

AGRODEP BULLETIN

AFRICAN GROWTH AND DEVELOPMENT POLICY (AGRODEP) MODELING CONSORTIUM

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 general, the ECX has had a limited impact on international-domestic price dynamics in Ethiopia's coffee sector.

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

AGRODEP is a Modeling

Consortium of African researchers living and working in Africa with research interests ranging from economic modeling to regional integration and development to climate change, gender, poverty, and inequality. There are currently 183 members from 27 countries; our members work at top research institutions and universities in their own countries as well as various government agencies and non-profit organizations.

The benefits of being an AGRODEP member include opportunities for research grants, free access to cutting-edge economic research tools, data, and training. Members also gain access and exposure to large global networks of economic researchers and experts. [Click here to learn more.](#)

¹ [www.theguardian.com/global-development/2012/dec/13/africa-](http://www.theguardian.com/global-development/2012/dec/13/africa-commodity-exchange-ethiopia-economy)

[commodity-exchange-ethiopia-economy.](http://www.theguardian.com/global-development/2012/dec/13/africa-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

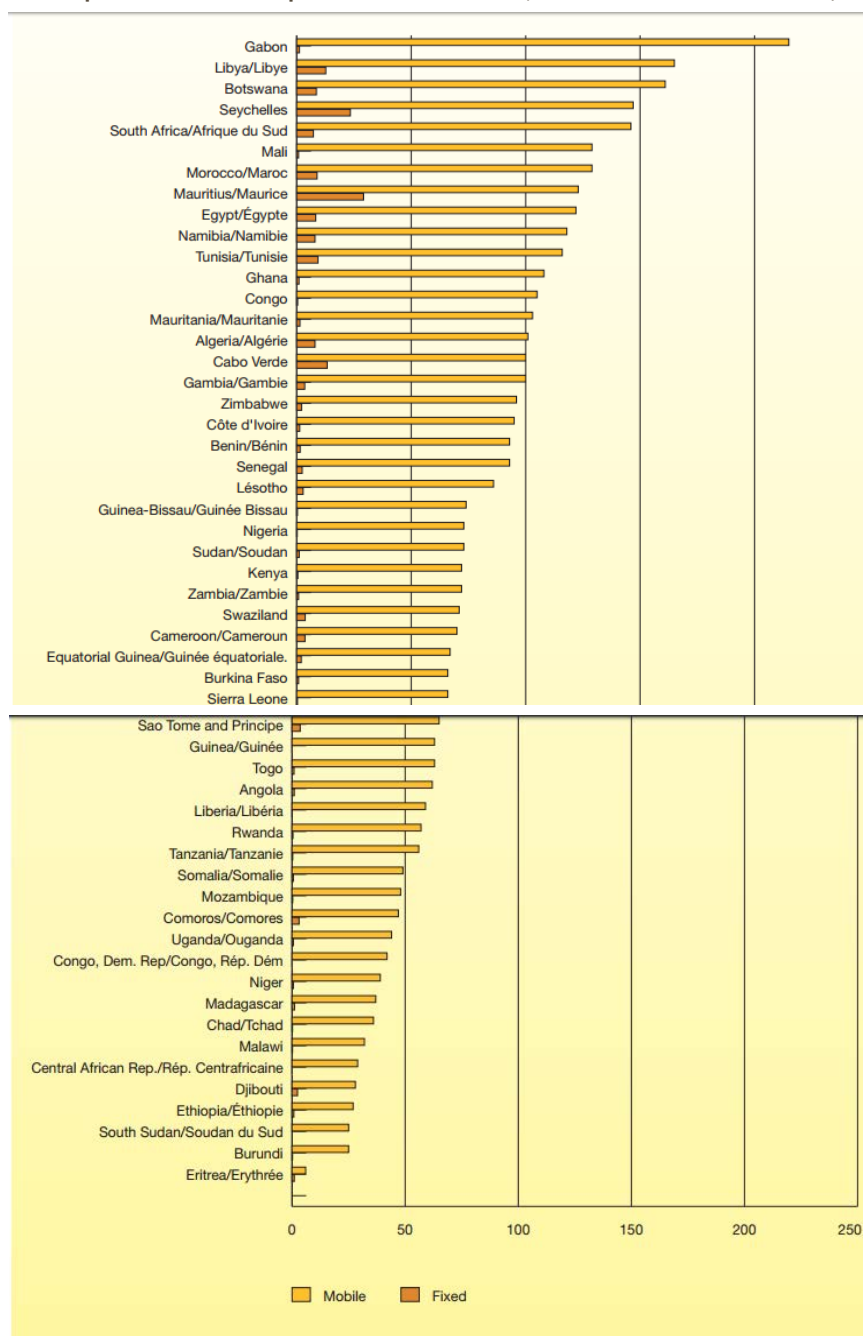
AGRODEP has released its twentieth [working paper](#). "[The Impact of Namibia's Income Tax Reform: A CGE Analysis](#)" examines the economy-wide equity and distributional impacts of Namibia's tax policy reforms introduced in 2013. The authors, [Blessing Chiripanhura](#) and Ronald Chifamba, find that 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)



Source: African Development Bank Statistics Pocket Book, 2015

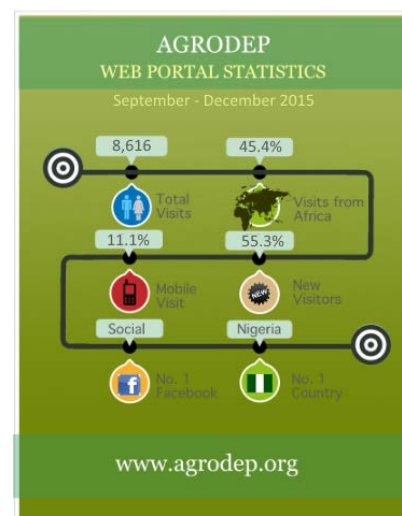
Telecommunication infrastructure is essential for economic growth and development, particularly because it supports a country's participation in international trade. Fifteen years ago, Africa's infrastructure in telecommunication was poor. According to new data from the African Development Bank, it appears 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

The AGRODEP **Working Paper Series** gained 11 new publications in 2015.

- **Working Paper 10: Welfare Effects of Policy-Induced Rising Food Prices on Farm Households in Nigeria** by Adebayo Shittu, Oluwakemi Obayelu, and Kabir Salman
- **Working Paper 11: The Impact of Foreign Large-Scale Land Acquisitions on Smallholder Productivity: Evidence from Zambia** by Kacana Sipangule 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 14: Is More Chocolate Bad for Poverty? An Evaluation of Cocoa Pricing for Ghana's Industrialization and Poverty Reduction** by Francis Mulangu and Eugenie Maiga
- **Working Paper 15: Modeling the Determinants of Poverty in Zimbabwe** by Carren Pindiriri
- **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
- **Working Paper 18: Rising Global Food Prices and Price Variability: A Blessing or a Curse for Global Food Supply?** by Mekbib Haile
- **Working Paper 19: Mother's Education and Children's Nutrition Outcomes in Burkina Faso: Is There a Strong Causal Relationship?** by Eugenie Maiga
- **Working Paper 20: The Impact of Namibia's Income Tax Reform: A CGE Analysis** by Blessing Chiripanhura and Ronald Chifamba



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
- **Technical Note 13: A User Guide for the Excel Interface to Compute Optimal Tariff Aggregators** by David Laborde

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 Comptabilite Sociale de la Cote 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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