

# Unlocking African Agriculture: Where Markets Can Take Us

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In my view, in the aftermath of market reforms and structural adjustment, Africa is unique in history and across the regions of the world in expecting that smallholder farmers will grow themselves out of the trap of low-input, low yield, and low output agriculture with the kinds of risks and costs they face.



*Eleni Gabre-Madhin (CEO, Ethiopia Commodity Exchange), H.E. Jakaya M. Kikwete (President of the United Republic of Tanzania), H.E. Meles Zenawi (PM of Ethiopia) - World Economic Forum on Africa 2010 at the World Economic Forum on Africa held in Dar es Salaam, Tanzania, May 6, 2010.*

In Ethiopia, the capital intensity of agricultural production is just six percent, with extremely low modern input usage and yields per hectare that are at one-fifth of their potential. What does this mean? This means that the surplus generated for the market out of the total produced is

only around twenty-five percent on average. It means that most of our farmers are still producing with largely a subsistence orientation. Moreover, the costs of accessing the market are extremely high and there is virtually no working capital finance for small actors. All of this means that farmers sell what little surplus they have at the lowest prices, often selling their goods on credit, bearing all the risks. Our farmers receive low returns for their labor, subsequently investing little in productive technology on farm or, post harvest, on quality enhancement and storage, and generally do not transition to a commercial orientation. The limited scope of markets, which we call market thinness, means that market prices are more volatile, and supply is not readily available in steady quality and quantity and reliable delivery, with rampant contract default. This compromises not only our food security, and farmer incomes, but also weakens our export performance and reduces the potential for agro-industrial development, with currently only 4% of our produced grains entering the formal processing sector.

To advance the transformation of agriculture in Africa, and make agriculture profitable to not just our smallholder farmers, but also to add export value and enhance our industrial development, we must unlock this vicious trap in which our farmers are not able to use the market as a means to capitalize on their productive inputs and transform their livelihoods. Encouraging them to produce more is important, but is not the whole answer. Nor is the answer for governments to get back in the business of buying and selling commodities. Unlocking this trap means turning commodities produced on farm into fungible assets that are liquid tradable goods. This undertaking has three dimensions: we need appropriate policy incentives to enhance private sector market actors and the flow of commodities across borders and across time, we need appropriate institutions such as grades and standards, contract enforcement mechanisms, market coordination, information systems, and delivery and transport logistics, and we need appropriate infrastructure, not just roads, but also telecoms and storage.

In Ethiopia, we have taken the approach that market development should be holistic, embracing all three of these dimensions, and done as a private-public undertaking, through the

establishment of an institution two years young: the Ethiopia Commodity Exchange or ECX. ECX aims to reliably connect buyers and sellers, bringing order, reliability, efficiency, and transparency to the market. To do so, the Exchange is uniquely designed for Ethiopia's conditions, with a wide scope of operations: quality certification, warehousing of commodities in delivery centers around the country and issuing of negotiable electronic warehouse receipts in a Central Depository, an open outcry competitive trading system, a payment clearing and settlement system on a T+1 basis, and an aggressive market data system which feeds market prices electronically within seconds, in real time, to rural electronic display boards and radio and other media outlets.

Moreover, we believe that a commodity exchange tailored to Africa's realities cannot be a copy-paste of the Chicago, London, or even Indian or Chinese experiences. We have had to contend with the reality of very small informal actors, challenging financial sector and telecommunications infrastructure, and the specter of mistrust between the public and the private. But the early signs are very promising. To date we have traded 700 million dollars of commodity, involving 450 trading members of which 12% are farmer cooperative unions, backed by 2.4 million small farmers. We have inventoried, traded, and delivered nearly 200,000 tons of commodity without a single payment default or delay or a single trading order error. No small feat, by any standards. To achieve this, we have harnessed the power of technology, with an IT solution that provides an end-to-end automation of the market chain. We have established laws and a regulatory framework. Most importantly, we have demonstrated that formal structured trade of a largely informal and traditional sector is possible, and that agriculture can really be business. It can be done. We have the farmers, we have the product, now we have the system to reach our value potential.

Thank you.