

Revolutionizing Commodity Marketing System in Ethiopia

Part I

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1. Introduction

When I visit one of the web sites to read news related to Ethiopia, I found the article written by our big professor (Dr. Said Hassan) who usually claims to be an Ethiopian-American but at the same time, he is the person who does not like to see the positive progress in Ethiopia. When international organizations like IMF and WB recognize the new development of infrastructure in the country, he wrote an article against this positive development of infrastructural sector in the country. When the government said that inflation rise in the country was due to recent economic growth and supply side structural constraint, our famous professor again tried to tell us that the cause inflation in Ethiopia was due to printing of money supply. When the Ethiopian government decided to change the subsistence small holder agriculture to commercial agriculture through setting up the new commodity exchange, our professor want to warn those people who involved in this marvelous work. The warning released in his recent article was entitled “The dangerous hype behind the Ethiopian commodity exchange (or commodity invasion?).

Though this man does not deserve my reply¹, I decided to use this opportunity to highlight the problems of commodity marketing system in Ethiopia and the advantages of Ethiopia Commodity Exchange (ECX) in revolutionizing the traditional commodity marketing system in the country. Agriculture is the dominant sector of Ethiopian economy and the largest source of foreign exchange earnings. Therefore, the development of Ethiopian agriculture will have direct impact on the overall development of the country. Statistically, while about 80 percent of the total active population is engaged in agricultural production, the contribution of agriculture to the GDP seems to be about 45 percent. This indicates the low productivity of the agricultural sector that has mainly risen due to the inefficient marketing system which results in lower price for agricultural products. In Ethiopia, marketing costs account for about 40 to 60 percent of the total price spread between producer and retail prices (MEDC², 1996)

Usually market can be defined as a place where buyer and seller exchange goods and services at the prevailing prices. The well known economist Adam Smith said that market is determined through an invisible hand. The proponents of this idea (free market), believe that market demand and supply interaction are the two main forces that determine the equilibrium price and quantity of goods and services. But this argument was highly criticized when the free market forces failed to adjusted USA economy during great depression. In 1936, an alternative view was forwarded by John Maynard Keynes, which emphasised on the involvement of government to adjust market failure. Those people who support his idea explain that the free market outcomes may not be good either for buyer or seller without government involvement. Though there are many critics of the Keynes approaches regarding government involvement in adjusting market failure, most argue that government involvement in the market is indispensable to prevent price fluctuation. The known economist and the 1998 Nobel Prize winner Amartya Sen said that the lack of entitlement and market access are the major reasons for famine rather than low production. This show how proper

¹ I said this because our big professor does not want to write an article to enrich our economics knowledge in Ethiopian economy rather he writes most of the time to insult those people who work day and night to solve our deep rooted economic problems. Sometime I feel like this man wants to survive by the economic and social crises in the country. Then if this is the case, it is unfair to spend my precious time with this kind of people who do not have a bright mind and vision to propose something possible to solve our deep rooted economic problems.

² MEDC refers to Ministry of Economic Development and Co-operation

functioning of the market plays the major role in reducing famine or poverty through distributing food from surplus areas to deficit areas.

In this regard, since 1960 Ethiopian governments have been attempting to set up appropriate institutions that can facilitate the proper functioning of marketing system in the country. However, most of these efforts were not successful due to various reasons. To present my idea in a clear and understandable manner, I will divide my article into two parts: The first part focuses on the main activities that have been undertaken in improving the agricultural marketing system in the country. In this part, the article reviews policy direction used to improve the commodity trading system. In addition to this, it identifies the major problems of the traditional commodity marketing system in the country. The second part of this article discusses the concepts and importance of commodity exchange market in Ethiopian context. Further it attempts to explain the detail work undertaken to set up an effective commodity exchange market in Ethiopia. Finally this article identifies the major challenge that encounters ECX in revolutionising the commodity marketing system.

Part I has three sections including introduction. The second section mainly reviews the government's efforts in improving agricultural marketing system during the last two regimes and the EPRDF government. The last section identifies the major problems prevailing in the commodity marketing system in the country

2. Review of commodity marketing system in Ethiopia

Marketing includes assembling, storing, transporting, grading, standardization, financing, risk taking, etc. The absence of any of these activities during commodity marketing process would influence the outcome of price and quantity of agricultural products. Ethiopian government started to give attention to the development of agricultural sector since the second five year development plan. The first five year development plan (1957-1963) was focused more on the development of infrastructure and industry in the country. The second five year development plan (1963-1967) partly gave attention to the development of agricultural sector. Since 1960 various efforts were exerted to improve the commodity marketing system based on the economic policy implemented in respective regimes. Except the military government, both regimes (Monarchy and EPRDF government) applied relatively market base economic system which gave more opportunity to the market forces to determine the price of agricultural productions. Comparatively the current government (EPRDF government) involvement in agricultural market is minimal as compared to the Monarchy government. The next three sub sections briefly explain the institutional establishments and addition measures exerted to improve commodity marketing system in the country.

2.1 Commodity marketing system during Monarchy period

During the Monarchy period the country's economy was dominated partly by the private sector with more foreign investors as compared to the domestic investors in the agricultural sector. The government intervention in the agricultural market was minimal till 1960. In 1950 the government established Ethiopia Grain Board (EGB). The EGB functioned as a regulatory body with primary emphasis on export licensing, quality control, and overseas market intelligence. It did not hold stocks or involved in selling or buying of agricultural products. But in 1960 the government had taken steps to improve the commodity marketing system by establishing the Ethiopian Grain Corporation (EGC), the National Coffee Board and Co-operative societies. The Corporation which was established in 1960 was empowered to purchase, grade, process and transport agricultural product. With a network of storage

facilities, it was thought that the corporation would be able to purchase all offered marketable surplus and intervene in the market wherever necessary. The primary role of the EGC was to promote the grain export to boost the foreign reserves. In addition to this the Co-operatives established and easily obtained credit from banks and thus avoided the selling of the product at the time of the post harvest period.

The Chilalo Agricultural Development Unit (CADU) which was started in 1967 also applied various³ commodity marketing mechanisms to encourage farmers to use modern inputs for improving productivity in project areas. But all the methods used by CADU could not realize their price stabilization objective due to the challenges encountered in the marketing operations. Some of the challenges were lack of farmer willingness to work with new CADU's pricing method, grain importation by EGC which reduced grain local price and financial loss incurred by CADU. In the same way the institution which established by the government (EGC) suffered from shortcomings related to shortage of working capital, the lack of a government price policy and insufficient market information and also it was unable to generate enough profit to cover its administrative overhead costs. At the end of the 1975 the Corporation took only 5 percent of the total grain market (Webb P. et. al. 1992). Around 90 percent of the grain was supplied by private traders.

The market supply by the small holder farmers was also very low because of households payment of rent in kind to land owners. During the period 1960-1974, the commodity market price was determined by market forces. In addition, the marketing system was free from government control. However, the government controlled the commodity market through two mechanisms: large ownership of land with very limited property right; and control of international trade through state enterprises. Even during the drought period in 1973 when thousands of people were dying from hunger there was no shortage of food grains in Addis Ababa or other major urban areas. It was clear that the marketing system did not efficiently reallocate surplus to deficit areas. In addition the commodity market failure can be seen by the high fluctuation of price within and between the years (Holmberg, 1977).

2.2 Commodity marketing system during Military period

The Military (Dergue) government which came to power in 1974 by deposing the Monarchy government, officially declared its socialist economic policy. In 1975, the government nationalized most of the private assets and at the same time restricted private sector involvement in the agricultural sector. Such measures by the government reduced the agricultural production which affected grain supply in urban areas. This situation brought about an increase in grain price in major urban areas. To control the price and provide enough grain supply to urban areas, the Military government established Agricultural Marketing Corporation (AMC⁴). The new Corporation absorbed the function of the EGC and began operation with a special focus on grain procurement of public distribution and on cereal price stabilization. The government identified the following objectives in its grain market project proposal.

- Assure stable producer and consumer prices;
- Maintain adequate producer incentives;
- Reduce marketing margins through greater efficiency and reduced risks and profits;
- Assure an adequate food supply in all parts of the country

³ During the 1967-1973 period CADU followed three different wheat marketing strategies (John M. Cohen, 1987)

⁴ The Agricultural Marketing Corporation (AMC) was created in 1976, initially with World Bank support, to buy grain from farmers and sell to urban consumers and state organizations.

Further traders were forced to sell a portion of their supplies to the AMC at specified prices. Farmers had to deliver between 10 to 50 percent of their grain harvest as a quota to the AMC. In the late 1970s, Peasant Associations were obliged to deliver a minimum of 10,000 kilogram of their annual product to the AMC at fixed prices. In 1981, this quota was raised to 15,000 kilogram without a concomitant increase in production prices. The government's price controls and the AMC's operations had led to the development of different pricing systems at various levels against government objectives. Just to show my readers about this price difference I used the table below which displays the crops price set by AMC price and the market price in two selected areas in the country. During July 1985-June 1986, the average AMC price for Barley was Birr 28 per quintal when the same product was sold at Birr 61 in Gojjam and Birr 106 in Wello. This implies that AMC price was 46 percent and 26 percent lower than Gojjam and Wello Barley market price.

Table 1: Comparison of AMC prices to mean nominal retail prices, Gojjam and Wello in July 1985-June 1986 and January 1988

(in Eth. Birr)

Crop	AMC Farmgate price		Gojjam		Wello	
	July1985 June 1986	January 1998	July1985 June 1986	January 1998	July1985 June 1986	January 1998
Barley	28	30	61	56	106	68
Sorghum	23	25	55	44	118	85
Teff	45	48	77	72	157	129
Wheat	34	36	79	69	118	88

Source: Webb P. et. al., 1992

One can see in the above table the wide gap in price margin between the AMC price and market prices for all crop production: Sorghum, Teff and wheat. Such market price margin encourages the farmers to sell their product to the market than in AMC. In order to strengthen its control over grain movement in the whole country the government set up roadblocks at the entrance to all town or large villages. But all these efforts could not stabilize the grain price in the country. The desperate military government had intensified its non- market action to control the rising commodity price. For instance the government executed⁵ seven merchants for alleged hoarding and overpricing of grain (Holmberg, 1977).

All the government non market measures like quota and price fixing distort the proper functioning of the market through; (1) depressing rural incomes; (2) transferring resources from rural households to a relatively small group of urban households through artificially cheap food prices; and (3) depressing cereals production in Ethiopia. In October 1990 the Military government conducted new reform program by removing quota and allowing private sector to get involved in the agricultural sector. But these were not the solution for solving the core problems of the commodity marketing system in the country. Whatever the case these reform measures were a great relief for highly controlled commodity market system in the country. During 1974-1990, the regime severely damaged the market base trading system which was started during the Monarchy government. Various studies revealed that the average growth rate of agriculture during this period was 1 percent as compared to around 3 percent of

⁵ In at least one case a merchant was executed for hoarding no more than 200 quintals of grains(Holmberg, 1977)

the population growth. Hence, the government land reform without the proper commodity marketing system could not bring sustainable agricultural transformation in the country.

2.3 Commodity marketing system during EPRDF government

Following the fall of the Dergue regime, a transitional government embraced market oriented economic policies. The government has undertaken a wide range reform in agricultural sector. This reform included elimination of official fixed prices, removal of compulsory delivery quotas and abolition of grain rationing to urban consumer. All controls on interregional grain movement were lifted and the private sector was permitted to operate in a free market environment. In 1992, the AMC was downsized substantially and renamed the Ethiopian Grain Trading Enterprise (EGTE). The role of the EGTE was revised to stabilize producer and consumer prices and maintain buffer stocks. The withdrawal of the government from agricultural market in the early 1990s provided a much needed boost to agricultural production and, given its large share of GDP, to the overall economy (Anderson K. et. al, 2009)

However, the new market based economic policy was decided in the country without sufficient institutional arrangement that was required for the smooth functioning of the market. We need responsible and capable institutions that can provide necessary information and trading regulation for market actors to enable them to work with less risk. At the same time, rather than to strength the EGTE capacity by human and financial resources for the purpose of price stabilization, the current government left the market alone to get adjusted by itself (by invisible hand). In 1995/96 due to an increase in cultivated land size⁶, more fertilizers utilization and better weather conditions, the country was able to register higher crop production. In December (1995/96), the Central Statistical Authority (CSA) and FAO independently forecasted that food grain production (cereals and pulses) would be 20% and 27% higher, respectively, than that of the previous year 1994/95) (MEDC, 1996).

With the absence of efficient and proper commodity marketing system in the country, such surplus production had reduced the market price of most agricultural commodities which directly affected the life of rural poor people. For instance maize prices in surplus-producing areas have been particularly depressed, falling as low as 55% to 70% of their five-year average levels in parts of Oromia and Southern regions (ibid). In order to increase the price of agricultural price, the government set the minimum price⁷ through EGTE and tried to purchase the surplus product. In addition to this, the agreement was reached with donor agency like EU to buy grain production from the domestic market than importing the grain from abroad. But all these government efforts could not prevent the price from decaling bellow the cost of production. The main problem was the limited financial capacity of EGTE to buy more products from the market. Combined donor and EGTE maize purchases have amounted to less than 8 percent of the estimated marketed maize output. This was not sufficient to restore maize prices close to their average levels in many parts of the country. These have clear implications for farmer planting decisions and grain production in the following years.

In related development after four years in 2000, surplus grain production was recorded in some parts of the country. Sadly, such surplus production again reduced the market price in the surplus areas. For instance wheat price in Gode town plummeted, from 260 Birr per 100kg

⁶ In 1995/96 the cultivated land area increased by 10 percent as compared to the year 1994/95.

⁷ In 1995/06, EGTE set minimum price to help farmer: 70 birr for maize and 116 birr for wheat.

in May 1999 to 90 Birr in June 2000, a 65 percent price reduction. In the same way in Nekemte, wholesale price for maize dropped by 50 percent from mid 1999 to the same period in 2000 (UN, 2002). Though government has occasionally used public enterprise to intervene in commodity markets to ensure price stability, this government effort could not control the volatility of price that affect the incentives of the farmers to use more modern technology.

The government's desire to transform the agricultural sector through Participatory Demonstration and Training Extension System (PDTEs) has been challenged by the absence of proper commodity marketing system in the country. The absence of strong institution that can stabilize commodity price in the country is discouraging many farmers who were involved in the new extension package program⁸. The main source of this problem is the government decision to downsize EGTE which undermine the capacity of the Enterprise to stabilize price. The other interesting thing, EGTE has been involving in grain export despite its failure in stabilizing local grain price in the country. The problem of infrastructure and lack of clear vision in the agricultural output marketing system of the country prevented EGTE from accomplishing its objective of price stabilization (Alemu, 2005). Though there have been many promising progresses recorded by the current government, the absence of effective commodity marketing system and lack of timely information flow substantially hindered the expected structural transformation of agricultural sector in the country.

3. Problems of commodity marketing system in Ethiopia

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. These situations indicate the country's effort toward price control through market and non market instruments. Till today the commodity market is not stable like the year before 1974. Even some studies claim that the price variation is higher since 1991 than the years before that. The problems of commodity market can be summarized in three parts. The first part 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. The second part is the absence of well equipped institutional establishment which can provide all marketing services to all market actors. In this regard, all the three government established EGC, AMC and EGTE, with little financial and material support. Unfortunately all these institutions failed to bring relatively stable commodity prices in the country. The last part is the absence of private and public partnership in the commodity market. Then what are the solutions? In the next part of this I will discuss the possible solutions to revolutionize the commodity marketing system in Ethiopia.

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⁸ Last year (2001) Alemu, a local farmer in Jimma zone had sold two of his oxen to repay his loan taken to receive the extension package that included improved seeds and fertilizer to produce cash crop for the market. Now he does not even have oxen to plough his land. Some of his neighbours who do not have cattle to sell cannot even repay the loan and face risk of going to jail(UN,2002)