

The Dangerous Hype behind the Ethiopian Commodity Exchange (or Commodity Invasion?)

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It is our hope that many Ethiopians have watched the PBS/WNET documentary film under the title of *The Market Maker/Wide Angle*, which was broadcast beginning on July 23, 2009. This documentary followed the Ethiopian economist, Dr. Eleni Gabre-Madhin who is the CEO of the relatively newly established Ethiopian Commodity Exchange. Many of us were waiting for the documentary to show us how the ECX could "... transform the Ethiopian economy by becoming a global commodity market of choice," as claimed in the ECX's main web page. That was not to be.

We were disappointed (but not surprised) by the failure of the documentary film which failed to show us the difficulties that the ECX has and would face, let alone Dr. Elin's failure to explain to us how the ECX could "transform the Ethiopian economy." The anchor of the documentary, a renowned journalist Mr. Aaron Brown opened the discussion by asking a question HOW the commodity exchange would lift the millions of Ethiopian poor farmers out of poverty. We were anxiously expecting Dr. Eleni to explain to us how many millions illiterate peasants would read the coded commodity prices and use them to their advantage; how the ECX could function and survive in a country where free markets are non-existent; explain to us the mechanisms whereby the peasants would be able to obtain the necessary information about markets in a country where the independent media is slumped shut by the government authorities, a country where the limited media outlets (one of the poorest and lowest penetration rates in the world), such as the telephone, internet, radio, TV, newspapers are totally controlled by the government. For those who don't know the Ethiopian situation, we would like to inform them that even those who have access to the limited both the electronic and print media are so fed up with the government's endless lies and false propaganda that they only pay attention to those foreign-owned and operated media outlets such as the BBC, VOA, Deutsche Welle, al-jezeera and the Eritrean TV.

Moreover, those of us of Ethiopian origin were expecting the documentary to show us the difficulties and lack of coordination between market participants. In particular, we were expecting the producers of the documentary to have gone deep into the rural areas of Ethiopia and show us the daily lives of the peasants, their unbearable poverty, the meager outputs they produce, and how they "dump", which is true to this day, their small products to any price they could fetch during harvest

times, how they would be able to know what the ECX is (let alone their lack of understanding how it works). It was not to be.

As Thomas Paul who had watched the documentary aptly put it, the documentary failed to show the criteria for success, the market inefficiencies before the implementation of the ECX, how one could measure the benefits of an efficient trading system. The same observer also noted that Dr. Eleni failed to show any raw data supporting the ripple effects of market efficiencies that she talked about, the impacts of the price variances, the challenges, and implementation strategies. Most importantly, both the documentary and Dr. Eleni failed to show us what kind of regulatory schemes exist to build trust, which is a paramount currency in a (newly formed) commodity exchange system. The initiative is a start, assuming that all the necessary ingredients are in place (which is not the case), but it is far from the success story the documentary tried to portray. The same astute observer also noted: “The benefits and theoretical advantages of making trading easy, is a function of trust which in turn is a function of independence from the hands of the government. ... “[W]hat was glaringly evident was that the system has so far failed to win the trust of stakeholders, as evidenced by the governments’ abrupt shut down of an efficient auction system by which coffee was traded previously. As soon as stakeholders, farmers and merchants alike, were forced to transact through the ECX, they went underground. Some were accused of ‘hoarding’ and thrown in jail...” [Taken from a message posted on Ethiopian Email Exchange Network, posted on July 23, 2009.]

Let us briefly delve into some of the characteristics of a commodity exchange system and relate those characteristics to the ECX. In this particular article (our first installment on the issue), we show that the ECX is neither a Free Market based transparency and a level-playing field, nor it is intended to be, at least from the government’s stand point.

Since its establishment, which began its operation in April of 2008, the ECX has never been a free exchange market. The description “free commodity exchange market” was and still is just a PR stunt and a pretext to hoodwink donors and unsuspecting public. We know free markets galvanize private resources by bringing those who are willing and able to buy and sell when they try to maximize their own individual utility. We also know and understand that commodity exchange mechanisms could play vital roles provided that they are set up properly and allowed to function with minimal interference by the authorities. By the same taken, the ECX could alleviate, but not transform, some of the problems that the Ethiopian economy is in, again, provided that all the necessary conditions that will make a “free”

commodity exchange to function properly. But there are a number of both conceptual and practical problems with the EXC.

- A. **Transparency:** For more than a year, we have been looking for the identity of the officers and regulators of the ECX. As everyone knows, such a disclosure of the identity, background and financial interest of the individuals and the businesses involved in the exchange is paramount to the well-functioning and transparency of any commodity and financial exchange institution. We are happy to see, after more than a year of not doing so, the ECX putting out the identity of the officers, the regulators and trading members on the official website, but a detailed public record of those individuals and companies is necessary.
- B. **Market Information (lack of):** The ECX on its only official website claims information being delivered all over the country through Radio, Television, and SMS. But it failed to inform us that there is no privately owned media infrastructure in the country. It failed to honestly inform the reader and the observer that not only the government owned and operated media outlets are biased but their usefulness to market participants is almost non-existent (for example, the internet penetration rates as compared to the rest of the world is only 0.02%!) The claim that market information is transmitted all over the country is, therefore, misleading and false.
- C. **Credit:** Transparency of financing is a critical component of commodity trade. However, in addition to the listing of some of the 'private' banks, it is important to fully disclose the role of the government and the involvement of the ruling party owned credit establishments, particularly their relations to the private banks.
- D. **Storage:** As a government agency, the ECX owns and operates the largest storage facilities. In so doing, it enjoys complete dominance in the storage of commodities throughout the country, thereby making this same government agency the price-maker. Everyone involved knows that impartiality to the private traders does not exist and the government is crowding out private storage operators. Moreover, another government agency, the **Ethiopian Grain Trade Enterprise (EGTE)**, which is the largest grain purchaser in the country, is a member-trader of the exchange, owns major storage, transportation facilities throughout the country and directly competes against private traders. It has been recently disclosed that the EGTE destabilized the commodity market, due to its market dominance and the preference it gets from the government, and yet, no mention of this fact is made by the CEO of the ECX.

- E. **Transportation:** As mentioned earlier, the dominance of the Ethiopian Grain Trade Enterprise and the ruling party owned transportation operators are equally mentioned as private operators but they actually dominate its control. Such unequal relationship and favoritism is not only contrary to the normal operations of a market but the lack of disclosure their dominance, favoritism party owned parastatals, and their unfettered access to government regulators exacerbates the lack of trust on the part of the ECX.
- F. **Regulation:** The government officials who are listed as regulators, including the Prime Minister's involvement in the ECX's affairs are the major causes of market destabilization and the failure of the exchange as a market institution. In addition, the ruling party affiliated traders, financiers, transporters, and exporters should have been banned from the exchange. The Prime Minister as the leader of his party must disclose his party owned enterprises and their financial interests to the public before they are permitted in the exchange. Moreover, the ECX should have disclosed the names of the donor countries and international institutions that are financing the establishment of the exchange, including their financial interests and how they would be accountable for any improprieties that either their agents or those whom they support could commit. They should have demanded the disclosure of the financial interests of the officers as well. Unfortunately, none of the above disclosures are made so far, thereby creating an appearance of conflict of interest.

We conclude, therefore, based on the problems we listed above and other issues, there is a lack of market information, lack of contract enforcement, and a lack of trust on the ECX. In particular, the **asymmetric information** (those who are close to the government possessing all the information and outright favoritism) has been damaging to the ECX and will continue to be so.

Furthermore, let it be known that no commodity exchange will work (let alone function and assist the 82 million Ethiopians) without transparency and accountability. Let it be known that there are no commodity exchange markets that have flourished under repressive, parasitic, nepotistic and oligarchic regimes as it exists in Ethiopia. Let it be known that there is no "free commodity exchange" where repression is the order of the day, where the Ethiopian people are so petrified by the repression of Meles Zenawi's regime that they are leaving their country in droves. We believe there are better ways to feed starving Ethiopians, currently over ten million of them being dependent international food aid. Let it be known that a commodity

exchange, no matter how glittery it may seem, will not work in a malaise economy and with people under increasingly grinding poverty.



Let it be known that there is no true commodity exchange in a country where group of people who claim to represent a minority ethnic group, who have illegally transferred the means of production to themselves and the parastatals they fully control. Let it be known that the ECX adventure has been an exercise in futility, in part because the circumstances for a true commodity exchange system to function do not exist and in part because, as it became evident by Meles Zenawi's "cutting of the hands" of the Ethiopian coffee exporters, the entire exercise is designed to have full control of the commanding heights of the Ethiopian economy.

It is also about time for those renowned journalists to speak on behalf of their colleagues, members of the Ethiopian independent media whose businesses have been closed, who have languished in the prisons of Meles Zenawi with concocted up charges and who have been forced into exile. There is no and cannot be a free commodity exchange market under such repressive circumstances.

It is about time to recognize that millions of Ethiopians get hurt with such gimmickry and uncalled for hypes. ... Let it be known that the ECX is another well orchestrated gimmick, one of those government set up mega projects which are designed to control both the outputs and prices of the Ethiopian farmers, particularly the commodities which are the source of foreign exchange. Let be known that, as the saying goes: "all that glitters is not really gold!"

Let there be no more hypes, no more deceptions. Most importantly, it is time for those enablers of Meles's greedy and kleptocratic regime that the creation of hypes real consequences. As a gimmickry mega project, the ECX has been and will be used to both squander the meager resources of the country and as means of controlling the outputs of the Ethiopian peasants. Let it be known that those who are a part of this process, including those at the helm of the ECX will be accountable for what they have done to Ethiopia and its people.

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