



CHAMPION STORIES

African Commodities Trading Benefits from Professional Exchange with Global Company

The **Ethiopia Commodity Exchange (ECX)** started operation in April 2008. It is the first of its kind of integrated marketplace in Africa spanning the central trading system, warehouse delivery centers, product grade certification, clearing banks, an arbitration tribunal, and a market information system. The trading system is currently an open outcry (real time auction) and spot trading of goods in hand, with futures trading being introduced in 2013.

Instituting a commodity exchange that guarantees quality, quantity, payment and delivery resolves the all too common impediments of agricultural buyers and sellers in African markets not finding each other to engage in transactions that are reliable and accountable.

When Tizita Alemu, Inspections Manager at ECX spent two months as a Global Procurement Associate in the Cocoa Risk Management Group of **Hershey Co., U.S.A.**, she learned firsthand about how global private sector food companies rely on market intelligence and standardized practices to secure procurement investments and to hedge their risks against future price increases.

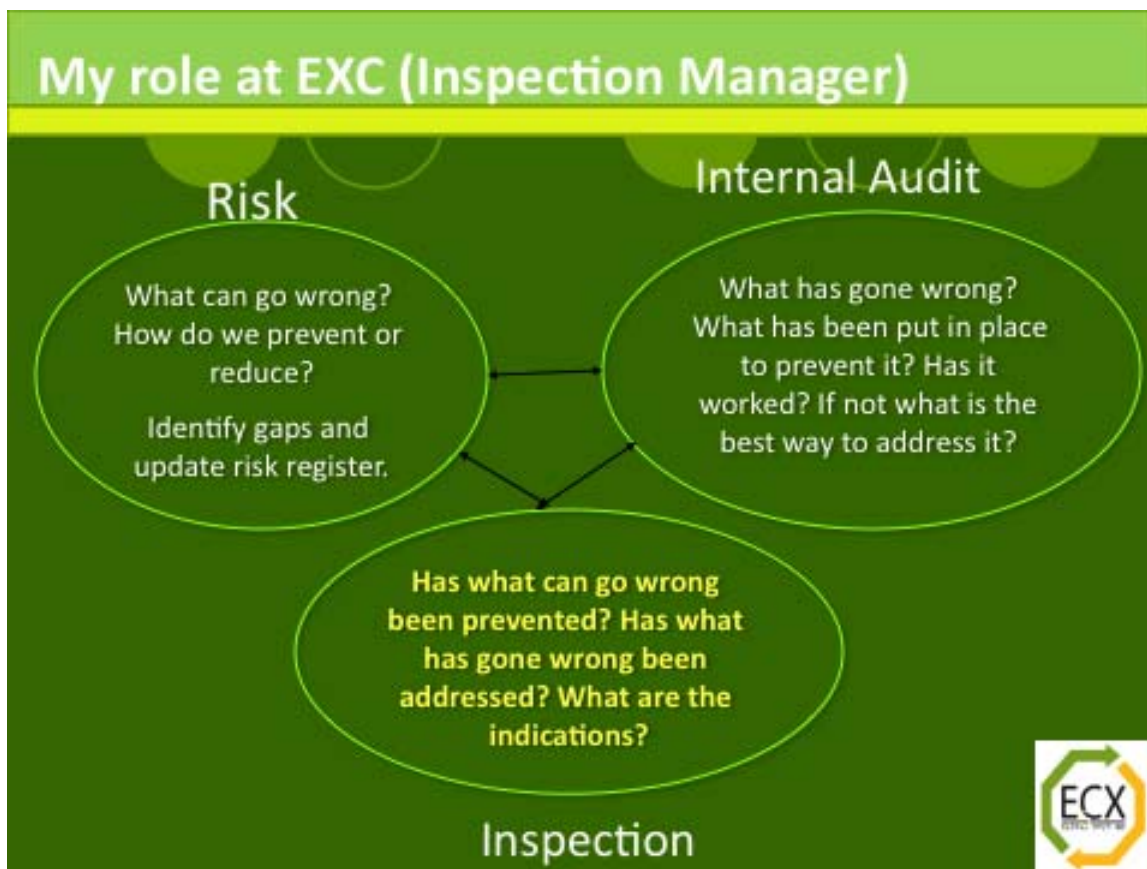
“At ECX we have embarked on continuous improvement to give Africa the best model for structured trading system as a way of increasing food security and empowering the farmers to earn decent livelihoods.”, Ms. Alemu explains.

ECX's clearinghouse function takes and holds funds from buyers until an agreement is struck with a seller at which point payment is transferred to the farmer or farmer representative within one day.

Similarly commodity products at the warehouse are graded, weighed, certified and stored. ECX takes the receipts guaranteeing both quality and quantity from the warehouses and transfers ownership of the commodities from the seller to the buyer on the day after the sale.

These crucial transaction services are offered to members who buy a seat in the exchange. ECX members include farmer co-operatives that represent 2.4 million small farmers in Ethiopia. They make up 12 percent of the membership; the balance comes from other farmer representatives and from the buyer side: processors and distributors.

The Inspections Unit of ECX that Ms. Alemu manages audits trading operations for coffee, sesame and pea bean (exclusively traded) with maize, wheat (non-exclusive) and new commodities to be introduced in the future. It provides its customers across the agricultural value chain -- small holder farmers (producers), cooperative unions, traders (intermediaries), investors in the export sector -- best practices to improve quality of products, standardize warehouse operations and management, and to ensure reliability of contracting.



As a result of Ms. Alemu placement with the Hershey Company facilitated by Feed The Future's Africa Lead leadership training program, ECX is positioning itself to provide the level of secure trading and market intelligence global companies seek. Exposure to Hershey's expectation of a structured marketing system included learning cutting edge ICT systems for trading.

The training Ms. Alemu received in Hershey's commodity operations is manifesting itself in efficiencies and risk management as more staff and warehouse operators are trained in best practices. The transfer of ownership from warehouse receipts and an unprecedented one-day clearing and settlement payment system that ECX offers enhances reliability to both buyers and sellers.

Being embedded in the Commodity Operations Unit at Hershey's also provided Ms. Alemu interaction with other departments including its Responsible Sourcing unit, which uses environment and human rights standards to guide procurement. She was also exposed to the company's Strategic Sourcing operation, which moves massive procurement capital around packaging and all non-commodity sourcing. This gave her a comparative perspective on calculations and risk management buyers engage in when considering futures purchases.



Producers, traders and buyers all benefit from a modernized commodity exchange system. (Tizita Alemu photo)

Transparency in pricing is benefitting not only buyers; it is aiding farmers throughout the country whether or not their goods are traded through ECX. It is setting the reference price nationwide. Hershey's reports it has benefitted, too. The company has gained new insights into emerging African trading systems and heightened sensibilities of cross-cultural business transactions from hosting Ms. Alemu. ■