THE ETHIOPIAN COMMODITY EXCHANGE: A COFFEE SUCCESS STORY?

As the only functioning commodity exchange in the Least Developed Countries (LDCs), the Ethiopian Commodity Exchange (ECX) is viewed as wildly successful in modernizing the Ethiopian economy, linking smallholder farmers to markets, and enhancing the country’s food security. Success stories, such as the claim that the ECX has effectively linked 2.4 million smallholder farmers to markets through agricultural cooperatives¹, have been heavily covered in both regional and global media outlets. According to a new IFPRI Discussion Paper, however, the evidence behind such success stories has been largely anecdotal; there has been very little systematic analysis to determine whether the ECX is in fact the driving factor of improvements in Ethiopia’s agricultural markets.

“Institutions and Market Integration: The Case of Coffee in the Ethiopian Commodity Exchange” looks specifically at the coffee value chain. Coffee constitutes an important cash crop in Ethiopia, accounting for 35 percent of the country’s total export revenues between 2000 and 2014. In addition, more than 4.2 million smallholder farmers produce coffee beans, making the crop equally important to poverty alleviation efforts. When the ECX first began trading coffee in December 2008, the government suspended the country’s traditional coffee auction floor and made it mandatory for all coffee trading to be conducted through the exchange. This was done to ensure that the ECX received large enough market shares to make it successful on the coffee commodity-exchange-ethiopia-economy.

export market. Ethiopia’s coffee farmers are now required to sell their coffee at designated primary markets where only certified buyers are allowed to make purchases; similarly, coffee processors must receive approval to use designated warehouses, where their product is graded for either export or sale on the domestic market.

The IFPRI paper examines whether the establishment of the ECX and the regulations supporting the exchange have improved the price relationships between domestic markets in Ethiopia and the international market. The authors hypothesize that any intervention in a commodity market should be reflected in the price dynamics of that commodity. Thus, if there is an improvement in the price relationship between the international coffee market and Ethiopia’s domestic markets, this means that the ECX’s policies have addressed some of the market failures in the coffee sector.

To test this hypothesis, the authors look at both the interdependence and the volatility transmission of prices across international and domestic markets from January 1992 through June 2013. The study focuses on five major coffee varieties and looks at prices at three levels: farm-gate prices, auction prices (from the old auction floor until 2008 and from the ECX thereafter), and the international commodity price.

While the findings vary somewhat among different varieties of coffee beans, the results find that in general, the ECX has had a limited impact on international-domestic price dynamics in Ethiopia’s coffee sector. Producer prices did see a general increase since 2008; however, only two out of five major coffee-producing regions saw increased interrelationships between auction and international prices. This suggests that while the relationship between local and international prices is generally significant, only a very small fraction of the movement of international prices (either increases or decreases) actually gets transmitted to producers.

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NEW WORKING PAPER RELEASED
Working Paper Series Continues

AGRODEP has released its twentieth working paper, “The Impact of Namibia’s Income Tax Reform: A CGE Analysis” examines the economy-wide equity and distributional impacts of Namibia’s tax policy reforms introduced in 2013. The authors, Blessing Chiripanhura and Ronald Chifamba, find that reductions in personal and corporate taxes result in varied effects across institutions and markets, with significant variations among urban and households. When urban households experienced a decrease in the effective tax rate, they saw higher disposable incomes than rural households, due largely to the latter’s reliance on subsistence farming. Falling consumption prices also led to households improving their consumption patterns. However, households also experienced declining employment in the primary and service sectors; due to Namibia’s high unemployment rate, the tax cut enhanced inequality between skilled and unskilled labor.

At the sectoral level, the manufacturing sector benefited most from the tax reforms; manufacturing output increased, as did manufacturing exports.
DATA
Recent statistics about Africa

Graph 1. Africa: Telephone Subscribers (Per 100 Inhabitants, 2013)

Telecommunication infrastructure is essential for economic growth and development, particularly because it supports a country’s participation in international trade. Fifteen years ago, Africa’s infrastructure in telecommunication was poor. According to new data from the African Development Bank, it appears that many countries have begun to catch up in terms of their telecommunications use; however, others still lag behind.
AGRODEP PUBLICATION SERIES
Complete Listing for 2015


- Working Paper 11: The Impact of Foreign Large-Scale Land Acquisitions on Smallholder Productivity: Evidence from Zambia by Kacana Spangule and Jann Lay
- Working Paper 12: Analysis of Impact of Climate Change on Growth and Yield of Yam and Cassava and Adaptation Strategies by Farmers in Southern Nigeria by Nnaemeka Chukwuone
- Working Paper 13: How Aid Helps Achieve MDGs in Africa: The Case of Primary Education by Urbain Thierry Yogo
- Working Paper 16: The Potential Impact of Climate Change on Nigerian Agriculture by Joshua Olusegun Ajetomobi
- Working Paper 17: How Did Wars Dampen Trade in the MENA Region? by Fida Karam and Chahir Zaki

AGRODEP also published three new Technical Notes in 2015.

- Technical Note 11: Macro Econometric Modeling: A Practical Approach under EViews, with a Focus on Africa by Jean Louis Brillet
- Technical Note 12: Partial Equilibrium Trade Simulation (PETS) Model: Documentation by David Laborde and Simla Tokgoz

Finally, AGRODEP published three new Data Reports this year.

- Data Report 5: A 2007 Social Accounting Matrix for Guinea-Bissau by Joseph Francois Cabral
- Data Report 6: La Matrice de Comptabilité Sociale de la Côte d’Ivoire: Exercice 2006 by Ismael Fofana and Souleymane Sadio Diallo

The AGRODEP Working Paper Series is a bilingual online series aimed at increasing the visibility of AGRODEP researchers. The Technical Note and Data Report series address the methodology, functioning, and use cases of a wide range of models to provide members with access to state-of-the-art tools and data.

WHAT IS AGRODEP?

The African Growth and Development Policy (AGRODEP) Modeling Consortium is an initiative led by the International Food Policy Research Institute (IFPRI). The goal of AGRODEP is to position African experts to take a leading role in both (1) the study of strategic development questions facing African countries as a group and (2) the broader agricultural growth and policy debate, which traditionally has been dominated by external actors and concerns.

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