     

16. Do you feel that the warehouse is secured for risky casualties like theft and fire?      Yes            No

17. If your answer for question No.16 is no who will bear the risk and responsibility

ECX  Seller/buyer  Warehouse owners  Others, specify.....

18. Is the warehouse operation independent from government intervention?

Yes  No

19. Have you ever been forced to sell the commodity you have in the warehouse in relation to problems associated with the warehouse system? Yes  No

20. If your answer to question No. 19 is yes, what was the problem? -----  
-----

21. Is the warehouse equipped with grading laboratory? Yes  No

22. Does the warehouse operate with quality control specialist? Yes  No

23. Are you satisfied with the grading and sampling system of the exchange? Yes  No

24. If your answer to question no 23 is no what do you think is the problem? Bias

Lack of knowledge  Lack of accurate measuring equipment  Other.....

25. What do you think should be done to improve services at the warehouse for effective and efficient commodity exchange?

1. \_\_\_\_\_

2. \_\_\_\_\_

#### IV. Liquidity Related Questions

26. From which source did you get credit?

Government  Microfinance institution  Banks  families

27. How do you describe the interest rate that you pay for the aforementioned financial institution? Low  Fair  High

28. How do you describe the credit availability if needed?

Easily available  Not available

29. Do you get in store credit (warehouse receipt) if you need?. Yes  No

30. If your answer to question n<sub>o</sub> 29, is yes from which source do you get?

ECX  Warehouse owner   
 Private institution and individuals  Government institution

31. If your answer to question n<sub>o</sub> 29 no is what do you think are the reasons for not providing of such service?-----

32	Do the ECX clearing and settlement provide satisfactory service of the following?	Yes	No
32.1	Assures payment to seller		
32.2	Matching up of each buy and sell transaction		
32.3	Protecting the integrity of the market place		

33	Do the banking settlement systems of the ECX provide the following service?	Yes	No
33.1	Ability to manage fund flows in volatile days		
33.2	Coordination of exchanges and members		
33.3	Service for members in managing their working capital management		

34	Do the ECX clearing and settlement system equipped adequately by the following?	Yes	No
34.1	Infrastructure		
34.2	Trained manpower		
34.3	Technology		
34.4	Transportation		

**VI. Trading Membership Practice Related Questions**

35. In which categories of membership did you participate?

Trading member  Intermediary member

36. Which membership category do you think is the best?

Trading member  Intermediary member

37. Why you think that is the best membership category in question no. 36? -----  
-----

38. What do you think the membership seat fee of the ECX?

Expensive  Cheap  Fair

39. The membership requirement of the ECX is:

Encouraging  Discouraging

40. What are the major factors that affect you in participating Membership of ECX?

Limited membership seat  Shortage of capital  Other.....

41. What type of exchange trading contract do you use currently?

Organized spot trading  Future contract trading

Forward contract trading  Others.....

42. If your answer to 40 is organized spot trading how do you hedge against price fluctuations and risk? -----  
-----

43. How do you describe Ethiopian commodity exchange in terms of transaction costs?

Reduced transaction cost  Increased transaction cost

No difference with the traditional trading system

Others, specify-----



44. If your answer Question No. 43 is increased transaction cost what are your the reasons?

-----

45. How many tons/quintals are supplied a trader in order to get membership set in ECX.....

**V. Regulation Related Questions**

46	Do the regulations made to the following to protect the members is satisfactory?	<b>Yes</b>	<b>No</b>
46.1	Dishonest or irresponsible practice by the exchange		
46.2	Dishonest or irresponsible practice by counterparties , intermediaries or banks		
46.3	In enforcing contract		
46.4	Arbitration mechanism for dispute settlement		

47	Do the ECX regulators ensure the following major characteristics of the exchange markets?	<b>Yes</b>	<b>No</b>
47.1	The market price truly reflect the information known about the market		
47.2	Constrains speculative excess		
47.3	Free and transparent dissemination of data		
47.4	Reducing risk of default to acceptable level		
47.5	Ensuring the system as whole is sufficiently flexible to withstand with shocks		

## **APPENDIX- 2 Interview Questions for ECX Managers**

1. What is the outlook of ECX?
2. How do you define the current infrastructure development for ECX?
3. How many clients do you have under your business in ECX?
4. What special benefits do your clients enjoy while working with your company?
5. What were the major problems ECX encountered in the previous  $\frac{3}{4}$  years of operation?
6. What other challenges that you faced about products?
7. There is a rumor as exporters are in convenient with ECX. How far is this true?
8. What challenges that you faced about infrastructure of commodity exchange?

**APPENDIX- 3 Questionner (Amharic version)**

**ቅድስት ማርያም ዩኒቨርሲቲ**

**ድኅረ-ምረቃ ት/ቤት**

**ለኢትዮጵያ ምርት ገበያ አባላት የተዘጋጀ መጠይቅ**

**ውድ የኢትዮጵያ ምርት ገበያ አባላት**

የዚህ ጥናት አጥኚ በቅድስት ማርያም ዩኒቨርሲቲ በግብይት አስተዳደር አመራር የሁለተኛ ዱግሪ (MA) ትምህርት በመከታተል ላይ ይገኛል። እናም ለመመረቂያ ተማሪው ይህን ጥናት “የገበያ አባላት መሆን የሚያሰገኘው ጥቅም እና የሚገጥማቸው ተግዳሮት በኢትዮጵያ ምርት ገበያ” በሚል ርዕስ በማካሄድ ላይ ይገኛል።

የዚህ መጠይቅ ዋነኛ ዓላማ የጥናቱን ርዕስ የተመለከቱ የመጀመርያ ደረጃ መረጃ ከዋና አባላት ማግኘት ነው። በመሆኑም የምትሰጡት መረጃ ለትምህርት ተግባር ብቻ የሚውልና ሚስጥሩም የተጠበቀ መሆኑን ላረጋግጥላችሁ እወዳለሁ። ስለዚህ በነፃነት እና የምታውቁትን ያህል ትሞሉልኝ ለገደብ በአክብሮት እጠይቃለሁ።

**ስለ ትብብራችሁ በቅድሚያ አመሰግናለሁ!!!**

**ከሰላምታ ጋር**

**ሲሳይ ደሳለ**

**መልስ ሲሰጡ በማ ክብብ ይችላሉ**

**I. አጠቃላይ መረጃ**

- 1. ፆታ:                    ሀ. ወንድ                    ለ. ሴት
- 2. እድሜ:                ሀ. 18-30                    ለ. 31-59                    ሐ. 60 በላይ
- 3. የትምህርት ደረጃ : ሀ. አንደኛ ደረጃ        ለ. ሁለተኛ ደረጃ            ሐ. ድፕሎማ  
                                  መ. ድግሪ                    ሠ. ድህረ-ምረቃ            ረ. ሌሎች.....
- 4. ዋና ስራዎ :        ሀ. የመንግስት            ለ. የግል   ሐ. ነጋዴ   መ. ሌላ.....
- 5. ገቢዎ :                ሀ. ወርሃዊ                    ለ. አመታዊ   ሐ. ሌላ ካለ.....
- 6. ገቢዎ ወርሃዊ ወይም አመታዊ ከሆነ ምን ያህል ያገኛሉ?.....

**II የገበያ መረጃን የተመለከቱ ጥያቄዎች**

- 1. በኢትዮጵያ ምርት ገበያ መሳተፍ የጀመሩት መቼ ነው?  
ሀ. 2000 ዓ.ም   ለ. 2001 ዓ.ም   ሐ. 2002 ዓ.ም   መ. 2003 ዓ.ም   ሠ. ሌላ.....
- 2. ገበያን የተመለከቱ መረጃዎች ማግኘት ይችላሉ?   ሀ.አዎ                    ለ.አናገኝም
- 3. ለጥያቄ ቁጥር 2. መልስዎ አዎ ከሆነ የመረጃዎቹ ምንጮች የትኞቹ ናቸው?  
ሀ. አጭር የሞባይል መልዕክት        ለ. ኢንተርኔት        ሐ. መገናኛ ብዙሃን  
መ. ጋዜጣ እና መፅሔት        ሠ. ሌላ ከሆነ ያብራሩ-----
- 4. ለጥያቄ ቁጥር 3. መልስዎ አጭር የሞባይል መልዕክትና ኢንተርኔት ከሆነ ባለው ኔትዎርክ ደስተኛ ነዎት?   ሀ. አዎ                    ለ. አይደለሁም
- 5. በምርት ገበያው የሚሰራጩ መረጃዎችን በቀላሉ ተረድተው መተንተን ይችላሉ?  
ሀ.አዎ                    ለ. በመጠኑ                    ሐ. አይገባኝም
- 6. የአገር ውስጥ የምርት ገበያ ዋጋ፣ ጥራትና ብዛት የተመለከቱ መረጃዎች በመያዝ ወደ ኢትዮጵያምርት ገበያ በዩ ስንት ጊዜው ይሄዳሉ?  
ሀ. ዘወትር   ለ. አልፎ አልፎ        ሐ. ሂጄ አላቅም

7. ሲገዙና ሲሸጡ ያለው የዋጋ ተመን እና እርስዎ ከአካባቢዎ ገበያ የሚኘት ዋጋ ተመሳሳይ ነው? ሀ. አዎ ለ. አይደለም

8. ለጥያቄ ቁጥር 7. መልሱም አይደለም ከሆነ ምክንያቱ ምንድን ነው ብለው ያስባሉ?

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9	ከሚከተሉት የኢትዮጵያ ምርት ገበያ ከሚሰጣቸው ዋና ዋና የገበያ መረጃዎች ወይም አገልግሎቶች በየትኞቹ ረክተዋል?	አዎ	የለም
9.1	በገበያ መረጃው ትክክለኛነት		
9.2	ጊዜያዊ መረጃ በማግኘት		
9.3	መረጃና መገናኛ ቴክኖሎጂ አወታር		
9.4	እንደፈለጉት የገበያ መረጃ በማግኘት		

**III. መጋዘንና የጥራት መረጃን የተመለከቱ ጥያቄዎች**

10. ያሉት መጋዘኖች ከተሳታፊዎች የሚቀርቡ ጥያቄዎችን ለማስተናገድ በቂ ናቸው ብለው ያስባሉ? ሀ. አዎ በቂ ናቸው ለ. በቂ አይደሉም

11. በመጋዘኖቹ የሚቀርበው የአገልግሎት ጥራት አርኪ ነው? ሀ. አዎ ለ. አይደለም

12. የመጋዘኖቹ የማከማቻ ወጪ ተመጣጣኝና አቅምን ያገናዘበ ነው? ሀ. አዎ ለ. አይደለም

13. ከመጋዘኖቹ ምርቱን በጊዜው ባለማንሳት የሚጣለውን ቅጣት እንደት ያዩታል?  
 ሀ. ዝቅተኛ ነው ለ. ተመጣጣኝ ነው ሐ. ከፍተኛ ነው

14. ምርት ለማከማቻትና ለማስተላለፍ የሚሰጠው ጊዜ በቂ ነው ብለው ያስባሉ?  
 ሀ. አዎ ለ. አይደለም

15. በመጋዘኖቹ መዝገብ አያያዝና አስተዳደር ስርዓት ረክተዋል?  
 ሀ. አዎ ለ. አረካሁም

16. መጋዘኖቹ ከስርቆት፣ ቃጠሎና ከመሳሰሉ ስጋቶች የተጠበቁ ናቸው ብለው ያስባሉ? ሀ. አዎ ለ. አይደለም

17. ለጥያቄ 16 መልስዎ አይደለም ከሆነ ለሚደርሱ አደጋዎች ሃላፊነቱን የሚወስደው ማን ነው? ሀ. የኢትዮጵያ ምርት ገበያ ለ. ሻጭ እና ገዢ ሐ. የመጋዘኑ ባለቤት መ. ሌላ.....

18. የመጋዘኖቹ አገልግሎት አሰጣጥ ከመንግስት ጣልቃ ገብነት ነፃነውን? ሀ. አዎ ለ. አይደለም

19. ከመጋዘኑ አሰራር ስርዓት ጋር በተያያዙ ችግሮች የተነሳ በመጋዘኑ የሚኝ ምርትዎን ለመሸጥ ተገደው ያውቃሉ? ሀ. አዎ ለ. አላውቅም

20. ለጥያቄ ቁጥር 19 መልስዎ አዎ ከሆነ ችግሮቹ ምን ምን ናቸው? ሀ. ----- ለ. -----

21. መጋዘኖቹ በተደራጀ ቤተ-ሙከራ የተሟሉ ናቸውን? ሀ. አዎ ለ. አይደለም

22. መጋዘኖቹ የጥራት ቁጥጥር ባለሙያ አሏቸውን? ሀ. አዎ ለ. የለም

23. በምርት ገበያው የደረጃ አሰጣጥ እና ናሙና አወሳሰድ ስርዓት ረክተዋል? ሀ. አዎ ለ. አረካሁም

24. ለጥያቄ ቁጥር 23 መልስዎ አረካሁም ከሆነ ችግሩ ምንድነው ብለው ያስባሉ? ሀ. የእውቀት ማነስ ለ. የትክክለኛ መለኪያ መሳርያ እጥረት ሐ. አድሎ መ. ሌላ.....

25. ምርት ገበያው ቀልጣፋና ታማኝ እንደሆነ በመጋዘኖቹ ላይ መሰራት ያለባቸው ነገሮች ካለ ይዘርዘሩ? ሀ. ----- ለ. -----

**IV. ብድርን የተመለከቱ ጥያቄዎች**

26. የብድር አገልግሎት የሚያገኙት ከዩት ነው?

ሀ. ከመንግስት ለ. ከቁጠባ ተቋማት ሐ. ከባንኮች መ. ከዘመድ

27. ለሚያገኙት ብድር የሚከፍሉትን ወለድ እንዳት ይገልጹታል?

ሀ. ዝቅተኛ ነው ለ. ተመጣጥኝ ነው ሐ. ከፍተኛ ነው

28. የብድር አቅርቦቱን እንዳት ያዩታል? ሀ. በቀላሉ ይገኛል ለ. አይገኝም

29. ምርትዎ በመጋዘን ውስጥ እያለ ወይም የመጋዘን ደረሰኝ በመያዝ ብድር ማግኘት ይችላሉን? ሀ. አዎ እችላለሁ ለ. አልችልም

34	የኢትዮጵያ ምርት ገበያ ምርት ርክክብና ክፍያ በሚከተሉት አገልግሎቶች በበቂ ሁኔታ የተሟላ ነውን?	አዎ	አይደለም
34.1	በመሰረተ ልማት		
34.2	በሰለጠነ የሰዉ ሃይል		
34.3	በቴክኖሎጂ		

30. ለጥያቄ ቁጥር 29 መልስዎ አዎ ከሆነ ከየትኛው የብድር ምንጭ ነው የሚያገኙት?

ሀ. ከኢትዮጵያ ምርት ገበያ ለ. ከመጋዘኑ ባለቤት  
 ሐ. ከግል ተቋማትና ግለሰቦች መ. ከመንግስት ተቋማት

31. ለጥያቄ ቁጥር 29 መልስዎ ብድር ማግኘት አልችልም ከሆነ ምክንያቱ ምን ድንወ ይላሉ? .....

32	የኢትዮጵያ ምርት ገበያ የምርት ርክክብ እና ክፍያ የሚከተሉትን አገልግሎቶች በአርኪ ሁኔታ ያቀርባሉን?	አዎ	የለም
32.1	ለሻጩ የክፍያ ዋስትና ይሰጣል		
32.2	ርክክብ ገዢ እና ሻጭ በየጊዜው እንዳካሂዱ ያደርጋል		
32.3	የገበያ ትስስር እንድጠናክር ያደርጋል		

33	የኢትዮጵያ ምርት ገበያ የባንክ ክፍያ ስርዓትን በሚከተሉት አገልግሎቶች ያቀርባልን?	አዎ	የለም
33.1	ባልተረጋጉ የገበያ ቀኖች የሚኖውን የገንዘብ ፍሰት የመቆጣጠር ብቃት አለው?		
33.2	የምርት ገበያውና የአባሎች ትስስር እንድኖር ያደርጋል?		
33.3	አባላት የራሳቸውን ገቢና ወጭ እንድቆጣጠሩ ያደርጋል?		

**V. የግብይት አሰራርን የተመለከቱ ጥያቄዎች**

35. እርስዎ የሚሳተፉት በየትኛው የአባልነት ዓይነት ነው?

ሀ. ተገቢያይ አባል

ለ. አገናኝ አባል

36. እርስዎ የተሻለ የአባልነት ዓይነት ነው ብለው የሚያስቡት የአባልነት አይነት የቱ ነው?

ሀ. ተገቢያይ አባል

ለ. አገናኝ አባል

37. የመረጡት አባልነት ዓይነት ለምን የተሻለ ሆነ?

ሀ. -----

ለ. -----

38. ምርት ገበያው ሚያስከፍለውን የአባልነት ወንበር ክፍያ እንዳት ይገልፁታል?

ሀ. ከፍተኛ ነው

ለ. ዝቅተኛ ነው

ሐ. ተመጣጣኝ ነው

መ. ሌላ.....

39. የምርት ገበያውን የአባልነት መስፈርት እንደት ያዩታል?

ሀ. ለተሳታፊዎች አበረታች ነው

ለ. አበረታች አይደለም

40. በሙሉ አባልነት እንዳይሳተፉ የሚያደርግ ምክንያት የትኛው ነው ብለው ያስባሉ?

ሀ. ውስን ወንበር መኖሩ

ለ. የካፒታል እጥረት

ሐ. ሌላ ካል.....

41. በአሁኑ ጊዜ የሚጠቀሙት የግብይት ውል ሰነድ የትኛው ነው?

ሀ. የተደራጀ የእጅ በእጅ ሽያጭ

ለ. የወደፊት የውል ሰነድ ግብይት

ሐ. ሌላ.....

42. ለጥያቄ ቁጥር 41 መልስዎ የተደራጀ የእጅ በእጅ ሽያጭ ከሆነ የሚከሰተውን የዋጋ

አለመረጋጋት እንደት ይከላከሉታል?

ሀ. -----

ለ. -----

43. የኢትዮጵያን ምርት ገበያ የግብይት ወጪ እንደት ያዩታል?

ሀ. ቀንሷል

ለ. ጨምሯል

ሐ. ከልማ ዳዊ ግብይት ልዩነት የለውም

መ. ሌላ.....

44. ለጥያቄ ቁጥር 43 መልስዎ የግብይት ወጪው ጨምሯል ከሆነ ምክንያቱ ምንድን ነው

ብለው ያስባሉ?.....

45. አንድ ነጋዴ የኢትዮጵያ ምርት ገበያ አባል ለመሆን ቢያንስ ምን ያህል ኩንታል ምርት

ማቅረብ ይኖርበታል?.....



**VI. ቁጥጥርን የተመለከቱ ጥያቄዎች**

46	በምርት ገበያው አባላትን ለመከላከል ተብሎ የሚደረገው ቁጥጥር ከሚከተሉት የትኞቹ አርኪ ናቸው ብለው ያስባሉ?	አ ዎ	አይደለም
45.1	በምርት ገበያው የሚታዩ ታማኝነትና እምነት የጎደለውን ስራ መቆጣጠር		
46.2	በላኪ፣ በአገናኞችና በባንኮች የሚታዩ ታማኝነትና እምነት የጎደለውን ስራ መቆጣጠር		
46.3	ውሎችን የማስቆም ስራ		
46.4	አለመግባባትን ለመፍታት የሚወሰዱ የግል ዳኝነት መንገዶች		

47	የኢትዮጵያ ምርት ገበያ የሚከተሉትን ዋናኛ የምርት ገበያ መገለጫዎች ይቆጣጠራል?	አዎ	አይደለም
47.1	የዋጋ ተመኑ በትክክል የገበያ መረጃን እዳያሳይ ከማድረግ አንፃር		
47.2	ያለ አግባብ ጥቅም እንዳይገኝ ከመቆጣጠር አንፃር		
47.3	ነፃና ተጠያቂነት የሌለው መረጃ ከማስራጨት አንፃር		
47.4	ተቀባይነት የሌለው ስጋትን ከመቀነስ አንፃር		
47.5	አጠቃላይ የገበያ ስርዓቱን በበቂ ሁኔታ ከመቆጣጠር አንፃር		