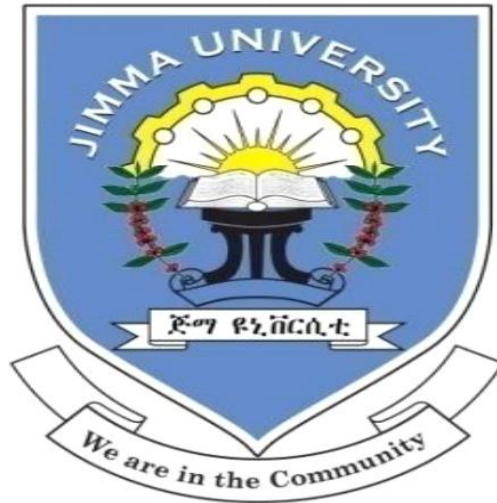


**ASSESSMENT ON BENEFIT, CHALLENGE AND PROSPECTS
OF COMMODITY EXCHANGE IN CASE OF JIMMA BRANCH.**



A thesis submitted to the School of Graduate Studies of Jimma University in Partial fulfillment of the requirements for the Degree of Master of Business administration (MBA)

By: DINKU TAYE

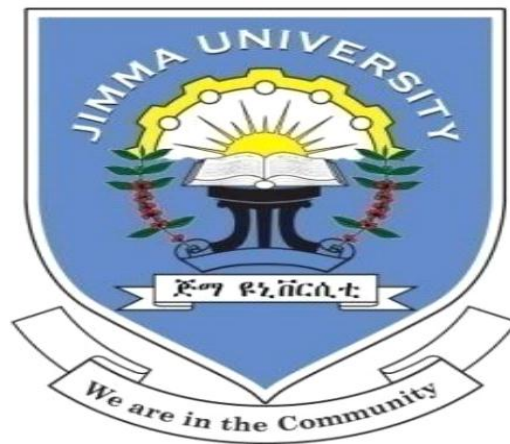
September, 2018
Jimma, Ethiopia

Jimma University

College of Business and Economics

Master of Business Administration Program

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A thesis submitted to the School of Graduate Studies of Jimma University in
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Administration

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September, 2018

Jimma, Ethiopia

DECLARATION

I, declare that the thesis entitled “**Assessment on Benefits ,challenges and prospects of commodity exchange in case of jimma branch** ” submitted to research and post graduate studies “office of business and economics college in original and it has not been submitted previously in part or full to any university or other funding organization.

Researcher’s Name

Date

Signature

CERTIFICATE

We certify that the thesis entitled “Assessment on benefit, challenge and prospects of commodity exchange in case of jimma branch” was done by Mr DinkuTaye for the partial fulfilment of Master’s Degree under our supervision.

Main Advisor’s Name

Date

Signature

Co-Advisor’s Name

Date

Signature

ABSTRACT

Commodity exchange can play a major role for agricultural development as an instrument to bring efficient agricultural market by providing lower transaction cost, efficient and transparent means for price discovery, managing risks related with prices volatility and provide a forum for exchanging information about supply and demand condition. The objectives of the present study are to assess the benefit of commodity Exchange with that of specific Challenge and its outlook /contribution of ECX.

The primary data were collected via questionnaire form suppliers and officers. In order to achieve the stated objectives, the focus of the study was on the benefit of commodity exchange in relation with reducing transaction cost, increasing market liquidity, risk of price transfer and trust, integrity and order in the market. The Challenges of ECX in providing market information, grade and standard, contract enforcement, storage, ordering the market, and price discovery etc. Regarding the outlook growing of new cooperatives, increasing farm size, and agro-processing and Exporter Firms. The sampling design of the study purposive sampling/non probability. Data collected through questionnaire were analyzed quantitatively using descriptive statistics with the help of SPSS version 20. The research result indicated that the lack of accurate, complete and relevant market information, lack of warehouse that accommodates on suppliers request, grading and sampling system of the company has a problem of bias, there is high penalty cost imposed by ECX for delaying of withdrawing the commodities on time; highly centralized system of the company and lack of sufficient communication network to run the business. Finally, to enhance complete contribution to the suppliers the researcher recommended to make grading avoidance of imposing exaggerated penalty cost and empowering the branch with limitation for daily activity.

Key Words: Exchange (ECX), benefit, challenges, outlook

ACKNOWLEDGMENT

First, I would like to thank my God and Father for giving me health and energy to be a part of this study. Nothing can be accomplished without the help of God.

My deepest and heartfelt appreciation goes to my advisor M r GemechuAbdisa who gave me valuable advice and professional guidance towards the ultimate goal of finishing this proposal. I am also thankful to my Co advisor Ms. LeliseKumera for his encouragement and support for the successful accomplishment of this proposal.

Secondly, my deep hearted gratitude goes to Jimma University for facilitating this opportunity so that I can peruse my master's degree in business Administration.

Finally, I would like to express my deepest gratitude to my families and friends for their sincere and admirable support throughout the whole journey of this proposal.

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Abbreviations and Acronyms

ECX	Ethiopian Commodity Exchange
CE	Commodity Exchange
CBOT	Chicago Board of trade
CME	Chicago Mercantile Exchange
TOCOM	Tokyo commodity exchange
ECEA	Ethiopia Commodity Exchange Authority
EWR	Electronic warehouse Receipts
ZIMACE	Zimbabwe Agricultural Commodity Exchange
UNCTAD	United Nations Conference on Trade and Development

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Launching Commodity Exchange institutions had an ancient history of the current industrialized countries, for instance USA had established the former Chicago Board of Trade (CBOT) in 1848 and it is the oldest exchange place in the world. In 2007, the CBOT had unified with other enterprises to form Chicago Mercantile Exchange (CME) group¹. This CME group currently facilitates the exchange of agricultural commodities, electronics, energy, real state and so on. The Great Britain had also established London Metal Exchange in 1877 for exchanging various metals. Similarly, Japan had established its Tokyo textile and rubber exchange market in 1951 and 1952 respectively. These separate exchange markets had unified to form Tokyo Commodity Exchange (TOCOM) in 1984. TOCOM had been used to exchange rubber, gold and platinum, but latter TOCOM has diversified more to electronics, aluminum, oils and gasoline exchanges

The concept of organized trading in commodities evolved in the middle of the 19th century and commodity market plays a very important place in the globalized world. Chicago emerged as a major commercial hub in the world with rail road's and telephone lines connecting with the rest of the world (Baskara 2007). The formal exchange of commodities began in Russia in the twelfth century with gatherings of merchants at agricultural trade fairs (Moscow Calling, 1991). More formal exchanges were slow to develop in Russia. But in the Western Europe, the government, and not the merchant, took the initiative in creating the first commercial exchange which was organized by Peter the Great in 1703, who had been impressed by the exchanges in London and Amsterdam. Some twenty years later, he also ordered a new building for that exchange to be constructed on Petersburg Island (Alexander & Jerry, 1992).

Even if many commodity exchange in 1990s in Asia and Latin America but in Africa this commodity exchange is not successful because of varies problems these are small market size, weak infrastructure, lack of a supportive legal, an underdeveloped financial sector and regulatory framework, and unpredictable government market interventions. As a result of the above the content hindered not to have the well-developed commodity exchange practice and also many

countries face problem of having adequate commodity exchange due to the size of and structure of the spot market for the commodity (USAID, 2012).

Before ECX was launched agricultural market characterized by high transaction costs and high risk of transacting which forces the producers into global isolation. From the commodity produced only one third of the produced products reached the market. To avoid the fear of cheating or default, the sellers of the commodity prefer to sale to customers. Trade was conducted based on visual inspection to check the quality of the commodity while there was no possibility to recognize assurance of product quality or quantity at that time. Also there was no means that the producers get market information about the current price of their products and to reduce market risk (Eleni, 2006). The Ethiopia Commodity Exchange (ECX) was launched in April 2008 under the proclamation No.551/2007 to establish efficient and modern agricultural commodities marketing system.

ECX is currently trading commodities that are coffee, sesame, maize, wheat and haricot beans (ECX, 2008).

According to the study of Shahidur et al., (2010), centralizing the trade in a commodity, an exchange can facilitate title transfer, price discovery, and market transparency and also by having centralized commodity exchange can help to reduce transaction costs which is associated with physically inspecting product quality, identifying market outlets, and finding buyers or sellers. Therefore, commodity exchange functions in addition to facilitating the trade to bring the sellers and buyers in one place. The system helps to reduce transaction costs and enhancing the flow of information that improve returns to market agents by avoiding price variability and special price dispersion. The contracts enable the traders' to be free from price uncertainty and managing the risk effectively (Eleni, 2007).

. 1.2 Statement of the Problem

Like Most markets in developing countries the agricultural Market in Ethiopia is faced by market imperfection caused by thin market low density and cost of transportation in adequate information about price, supplies and inter regional grain flow in the market, in adequacy of storage facilities, weak bargaining power of producers, imperfection in marketing chain in adequate enforcement of contracts lack of universally applicable and enforceable product standard (RATES 2003, Assefa 1195, Holden &shivered 2003 ,Osborn 2005 ,Jaleta 2007)

Thus the establishment of ECX will reward quality to producer, reduce transaction cost of market participants and increase return to market activity enabling quick capital turnover thus increasing market volume and reduce risk related to counter party default and price thus this increase market participation increase information and transparency for all market actors it empowered small holders and other disadvantaged group (ECX).

Even though it is promising and good starts for the exchange and its partners currently commodity exchange marketing system at ECX jimma branch is characterized by lack of adequate, relevant and complete market information for suppliers, lack of quality grading services, lack of storage facility as per customers request and the branch impose high penalty cost for not withdrawing commodity from warehouse.

During the last four decades Ethiopian governments have applied various methods to control commodity marketing system that vary from executing merchants who were accused for hoarding grain and importing of grain to stabilize market price. In spite of this struggle, till today the commodity market is not stable (Teshome, 2009; Parvez, 2009). The problems of commodity market can be three categories. The first category is the absence of integrated commodity marketing policy that addresses all the processes that involve transport, grading, storage and information facilities for the producer as well as for consumer (Meijerink, 2010). The second category is the absence of well-equipped institutional establishment which can provide all marketing services to all market actors. The third category is the absence of private and public partnership in the commodity market (UNCTAD, 2006).

Providing appropriate market information has paramount role to sustain increased production and improve the livelihood of smallholder farmers. Hence, having integrated marketing information system in a particular country plays decisive role in enhancing the performance of commodity exchange (Babcock, 1999). Even the government of Ethiopia takes various structural changes in the commodity market, still the marketing system needs substantial improvement and problematic in various perspectives.

The study attempts to specifically answer the following basic research questions:

1. What are the benefits of commodity exchange for actors of jimma branch ECX?
2. What are the challenges associated with commodity exchange though EXC in jimma branch?

3. What outlook/potential EXC has to make its satisfied all key actors of jimma branch ECX?

1.3 Objectives of study

The General objective of this study is basically to Asses and analyzes the Benefit, specific local challenges and growth prospects that associated with Commodity exchange with ECX jimma branch. More specifically the objective include:-

- 1) To assess the benefit for establishment of commodity exchange in the case of jimma branch ECX.
- 2) To identify the specific challenge ECX face in or while it's functioning in case of jimma branch ECX.
- 3) To inquire the function/contribution of commodity Exchange for Key market actors of jimma branch Ethiopian commodity exchange.

1.4 Significance of the Study

There is a need to address the issue a marketplace where buyers and sellers can come together to freely trade and are assured of quality, delivery and payment. This study focuses on commodity exchange, a strategy designed new marketplace that serves all market actors, from farmers to traders to processors to exporters to consumers. Accordingly, the study is going to assess the scenario of the program and identify determents of Ethiopian commodity exchange. Therefore, the finding of this study will be useful to help policy makers and Ethiopian commodity exchange to make clued-up decisions regarding their service deliverance mechanisms for better. And also the study will contribute to the literature of the country on the subject. Moreover, the study indicates the boulevard interested researchers to carry out more extensive studies for further research work.

1.5 Scope of the Study

The survey covered only the suppliers and officers of the selected branch, which is jimma branch located at south west region in Ethiopia 345 km from Adis abeba. The focus of the study was to analyze qualitatively the data obtained from questionnaires' with descriptive research method.

1.6 Limitation of the Study

Though the study presents a comprehensive theme over the succeeding chapters, it is not free from limitations. There was a confront in conducting the study due to the limited time frame and the limited access information, when the researcher inquires respondents, they were hesitating of the purpose of the study and show the sort of reluctant to offer the correct information. To the officers of ECX as they are usually busy, and some of these bodies were not willing provide information that they think is confidential. 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 Practices in jimma branch context.

1.7 Organization of the Paper

The study is organized in to five chapters. The first chapter deals with the background of the study, statement of the problem, objectives of the study, the research questions, the significance of the study, and Scope of the study. The second chapter discusses Review literature of the study. The third chapter deals with methodology of the study. Chapter four focuses on the analysis the major findings. Finally, chapter five encapsulates the major issues raised in the study and provides conclusion as well as recommendations.

Chapter Two

Literature Review

2.1 Introduction

Exchange trading emerged in the 1840s, when Chicago became a commercial center with rail road 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 rapidly 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: 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). Most of these exchanges have been created since 1992.

2.2 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)

2.2.1 A system that creates integrity and trust

A commodity exchange operates with a certain set of rules or conventions that are widely known. These rules pertain to four key dimensions of the market: the product, its price

Determination, the actors, and the contractual relations that bind them. These rules and modalities together create much needed integrity and trust in the system. To begin, goods traded on an exchange must be standardized according to known standards of quality and quantity. The grading and certification of grade must be done by licensed inspectors that are qualified and regulated. Grading can be done through a laboratory based at the exchange on a sample basis or by other parties, such as the state or private actors. What is critical is that the product grades are widely accepted by the market and are developed with the participation of all market actors, including farmers, traders, processors, and consumers. The certification must be considered by all to be fair and neutral. Thus, whether the grading is done by the exchange or not, a key function of the exchange is to ensure that goods are brought to the market properly graded. Second, an exchange operates a given system of price bidding that is aimed at publicly displaying buy and sell offers in a transparent and low-cost manner. Some exchanges operate on the basis of an “open outcry” system in which market actors in on the exchange floor cry out their bids and orders in a public fashion. Alternatively, an exchange may operate with an actual or a virtual “bulletin board” on which bids and offers are posted publicly. The key is that the price bidding is done openly rather than privately. Third, in order to ensure that the rules are followed, exchanges operate with membership based trading, where membership is based on the ability to comply with the rules of the exchange and to meet certain standards. Moreover, since chaos would quickly result if membership were continuously open to increasing numbers, membership in an exchange is fixed. In addition to an annual fee, the actual seat or membership on an exchange floor is paid for with an initial price, much like a share, and can be bought or sold on the market. This ensures that members have a stake in the performance of the market and thus uphold its trust and integrity. How then can large numbers of buyers and sellers be integrated into the market if the members who trade on the exchange are limited? Brokers are the key set of actors on an exchange who, as members of the exchange, trade on behalf of an unlimited number of buyer and seller clients. The function of brokers, whose duty it is to advise their clients, whether buying or selling, as to the best market opportunities and when and where these are likely to occur, provides significant empowerment to market participants. However, because of their central role, brokers must be specifically licensed and inspected in their function. The integrity of brokers is at the core of the integrity of the exchange itself. Exchanges are essentially self-regulatory systems which prescribe rules and codes of ethics to which all

market actors that are registered with them need to strictly adhere to (Ethiopian Development Research Institute, 2005)

2.2.2 A System That Generates Market Information

A core attribute of an exchange, implied within the four dimensions noted above, is that it 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, a commodity exchange does not require an external market information system as a pre-requisite to its proper functioning. An exchange becomes the market information system as it undertakes its function of Price discovery based on the public posting of buy and sells orders. When the volumes of trade on the exchange are sufficiently large to justify that price discovery according to true market fundamentals is occurring, then dissemination of that information of market prices provides a great service to the market, and the wider economy. This fact alone is a compelling reason to justify an exchange (Eleni Z. Gabre- Madhin and Ian Goggin, 2005)

2.2.3 A System Linked to Warehouse Receipts

By storing their goods in a reliable warehouse, farmers can use the warehouse receipt that is issued as loan collateral and thus access finance without selling their goods. A common Misperception is that a warehouse receipts system is primarily a price stabilization system. First and foremost, it is a system of financing, which is its primary purpose. However, it can have positive impacts on price stability by encouraging storage just after harvest, but this is not guaranteed. However, while the receipt is an important mechanism for farmers to reduce their cash constraint, it must be considered that it also entails speculative activity by farmers, with high risk implications, because farmers who are receipt holders are thus taking a position in the market with some judgment about the future direction of prices. This factor alone has led to the demise of many inventory credit schemes over the past few years across sub-Saharan Africa. To overcome this risk to farmers, warehouse receipts can be made transferable, so that farmers can transfer the speculative risk through sale of the receipt. Thus, through linking a receipt program to a commodity exchange, receipts can be traded on the exchange and enable the transfer of risk in an organized fashion. The chances of success for a warehouse receipts system are considerably higher if it is linked to a functioning exchange on which receipts can be traded .The viability of a warehouse receipts system depends on the extent to which there is discipline and trust in the warehouse, like the commodity exchange, integrity is key. In addition, the viability depends on the economies of scale to save costs of oversight and administration, the reduction of

costs of financing that are passed on to farmers, finding the correct balance of regulatory oversight by state, and the bond and insurance requirements against default, loss or theft. For a transferable receipts system to be viable, there needs to be specific licensing of warehouse operators, a tracking system to register every change of ownership (to ensure only one party has legal title), and the establishment of clear legal rights for receipt bearers and of receipts as documents of title (mortgage able). Clearly, a 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 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 (Eleni Z. Gabre-Madhin and Ian Goggin, 2005).

2.2 The Ethiopian Commodity Exchange Market

Like most markets in developing countries, the agricultural market in Ethiopia is plagued by market imperfections caused by thin markets: low density and high cost of transport, inadequate market information about prices, supplies, and inter-regional grain flows in other markets, inadequacy of storage facilities, weak bargaining power of producers, imperfections in the marketing chain, inadequate enforcement of contracts and lack of universally applicable and enforceable product standards (RATES, 2003; Assefa, 1995; Holden & Shiferaw, 2003; Osborne, 2005; Jaleta, 2007). As a consequence, the level and growth in agricultural productivity is low even in comparison to sub-Saharan Africa, (RATES, 2003) in spite of Ethiopia's relatively high agricultural potential. For the grain market in particular, Gabre-Madhin (2001a) finds that traders tend to engage in suboptimal searches due to insufficient access to brokers. Gabre-Madhin and Goggin (2005) argues that the introduction of a commodity exchange in Ethiopia could potentially remedy some of the above mentioned market inefficiencies and produce a more integrated agricultural market. More specifically, Gabre-Madhin and Goggin (2005) argue that the introduction of an exchange is justified from a bottom-up perspective, since farmers and traders' demand for a better-organized domestic and regional market, and for improved agro-processing. In addition, a commodity exchange could potentially produce a more efficient and integrated agricultural market by providing actors with better information about market prices,

quality controls and product standards as well as a legal framework to reduce the risk of default. However, the success of a commodity exchange depends critically on the economic order and the linking of institutions such as market information systems, quality certification, regulatory frameworks and legislation, arbitration mechanisms and producer and trade associations. Partly as a consequence of the work by Gabre-Mahdin (2001a) and Gabre-Mahdin and Goggin (2005), the Ethiopian Commodity Exchange (ECX) was opened in 2008. The ECX is a modern auction for agricultural commodities located in Addis Abeba. The exchange is associated with a comprehensive system for disseminating information about market prices to more peripheral regional markets in the country. In addition, a number of warehouses connected to the ECX have been established in surplus areas. The warehouses provide services in terms of information, storing facilities and quality controls. More specifically, the availability of ECX warehouses in surplus areas implies that commodities are now controlled, graded and stored locally until they have been sold through an electronic system in Addis Abeba (ECX, 2010). This implies that traded commodities no longer need to be brought to the auctions centers in Addis Abeba or Dire Dawa for sales. In an attempt to shorten the supply chain, primary transaction centers have been established as designated trading places where smallholder producers and cooperatives on the one hand and coffee suppliers (agrabies) on the other hand trade red cherry and sun dried coffee (Council of Ministers Regulation No. 159/2008; Berhe, 2010; Adinew, 2010).

The establishment of the ECX has also contributed to a substantial improvement in the information infrastructure for commodities traded at the exchange: traders can now receive market information via SMS, Interactive Voice Response, Internet, other media (radio, television and newspaper), or via electronic tickers placed in rural markets that display real time prices of all commodities traded on the platform. Finally, the ECX has a comprehensive legal framework and an advanced system for clearing and settlement of contracts in order to guarantee payment and delivery, for example by requiring all trading members to have prepaid credit accounts. However, the ECX has not only been embraced as a positive phenomenon. The exchange was initiated mainly to overcome shortcomings in the trade of grains, and not for coffee. Some critical voices have therefore been raised that the ECX therefore contributed to further complicating the problems facing coffee growers. Most importantly, critics argue that the coffee market is inherently different than markets for other agricultural commodities. Mezlekia (2009) for example, argues that since coffee is a global commodity and since the international coffee

market is characterized by fierce competition between numerous supplying countries selling to a few multinational buyers, it would be beneficial for Ethiopian farmers to engage in direct trade and to create a niche market (i.e., by selling profiled high quality coffee). However, the Ethiopian government's requirement that all coffee should pass through the ECX effectively eliminate such direct trade and niching of the product. In addition, Coulter and Onumah (2002) note that the warehouse system faces challenges in regards to scale economies, the policy environments, legal limitations, banker confidence, lack of regulatory system and insufficient smallholder involvement. Consequently, to what extent the ECX has actually contributed to increased efficiency remains an open question since very few formal evaluation has so far been implemented? To the best of our knowledge, there is to date only one study that makes an attempt to estimate the effect of ECX on efficiency. Hussein (2010) evaluates if price movements of coffee traded at the ECX follow a random walk process. The results of the empirical analysis suggest persistent and strong dependencies in the price series, and therefore that traders can still excerpt excess profits by using predictability in the price series. However, Hussein (2010) notes that this result may be a consequence of the short time span between the introduction of the exchange in 2008 and the evaluation in 2010.

2.3 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).

2.4 Why an Exchange for Ethiopia?

An exchange reduces transaction costs by facilitating contact between buyers and sellers, enabling centralized grading of products, ensuring that contracts are enforceable, providing mechanism for price discovery, Simplifying transactions with standard contracts, Transmitting information about prices and volumes. An exchange provides a mechanism for increasing market liquidity an exchange enables transfer of price risk, and an exchange creates trust, order, and integrity in the market (Eleni Z. Gabre- Madhin and Ian Goggin, 2005)

2.5 Farm size and production organizations

In Ethiopia agriculture commodity is dominated by smallholders. But, it is well recognized that smallholders do not access commodity futures markets directly. They may lack know how, have insufficient collateral for margins, and may have difficulty monitoring prices (Larson, et al., 1998). In the case of Ethiopia commodity exchange, additional institutional mechanisms are needed to link smallholders to centralized exchanges. For instance, producers’ organizations could be used to complete product assembly and conduct transactions. In the absence of such institutional innovation, a centralized agricultural commodity exchange is not likely to develop in Ethiopia, which is a smallholder dominated country.

2.6 Prospects and outlooks of Ethiopian commodity exchange

The prospects and outlooks of Ethiopian commodity exchange are:-

2.6.1 Policy Rationale

The Ethiopian Rural Development Strategy of 2001 states:

“Our agricultural production can achieve rapid and sustainable growth if it is based on producing more than the producers’ own consumption and supplying the difference to the market. The life of the farmer can be continuously improved if he is able to produce at this level, sell his products and purchase ever-increasing volumes and types of commodities and services.”

A very important emphasis the policy direction is to achieve growth through the expansion of commercial farms. This policy thrust thus constitutes an important push for efforts to establish a commodity exchange which can expand the scope and reach of markets.

2.6.2 Growth of new cooperatives

Another important factor in justifying a push for a commodity exchange is the recent initiative to establish voluntary, market-oriented cooperative unions around the country. If these cooperatives operate with a business orientation, they can stand to greatly benefit from the existence of a well-organized national market. At present, in attempting to engage in forward contracts without reference to a well-functioning national market in which products are graded and priced in a neutral fashion, the contracts are fraught with enforcement problems, as either Party has shown a bias in the grading, or has reneged when the market changed. Interviews with the unions reveal a frustration on their part in not being able to work with the market itself, rather than in alternative single channel arrangements, which ultimately increases, rather than decreases their market vulnerability. It is also been noted that, with these contractual arrangements, it is not clear how sustainable or scalable this orientation is, with the limited number of processors available. Nor is it clear that they necessarily receive better prices, if one believes the basic maxim that “you can’t beat the market.” On the positive side, the organization of smallholders into market-oriented cooperative societies and unions implies that they have a structure or platform from which to participate in a national commodity exchange. More experienced unions may wish to become members of the exchange and trade directly on the floor, while others may work through brokers. The experience of the Zimbabwe Agricultural Commodity Exchange, ZIMACE, was that the majority of trade on the exchange was directly done by smallholders organized into marketing associations.

2.6.3 Increase in commercial farms

Another positive development is the emergence of large-scale commercial farmers in the grain sector. At present, the commercial farmers association of Ethiopia boasts membership of some 200 farmers who represent some 2 percent of the domestic market. These are actors who would keenly benefit from an organized market where products would be graded and be channeled into domestic or export markets. (DessalewZelalem2011)

2.6.4 Increasing agro-processing linkages

The Ethiopian economy is evolving in the direction of increased domestic and foreign investment in agro-processing industries, particularly private investment. These industries stand to benefit greatly from, and therefore demand, an organized market which can deliver adequate and regular supplies of products at the required quality, which is critical to maximizing the

utilization of industrial capacity and product extraction ratios. Thus, the rise of industrial demand is an important prospect on the domestic market. (DessalewZelalem 2011)

2.6.5 Emergence of exporter firms

As exports of oilseeds, pulses, and cereals grow, there is increasing demand by exporters facing international markets for an organized domestic market. Thus, export firms are absorbing an increasing share of the domestic market. However, this firms' competitive edge depends on the availability of supply in proper grades and in adequate supply in a timely manner. Export firms can maximize profit and increase market share with "just in time" delivery, minimizing their storage and inventory costs. This is only achievable with an organized domestic market which can provide accurate information on available supplies, and enable them to contract forward at low cost. (Dessalewzelalem 2011)

2.7 The problem of commodity Exchange can be 3 categories

The first categories is absence of integrated commodity market policy that address all process that involved transparent, grading, storage and information facilities. For the product as well as for the information facilities for producers as well as for consumers (Mejienika 2010)

Second categories is absence of well-equipped institutional establishment which can provide all marketing services to all market actors

The thirdcategories is absence of private and public partnership in commodity market (UNCTAD 2006)

Commodity exchanges are private institutions that facilitate trade by creating and enforcing property rights and governing contractual relationships between commodity buyers and sellers which makes the exchange very successful (Jerry, 1991). From the above definitions of scholars about exchange indicated that, it (commodity exchange) can be a means to transform the traditional marketing system to the modern one for facilitating trading. It is "...an organized marketplace where physical commodities are being traded and exchanged" (FAO, 2011, p.11). According to Federal NegaritGazeta (2007), commodity exchange is a place where standardized commodity-linked contracts are traded. A commodity exchange is an institution or system where people who want to sale and make an offer of product that they want to sell. Simultaneously, peoples who wanted to buy also are making bids. The exchange is institution which matches the buyer/producer with the seller, these processes results in the market price that becomes known to

All (Eleni, 2006, cited in Mesay, 2007). Furthermore According to Alexander and Jerry (2011), exchange is the way of organizing products at market price which is the engine to producers can motivate to supply more of their products to the market and get better returns from it and improve their life expectancy. In addition to the above, the system helps the members to transfer price risks by having accurate information about the current price of the products, and encouraged to build trust between the producers and buyers and also helps facilitate order and brings integrity in the market (Eleni, 2006). Commodity exchanges can serve a variety of functions related to financing, risk management and marketing. These functions includes: managing price risk, reducing counterparty risk, enhancing price transparency, reducing risks related to collateral value, certifying quality of commodities, and providing direct access to capital markets through repos(FAO, 2011). The importance of commodity exchange has an institutional benefit in reducing the transaction costs through the process of buying and selling in the market (UNCTAD, 2009). Reducing the transaction costs for the participants is the main concern for the system of commodity exchange Eleni (2009). Commodity exchanges provide transaction cost falling services, such as property rights definition and contractual enforcement, commodity measurement, and information provision (Jerry, 1991).

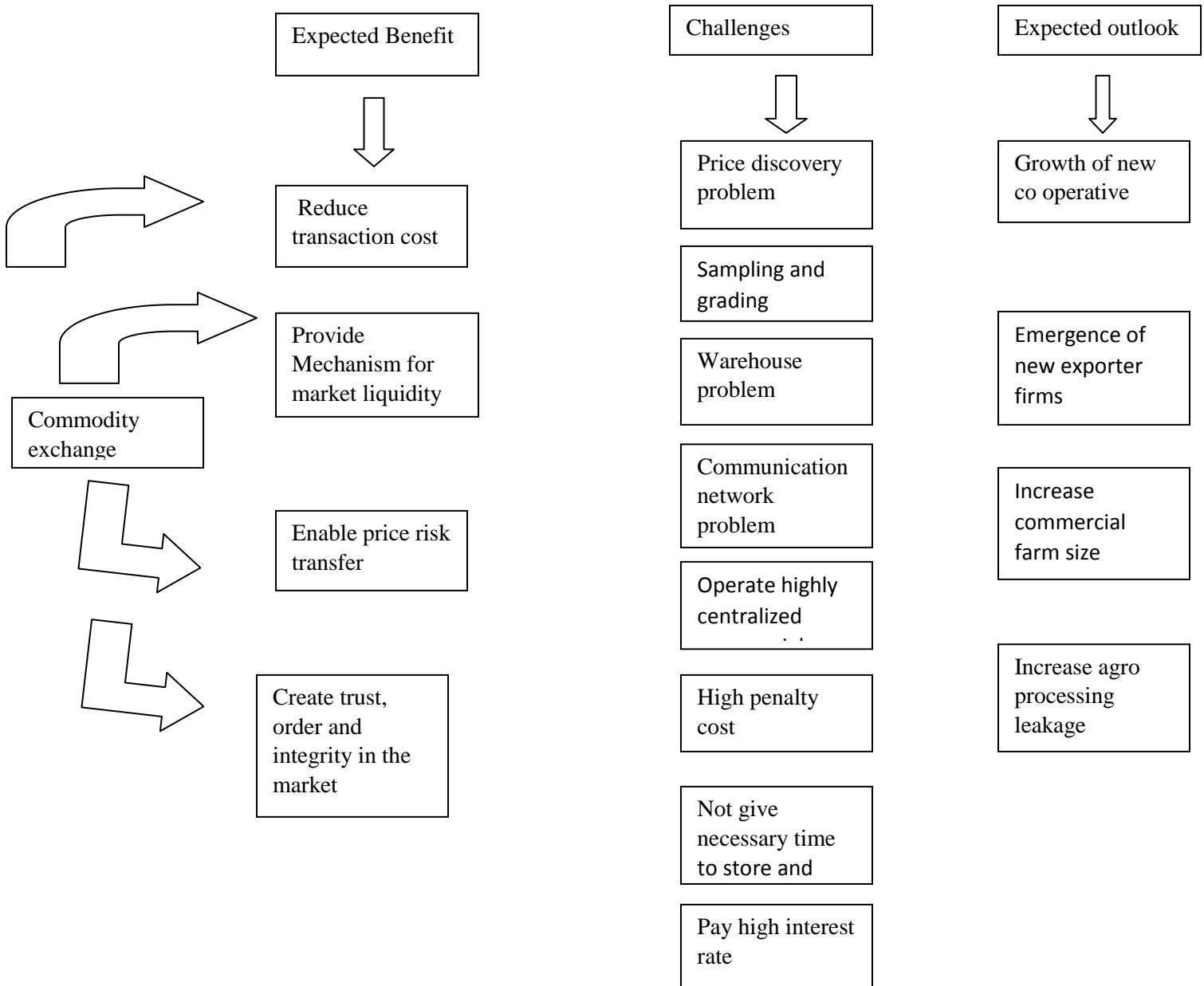
Commodity exchange can play a major role for agricultural development as an instrument to bring efficient agricultural market by providing lower transaction cost, efficient and transparent means for price discovery, managing risks related with prices volatility and provide a forum for exchanging information about supply and demand condition. Future market provide the function of hedging and price discovery for promoting efficient production, storage for the products, marketing and agro-processing operations for the purpose of improving the overall agricultural marketing performance (UNCTAD, 2008). In addition to the above commodity exchange helps to empower the farmers, the traders, and buyers to be actors in the exchange for their respective benefit which enables to have efficient agricultural marketing system (Issac, 2011). As stated by UNICTAD (2009), the exchange is benefiting by bringing marketing efficiencies in commodity supply-chains by providing a platform for transparent sales. They also promote institutional developments; encourage adherence to standards, and support the development of innovative Financing models, such as warehouse receipt systems.

Reliable product grades and negotiable receipts help producers access finance, thereby fostering increased productivity and increased rural incomes. According to Eleni (2007), commodity

exchange would build institutions from the point of grading, certifying quality, trading, issuing warehouse receipts, providing accurate market information to all actors, ensuring payment and delivery and also enforcing contracts. But these is not the only focus for the Ethiopia commodity exchange and it designed to serve smallholder farmers and small traders without excluding those with less education or capital and also balance the interests of all actors and of the public and private sectors. The aim of commodity exchange not eliminates traditional market around the country rather to build the informal market by adding technology and system to recognize transparency, efficiency reliability in the trading system. Therefore ECX established with the vision of “to transform the Ethiopian economy by becoming a global market of choice” along with the mission statement “to connect all buyers and sellers in reliable, an efficient, and translucent market by connecting innovation with technology, and based on Continuous fairness, commitment and learning to quality” (ECX, 2008).

2.8 Conceptual Framework

Figure 2.1 Conceptual Framework



CHAPTER THREE

RESEARCH DESIGN & METHODOLOGY

3.1. Research Design

The researches were descriptive type of research. The main purpose of descriptive research is description of the state of affairs as it exists at present (Kothari, 2004). In business and social science research we quite often use the term Ex post facto research for descriptive research studies. The main feature of this method is that the researcher has no control over the variables; he can only report what has happened or what is happening (Kothari, 2004). Descriptive research consists of purely describing the state of things as they are and employs polls and surveys as part of information gathering mechanism.

3.2 Methodology

This study employed quantitative research methods. As a result quantifiable primary data were collected and investigated to elaborate the data. Specifically, self-administrative questionnaire which contain closed-ended.

2.5 Sampling technique

The main objective of a sampling is to produce a sample that can be logically assumed to be representative of the population. Among the different sampling techniques, the researcher employed purposive sampling. The purposive sampling technique, is the deliberate choice of a respondent due to the qualities the respondent possesses (Kothari, 2004). It is a non-probability sampling technique that does not need underlying theories or a set number of participants. Simply put, the researcher decides what needs to be known and sets out to find people who can and are willing to provide the information by virtue of knowledge or experience. The sampling frame of this research consists of trading members and the officers of Ethiopian commodity exchange for Jimma branch. Thus, the researcher considered 119 respondents in the sample from 300 eligible elementary units.

3.5 Data Collection and Instrumentation

The self-administered questionnaires include both close-ended and open-ended questions were distributed to Respondents. The questionnaires were used because it limits inconsistency and also saves time. The following procedure were pursued to administer questionnaire to

respondents. The researcher get the permission, he approached potential respondents to ask their cooperation in filling the questionnaire and explained them the purpose of collecting data, how the questionnaire will be filled and make them sure confidentiality will be kept for the information they provide. Then, the questionnaires were distributed and respondents were asked the information honestly and return the filled up questionnaire in the next one day for those didn't have the problem of filling up questionnaire while the questionnaire were prepared in English language. But for those who didn't read and understand English, the researcher supported by interpreting the questionnaire for them within the same day. The questionnaire had different parts. The first part of the questionnaire is about demographic characteristics' of respondents such as age, sex, academic ranks and capital level. The second part is about the details of the survey issues that deal with the benefit of commodity exchange such reducing transaction cost, increasing market liquidity and trust and integrity in the market and specific challenge Challenges. Here are about the Challenges of Commodity Exchanges providing to the Respondents such as market information, warehousing, grading and standards, price discovery, contract enforcement, market transparency, dispute settlement, facilitating payment, etc. are considered in the questionnaire finally the questionnaires are include about the outlook/contribution of commodity exchange to the area such as in creasing farm size, encouraging exporters firm Etc. The questions were in statements form and were asked to express their agreement or disagreement by putting a tick mark (symbol) the questions developed based on five point Likert scale. For the five point Likert scale where 1= strongly disagree, 2= disagree, 3= indifferent, 4 = agree, 5= strongly agree.

3.6 Data Analysis Techniques

Statistical Package for Social Science (SPSS) software version 20 were employed by the researcher to analyses and present the data.

3.7 Anticipated Ethical Issues

Ethical issues are very important in research these days. Ethical emerged from value conflicts. In research, these conflicts are expressed in many ways: individual's rights to privacy versus the undesirability of manipulation, openness and replication versus confidentiality, future welfare versus immediate relief, and others. Each decision made in research involves a potential compromise of one value for another. Researchers must try to minimize risks to participants, colleagues and society while attempting to maximize the quality of information they produce (David F. Gillespie, 1989).

In favor of this study the researcher were familiar with the ethical issues of research. Thus, the researcher were observe the principles of ethical issues like confidentially and Dignity of the participants, integrity, on no account plagiarism, and never fabricating and destroying data.

CHAPTER FOUR

Result and Discussion

In this section of the study detail discussion and analysis of the study finding are presented. The benefits of commodity exchange and specific challenges and outlook/prospect that affect the performance of Jimma branch Ethiopian commodity exchange are obtained by closed-ended self-administrative questionnaire was conducted with the suppliers and officers of the ECX Jimma branch.

4.1 Respondents' Background

The questionnaires were distributed to 119 respondents from ECX Jimma branch suppliers. The following paragraphs discuss on the background information of survey respondents. The figures below shows age distribution, sex composition, and educational level of participants of this study.

Age

Fig. 4.1 shows age distribution of the respondents. The percentage of each category displayed on each bar. As the figure suggests majority, about 55 %, of the respondents are 31 – 40 years old. The percentage of the respondent who fall in 20 – 30, 41 – 50, and > 50 are 11.76, 29.14, and 3.36 respectively.

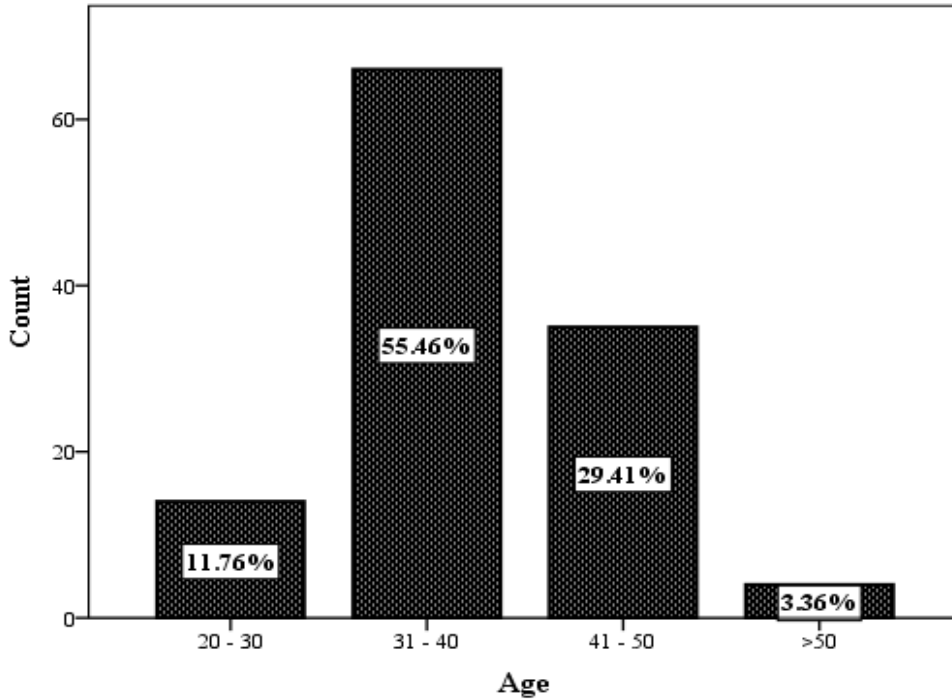


Fig 4.1 Bar chart for age distribution of supplies of ECX in Jimma town, 2018.

Fig. 4.1 Bar charts for age distribution

Sex

Sex composition of the respondents displayed using fig 4.2. More than three quarter of the participant of the study are male. It suggest majority of the ECX Jimma branch members are male.

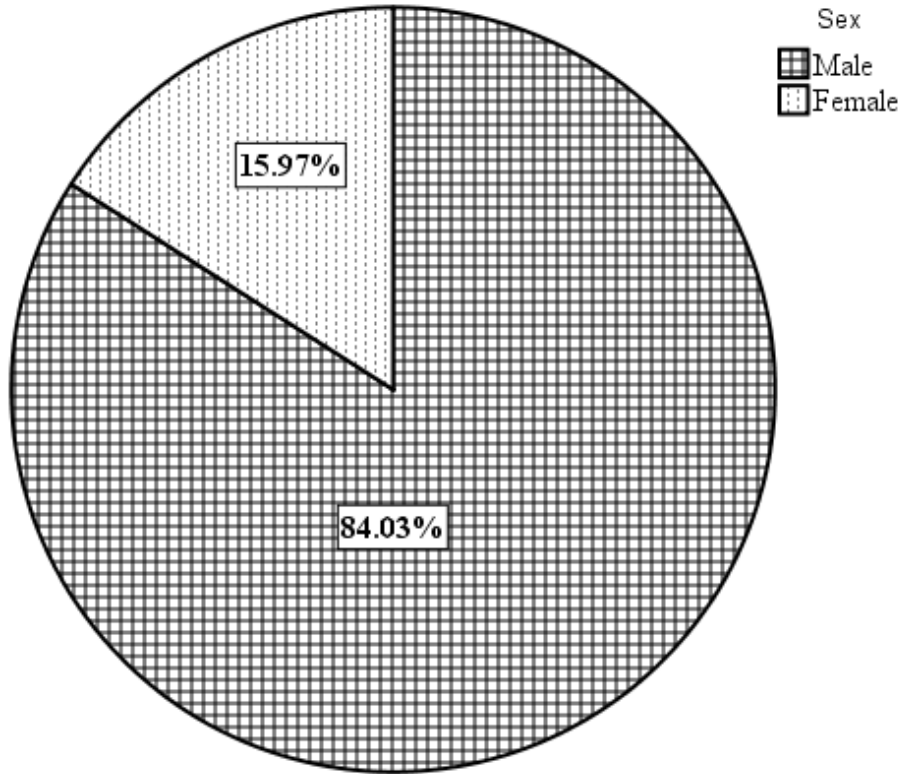


Fig 4.1 Bar chart for Sex distribution of supplies of ECX in Jimma town, 2018.

Fig. 4.2 Bar chart for sex distribution

Level of education

Respondents also have diversity in their academic backgrounds, as shown here below in Fig 4.3, regarding the educational level, 1.68%, 1.68%, 24.37%, 70.59% and 1.68% of participants in the study were high school completed, certificate , diploma, bachelor degree and master & above holders respectively. This suggests peoples who participating in ECX Jimma branch have different academic backgrounds.

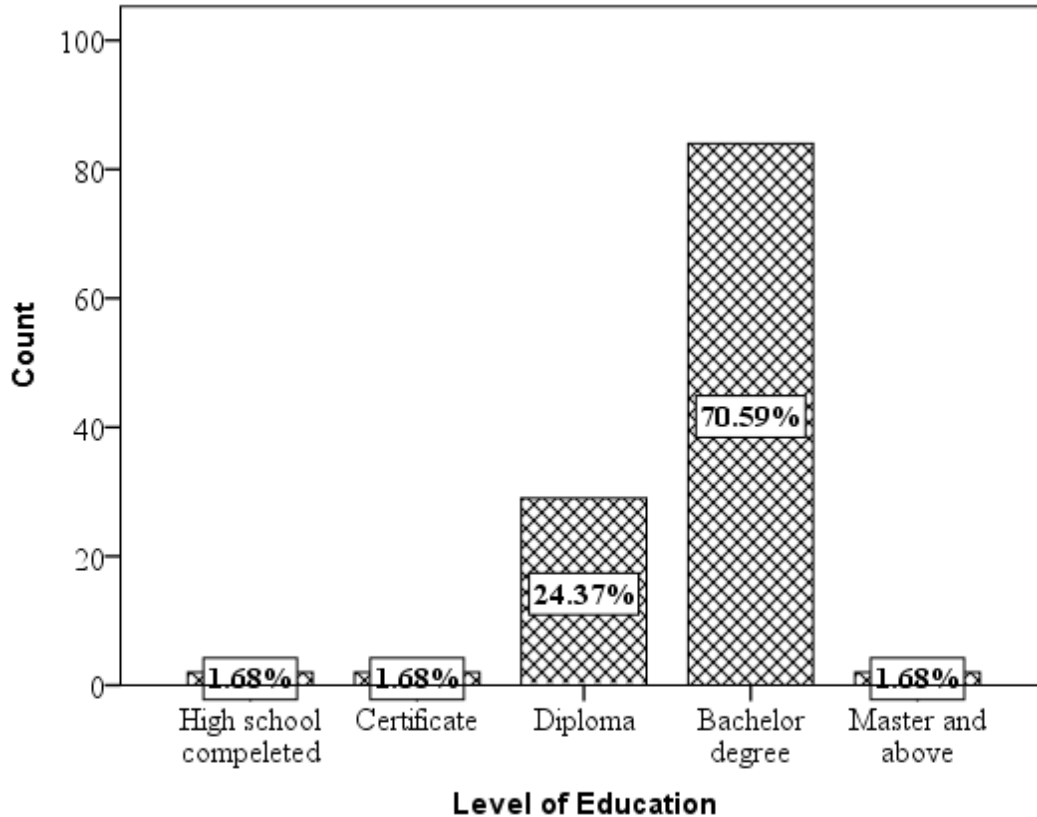


Fig 4.3 Bar chart for Level of Education distribution of supplies of ECX in Jimma town, 2018.

Fig. 4.3 Bar chart for level of education

4.2 Role of commodity exchange

In addition to background information, respondents were asked some questions to investigate benefits of commodity exchange and their responses are summarized and described as follows.

Existence of CE reduces transaction cost.

As table 4.1 suggests the issues related to the benefits of commodity exchange to reduce transaction cost in Jimma area, 42% of the respondent strongly agrees, 56.3% of the respondent agree. On the other hand less than 2% of the respondents strongly disagree to the idea of commodity exchange reducing transaction cost. Regarding the possibility of providing mechanism for market liquidity, 98.3 % of respondents were either strongly agree or agree and the rest disagree. As presented in the table, around two third of respondents responded that they are strongly agree commodity exchange enable transfer price, 5.1 % of the respondent at least disagree and 1.7 % are neutral. Concerning in creating trust in the market about two third of the

respondent strongly agree, 31.1% agree. Majority of the respondents, 92.5%, at least agree regarding commodity exchange can create order and integrity in the Market and less than 10 % of the respondent either oppose this idea or neutral.

From the issue of benefits (**Table 4.1**), ECX is benefiting the suppliers in reducing the transaction costs, providing Mechanism for market liquidity, enable transfer price risk and create trust, order and integrity in the market. Also Issac (2011) indicated that, the beneficiaries in the exchange would be manufacturers, producers, dealers and processors. They come together in one marketplace for the purpose of gaining fast, efficient, low transaction cost, fair worldwide price which is free from the risk of price volatility by obtaining accurate price information from the system in addition to the investors and brokers. According to Alexander and Jerry (2011), Commodity Exchange benefits the members by reducing transaction costs through facilitating contracts between the producers and buyers, having centralized grading system for their products, making the contract enforceable, having a means of price discovery in the market, facilitating simplified transaction, providing accurate information about the price and the volumes of the products. Furthermore, Dawit&Gerdien (2010) indicated that those traders who are educated and with more resources are willing to use the ECX, while it can enable them to reduce the transaction costs than those traders that are not educated and with fewer resources.

Table 4.1 Response of the respondents towards benefits of commodity exchange

No	Variables	Responses				
		Strongly disagree	disagree	Neutral	agree	Strongly agree
		N ₂ (%)	N ₂ (%)	N ₂ (%)	N ₂ (%)	N ₂ (%)
1	Existence of CE reduce transaction cost	2(1.7)	0(0)	0(0)	67(56.3)	50(42)
2	CE provide mechanism for market liquidity	0(0)	2(1.7)	0(0)	72(60.5)	45(37.8)
3	CE Enable transfer price risk	4(3.4)	2(1.7)	2(1.7)	34(28.6)	77(64.7)
4	CE can create trust in the market	0(0)	5(4.2)	2(1.7)	37(31.1)	75(63)
5	CE can Create order and integrity in the Market	2(1.7)	5(4.2)	2(1.7)	36(30.3)	74(62.2)

No.	Variables	Mean	SD
1	Existence of CE reduce transaction cost	4.37	0.662
2	CE provide mechanism for market liquidity	4.34	0.574
3	CE Enable transfer price risk	4.50	0.891
4	CE can create trust in the market	4.53	0.734
5	CE can Create order and integrity in the Market	4.47	0.862

Table 4.1.1 mean and rank of respondent's response

4.3 Challenges associated with jimma branch ECX

Frequency distribution of attitude of the respondents towards challenges associated with jimma branch EXC is presented in Table 4.2. As the table indicate the respondents seems to have different attitudes towards the plausible indicators of the challenges. It looks the respondents tends to have not satisfied towards the following indicators.

The issues associated to the provision of adequate, complete and relevant market information for Suppliers, 79% of the respondent disagree, 16% of the respondent agrees. Large proportion, about 84%, of the respondents at least disagree quality grading service. On the other hand less than 30% of the respondents at least agree to the idea of the commodity exchange equipped for accurate measure and sampling. Concerning all the presence of adequate warehouse that accommodate as per the Suppliers request, provision of available price discovery for all actors, providing sufficient transportation from ECX warehouse to ECX members, more than 80% of either disagree or strongly disagree .with the idea of ECX impose high penalty cost for ECX suppliers for not withdrawing their commodity from warehouse more than 80% of either agree or strongly agree. Around 68% of the respondent agree about the ECX jimma branch operates in highly centralized managerial decision making of the organization. ECX gives necessary time to suppliers to store and transfer their commodity and considerably large proportion, 60.5% disagree. Sufficiency of communication network to run the business in the area more than 55 % of the respondents at least dis agree.

Table 4.2 Response of respondents towards challenges

№	Variable	Responses				
		Strongly disagree	disagree	Neutral	agree	Strongly agree
		№(%)	№(%)	№(%)	№(%)	№(%)
1	ECX provide adequate, complete and relevant market information for Suppliers	4(3.4)	94(79)	0(0)	19(16)	2(1.7)
2	ECX provide quality grading services.	29(24.4)	71(59.7)	0(0)	11(9.2)	8(6.7)
3	ECX is well equipped for accurate measure and sampling	30(25.2)	56(47.1)	0(0)	29(24.4)	4(3.4)
4	ECX have adequate warehouse that accommodate as per the Suppliers/customers request.	8(6.7)	89(74.8)	2(1.7)	7(5.9)	13(10.9)
5	ECX is capable of Contract Enforcement.	2(1.7)	8(6.7)	4(3.4)	103(86.6)	2(1.7)
6	ECX able to provide available price discovery for all suppliers	17(14.3)	86(72.3)	2(1.7)	10(8.4)	4(3.4)
7	ECX is actively work to market transparency	15(12.6)	25(21)	6(5)	65(54.6)	8(6.7)
8	ECX have the potential for dispute settlement among Members	26(21.8)	28(23.5)	2(1.7)	61(51.3)	2(1.7)
9	ECX provide banking and clearing settlement for exchange	4(3.4)	15(12.6)	4(3.4)	53(44.5)	43(36.1)
10	ECX operates in highly centralized Managerial Decision making of the organization.	7(5.8)	10(8.4)	2(1.7)	81(68)	19(15.9)
11	ECX Provide Sufficient transportation From ECX warehouse to ECX members Effectively	4(3.4)	97(81.5)	2(1.7)	14(11.8)	2(1.7)
12	Communication network is sufficient enough to run the business in the area	41(34.5)	71(59.7)	2(1.7)	3(2.3)	2(1.7)
13	ECX impose high penalty cost for ECX suppliers for not withdrawing their commodity from warehouse	2(1.7)	15(12.6)	0(0)	84(70.6)	18(15.1)
14	ECX give necessary time to members to store and transfer the commodity	19(15.9)	72(60.5)	2(1.7)	17(14.2)	39(7.5)
15	Suppliers paid high interest rate for financial institution	52(43.7)	57(47.9)	0(0)	8(6.7)	2(1.7)

Table 4.2.1 Mean and rank of respondents towards the challenge

No.	Variables	Mean	SD	Rank
1	ECX provide adequate, complete and relevant market information for Suppliers	2.34	0.847	8.5
2	ECX provide quality grading services.	2.14	1.099	3.5
3	ECX is well equipped for accurate measure and sampling	2.34	1.195	8.5
4	ECX have adequate warehouse that accommodate as per the Suppliers/customers request.	2.39	1.075	10
5	ECX is capable of Contract Enforcement.	2.20	0.658	6
6	ECX able to provide available price discovery for all suppliers	2.14	0.886	3.5
7	ECX is actively work to market transparency	3.22	1.222	13
8	ECX have the potential for dispute settlement among Members	2.87	1.299	12
9	ECX provide banking and clearing settlement for exchange	2.76	0.841	11
10	ECX operates in highly centralized Managerial Decision making of the organization.	1.91	0.759	2
11	ECX Provide Sufficient transportation From ECX warehouse to ECX members Effectively	2.27	0.778	7
12	Communication network is sufficient enough to run the business in the area	4.48	0.801	15
13	ECX impose high penalty cost for ECX suppliers for not withdrawing their commodity from warehouse	2.15	0.889	5
14	ECX give necessary time to members to store and transfer the commodity	4.34	0.657	14
15	Suppliers paid high interest rate for financial institution	1.75	0.895	1.0

The respondents do not only have negative attitude for all indicators of the challenge but also positive. In the table 4.2, 6.7% of all participants strongly agree, 54.6% agree, 5% were *neutral*, 21% were disagreed and 12.6% strongly disagree actively work to market transparency. A bit higher than half of the respondents have belief that there is potential for dispute settlement. Regarding the ECX is actively work to market transparency, and ECX have the potential for dispute settlement among members more than 50% agree. From respondent 86.6 % is agree on the issue of ECX is capable of Contract enforcement. More than 40% agree on ECX provide banking and clearing settlement for exchange. 47.9% oppose the payment of high interest rate for financial institution.

4.4 Contribution /outlook associated with jimma branch EXC

Table 4.3 Response of the respondents towards Outlook/Contribution of JIMMA branch EXC

No.	variable	Responses				
		Strongly disagree	disagree	Neutral	agree	Strongly agree
		N ₂ (%)	N ₂ (%)	N ₂ (%)	N ₂ (%)	N ₂ (%)
1	ECX jimma branch has a significance to growth of new cooperatives in the area	2(1.7)	24(20.2)	9(7.6)	60(50.4)	24(20.2)
2	ECX jimma branch have contribute Emergence of Exporter Firms.	0(0)	26(21.8)	6(5)	67(56.3)	20(16.8)
3	ECX Jimma Branch have significance to encourage Increasing of commercial farm	2(1.7)	33(27.7)	2(1.7)	64(53.8)	18(15.1)
4	ECX jimma branch significant contribution in terms of increasing agro-processing linkages	17(14.3)	34(28.6)	10(8.4)	36(30.3)	22(18.5)

Table 43 presented attitude of the respondents towards outlook

No.	Variables	Mean	SD
1	ECX jimma branch has a significance to growth of new cooperatives in the area	3.67	1.067
2	ECX jimma branch have contribute Emergence of Exporter Firms.	3.78	0.999
3	ECX Jimma Branch have significance to encourage Increasing of commercial farm	3.53	1.103
4	ECX jimma branch significant contribution in terms of increasing agro-processing linkages	4.13	0.780

Table 4.3 presented attitude of the respondents towards outlook of Jimma branch EXC. It suggest the topics linked to the significance to growth of new cooperatives in the area, 20.2% of the respondent strongly agree, about half of the respondents agree. Regarding contribution of emergence of exporter firms, three quarter of respondents were either strongly agree or agree. As presented in the table, having significance to encourage increasing of commercial farm and of increasing agro-processing linkage in the area 68.2% and 90.8% of the respondents at least agreed.

CHAPTER FIVE

Conclusion and recommendation

5.1 Conclusion

Even though there is promising and good starts for the exchange and its partners, currently commodity exchange in jimma branch marketing system at ECX, is characterized by lack of reliable complete market information, lack of quality grading and sampling, lack of adequate warehouse to accommodate on customer request, lack of available price discovery, lack of sufficient transportation from ECX warehouse to ECX suppliers, ECX impose high penalty cost for ECX suppliers for not Withdrawing their commodity from ware house, lack of necessary time to suppliers to store and transfer their commodity and the branch is operating in highly centralized managerial Decision making of the organization and lack sufficient communication network to run the business. Using such information requires a certain amount of skill and knowledge and limited quality of assurance, high transportation cost and highly mistrust for grading system performed at exchange.

From the findings of the study, ECX is providing price information but this information is not up to date for the suppliers. In addition grading is one of the activities of ECX, but still the grading and sampling system of ECX is full of problems that hinder to the provision of accepted graded commodity to the suppliers. The main reasons to these problems are bias, lack of knowledge and lack of well-equipped materials. Also this fault is made by corruption in the warehouses by dealing with the suppliers. Moreover, the problem that makes ECX incapable for providing sufficient benefit to its suppliers is infrastructure, such as transportation, warehouses, electricity and telecommunications. Because of the above listed hindrances, ECX is unable to provide all commodities that are required from the suppliers. Warehouse quality problem occurs as a result of inefficient infrastructure. The telecommunications especially lack of broad band network is also the other cause which complicate the operation of ECX. Therefore, inadequate physical infrastructure caused higher transaction costs which directly affect the profitability of suppliers. Lack of having well-constructed infrastructure becomes serious which exposes suppliers to delivery risk. Because of the above problems, ECX fails to contribute significantly to its participants. Even if the exchange is operating within different problems, comparatively with the traditional marketing system, it comes up with various things for simplifying the trading system.

ECX has a problem in trained manpower and technology which needs improvement for a complete operation. Furthermore, the fee imposed for the delay of withdrawing the products from the warehouses.

The managerial decisions making of the organization is highly centralized and lagging for any decision a required at the branch and stayed as one of bottleneck for the smooth operational follows and delaying customer response and goes long chain ,the Grading claim .handling procurers in not encourage ,if the client . Request to claim on grade issued .to their coffee arrived at branch. The branch operation has a lot of infrastructure problem and lack of conducive working environments which hidden the motives of the employees. Employees of the organization is complains as the salary they earned is not satisfaction and other remuneration and also the Court yard of the warehouse is not comfortable for heavy loaded trucks especially in summer, all court yard is full of mud.

5.2 Recommendation

The enabling condition for development of commodity exchange are also fundamental to the marketing development good physical infrastructure reduce transaction cost and promote trades, a successful market information system can address information asymmetry, the grading procedures should be transparent for all concerned body and the grading claim handling procedures should be boost and establish at around to serve the client in nearby. The exchange should connected it's all business follows with it regardless of it is activities with to modernized the business follow from end to end and solve infrastructure problem specialty connection related, by owning other alternatives. Option like 3G,4G EVDO, CDMA, to solve connection related complains should install the heavy duty stand by generator to replace the medium one to solve the power, outage related problem to smooth and speed ups its internal process to satisfy its suppliers needs and make the working environment conducive to motivate its employs since exchange is highly operation oriented while we compared to the theoretical practice on its working procedures with that of practical performance and as well as the exchange should consider the benefit of its employs to consider the current will condition and highly discouraging paying scale.

The organization should empower its branch operations and delegate for some managerial activities like recruitment of under supervision employees, procurement with a limited amount of price, purchase of consumable materials which is highly centralized and critical required for the smooth running of daily operational activities.

As the research finding revealed, ECX employs grading and sampling before the products enter into the warehouse and also at the time of withdrawal, but their grading and sampling system is biased because of suppliers as having especial contact with employees in the warehouse. Therefore, ECX is expected to have its own means for checking up the conducts of the employees. To correct their behavior, it is better to have close follow up in the case of what is happening with the suppliers and what special relationship they have with the employees and in addition to the above the exchange better to give training to them to shape their behavior for avoiding this problem.

After the trading is completed, the buyers expected to pick-up the products from the warehouses. If the buyers are unable to do this, he/she is required to pay 1% from the total price of the commodity as a penalty for every extra day and from depositors' side after thirty days of deposit, the penalty will grow to 3.5% of the value of the stored commodity per day. This condition disappointed the suppliers while the penalty is not reasonable. Therefore, before taking this kind of measure, ECX should consider what makes the buyers not to pick up the commodity on time. Rather than penalizing the buyers, it is better to add additional warehouses to get space for newly entering commodities. Also in the case of depositors, there is the possibility that the products international price will fall down and in this situation; the producers may need extra days to deposit their products in the warehouse. Within this condition, penalizing the depositors can demoralize them not to come back to the warehouse in the future to get the service. As it is pointed out above, to make the exchange accessible to all actors, increasing the quantity of the warehouses is the only way to find solution for the problem and upgrade the court yard by asphalt road.

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QUESTIONNAIRE
JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT
MBA PROGRAM

To Respondents

This questionnaire is prepared to assess the attitude of customer towards challenge and prospects of commodity exchange particularly in ECX. It intends to look into the current policies and guidelines, actual performance of exchange transaction and its implication to towards facilitates exchange. The result of this questionnaire will be used for academic purpose only. It is hoped that the outcome of this research will contribute to the improvement of commodity exchange practice in jimma branch ECX. Therefore you are kindly requested to provide genuine response to the questions that follow.

Dinku Taye

“Thank You in advance for your kind cooperation”

Section A: Personal Information Question

Please answer by putting a thick (✓) in one of the blank spaces corresponding to each item.

1. Age group (in Year)

A. 20-30

C. 40-50

B. 30-40

D. 50+

2. Sex

A. Male

B. Female

3. Level of Education

A. Below 12 Grade

D. Bachelor Degree

B. Certificate

F. master and Above

C. Diploma

Section B: Benefits of commodity exchange questionnaires'

No	Benefit of Commodity Exchange	strongly Disagree	Disagree	Neutral	Agree	Strongly Agreed
		1	2	3	4	5
1.1	Existence of commodity exchange reduce transaction cost					
1.2	Commodity exchange provide mechanism for market liquidity					
1.3	Commodity Exchange enable transfer price risk					
1.4	Commodity exchange can create trust in the market					
1.5	Commodity Exchange can create order and integrity in the Market					

Section C: Specific challenge associated with Jimma branch ECX questionnaires'

No	Specific Challenge	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agreed
		1	2	3	4	5
2.1	Jimma Branch ECX provide adequate, complete and relevant market information for members					
2.2	Jimma branch ECX provide quality grading services					
2.3	Jimma branch ECX is well equipped for accurate measure and sampling					
2.4	Jimma branch ECX have adequate warehouse					

	that accommodate as per the customer's request					
2.5	Jimma branch ECX able to provide available price discovery for all actors					
2.6	Jimma branch ECX is actively work to market transparency					
2.7	Jimma branch ECX have the potential for dispute settlement among members					
2.8	Jimma branch ECX provide banking and clearing settlement for exchange					
2.9	Jimma branch ECX operates in highly centralized managerial decisions making of the organization.					
2.10	Jimma branch ECX provide sufficient transportation from ECX warehouse to ECX members effectively.					
2.11	Communication network is sufficient enough to run the business in the area.					
2.12	ECX Jimma branch impose high penalty cost for ECX members for not withdrawing their commodity from warehouse.					
2.13	ECX Jimma branch give necessary time to members to store and transfer the commodity.					
2.14	Members paid high interest rate for financial institution.					
2.15	ECX is capable of Contract Enforcement.					

Section D: Contribution of Jimma branch ECX questionnaires'

No	Outlook of EXC	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agreed
		1	2	3	4	5
3.1	ECX Jimma branch has a significance to growth of new cooperative in the area					
3.2	ECX Jimma branch have contribute emergence of exporter firms					
3.3	ECX ECX Jimma branch have significance to encourage increasing of commercial farm					
3.4	ECX Jimma branch have significance to encourage in terms of increasing agro-processing linkage					

Thank You.