INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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DETERMINANTS OF SESAME TRADERS' WILLINGNESS TO SUSTAIN THEIR TRADING THROUGH ETHIOPIAN COMMODITY EXCHANGE (ECX) IN ETHIOPIA

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ABSTRACT

The objective of this study was to identify the main determinants of sesame trader's willingness to sustain their trading through Ethiopian Commodity Exchange (ECX). For this purpose probit model was employed to identify the effect of explanatory variables over the dependent variable. A cross-sectional survey questionnaires and focus group discussion were conducted to collect a primary data, and literatures were also used to augment the primary data. The data was collected from a sample of 87 Ethiopian commodity exchange participants selected through random sampling. The data was analyzed by probit regression analysis. The probit regression result revealed that formal education, working capital, number of people consulted at main market pre day, number of people consulted at other markets per market day, number of employees participating in information collection, purchase time (in days) found to be positively affect traders' willingness to sustain their trading through ECX. Whereas number of languages spoken and level of satisfaction with the grading system have been found to negatively affect traders' willingness to sustain their trading through the ECX. Recommendation to improve infrastructure such as lighting and internet connection problem and ECX should make awareness creation activity through Brushers, Medias, as well as conducting conferences. However, one reason not captured on this survey is the greater likelihood of being taxed when selling through the ECX. Because of taxation is a sensitive issue for traders.

KEYWORDS
Assembler, ECX, Intermediary, Transaction, Willingness.

1. INTRODUCTION

The Ethiopia Commodity Exchange (ECX) commenced trading operations in April 2008. ECX has invited membership of the agricultural and trade industry. ECX's establishment is founded on Proclamation No. 550/2007. This proclamation mandates ECX to develop its own rules for the governance of its various operations. Further, the Ethiopia Commodity Exchange Authority (ECEA) a regulatory body of the ECX was established by Proclamation 551/2007.
The Ethiopia Commodity Exchange (ECX) is a new initiative for Ethiopia and the first of its kind in Africa. The vision of ECX is to revolutionize Ethiopia's tradition bound agriculture through creating a new marketplace that serves all market actors, from farmers to traders to processors to exporters to consumers. The ECX is a unique partnership of market actors, the Members of the Exchange, and its main promoter, the Government of Ethiopia. ECX represents the future of Ethiopia, bringing integrity, security, and efficiency to the market. ECX creates opportunities for unparalleled growth in the commodity sector and linked industries, such as transport and logistics, banking and financial services, and others.
The Ethiopian Commodity Exchange was started to benefit and modernize the way Ethiopia was trading its most valuable assets, its commodities. Ethiopia needed a change from the traditional means of trading to better support the needs of all those involved in the trading and production. Before ECX was established, agricultural markets in Ethiopia had been characterized by high costs and high risks of transacting, forcing much of Ethiopia into global isolation. With only one third of output reaching the market, commodity buyers and sellers tended to trade only with those they knew, to avoid the risk of being cheated or default. Trade is done on the basis of visual inspection because there was no assurance of product quality or quantity, this drove up market costs, leading to high consumer prices. For their part, small-scale farmers, who produce 95 percent of Ethiopia's output, came to market with little information and are at the mercy of merchants in the nearest and only market they, know, unable to negotiate better prices or reduce their market risk.ECX is developing a new method of exchange and a safer one for all who trade on it.
In the myth of perfect market hypothesis, with perfect information, perfect mobility of factors of production, large number of buyers and sellers, free entry and exit and fixed technology, market is the only institution that is needed to attain Pareto optimal or the best possible resource allocation (Stiglitz, 2001).
In one side, since some developing economies markets are highly imperfect and large number of them are missing (Stiglitz, 2001; Sadoulet & Janvry, 1995), the mathematically consistent neoclassical conclusion, which assumes market allocation is the best possible allocation, is found to be in shaky ground. In other side, empirical and historical observation will make it clear that market based institutions are much better than other alternative institutions observed in human history. It is clear by now that market may not be perfect, but it is functional several factors.
An organized commodity exchange has a long history in the world. Grain traders in Japan began experimenting with the idea in 1730, and the Chicago Board of Trade (CBOT) and the London Metal Exchange successfully launched their operations to trade commodity in 1864 and 1877, respectively. The main rationale for the establishment of this exchange was the reduction of transaction costs and organizing a physical market place where buyers and sellers could be sure of finding a ready market (Taline, 2005).
Since 2004, more and more countries have launched commodity exchanges. Notable examples include the African Commodity Exchange (ACE) in Malawi established in 2004, Nigeria's exchange established in 2006, a new Zambian exchange (ZAMACE) established in 2007, and the much-publicized Ethiopian Commodity Exchange (ECX) established in 2008 (Rashid, Winter-Nelson, & Garcia, 2010).
The Ethiopian Commodity Exchange (ECX) was established to revolutionize Ethiopian agriculture and transform the economy through a dynamic, efficient and transparent marketing system. In order to stay competitive and cope up with the world market, should Properly implemented and regulated, commodity exchanges can contribute greatly to the achievement of a country's economic and developmental goals and strengthen the bargaining power of participants. In addition to that identifying what affects traders' interest in trading via ECX factors such as transaction costs, product grading system, infrastructures and others

should be given due attention so that to contribute knowledge or understandings on how the country can use its potential on this sector and bring foreign currency.

Not only Infrastructure problems are market constraints but also a study by Gabre-madhin (2001) and Bekel (2002) on Ethiopia grain market more ever indicated that importance of transaction cost which are constraint to trade. This costs which are distinct from physical marketing cost are costs incurred in conducting or coordinating market transaction between traders such as costs of looking for screening a trade partner, the costs of searching information on price qualities and quantities of product the costs of negotiating contract the costs of following -up contract performance, the costs incurred in enforcing contract. Since the costs are difficult and complex to identify and to measure they are usually ignored nevertheless they provide powerful explanations for the existence of missing market or market failure.

Despite the recent focus on the importance of markets for economic growth, very little is known about how transaction costs influence the emergence of market institutions. Even less is known about the nature and extent of these transaction costs, which are generally assumed to be fixed across market participants.

Besides large amount of literature on market performance following market reforms in sub-Saharan Africa, relatively little attention has been given to the role of market institutions in supporting commodity exchange (Barrett, 1997; Bryceson, 1993; Fafchamps, 1996; Gebremeskel, Jayne, & Shaffer, 1998). Even less has been given to understanding how particular institutions effectively reduce transaction costs and what determines trader's behavior to trade through market institution.

Ethiopia is the third world exporter of sesame seed after India and Sudan. Oilseeds are the third important crop in acreage in Ethiopia after cereals and pulses (Wijnands, Biersteker, & VanLoo, 2009). The major sesame growing areas are located in the Northwest; in Humera area in Tigray near the border with Sudan and Eritrea; in Metema in North Gondar and in Wollo area of Amhara region, Chanka area in Wollega of Oromiya, and in Pawi area in Benshangul Gumuz region.

ECX was opened for sesame trade in late 2009. In sesame trading millions birr's are circulated in the market and millions people involve in cropping and trading sesame in Ethiopia. So it needs a careful attention and follow-up because if once collapses millions of Ethiopian farmers and traders will be injured. In this study the researcher would like to assess the main determinants traders' willingness for sesame traders to sustain trade through ECX.

2. RELATED LITERATURE REVIEW

2.1. INSTITUTIONS FACILITATING EXCHANGES

According to Commons (1931), institution is a collective action in control, liberation and proliferation of an individual action. Commons argued that the control of the acts of one individual always results or is intended to result in a gain or loss to another or other individuals. The collective control takes the form of taboo or prohibition of some acts like intervention, encroachment and trespass. This prohibition form an economic status of liberty for the person thus made immune while individual actions is explained in terms of transactions instead of either individual behavior or the "exchange" of commodities. Furthermore, Commons believed that all collective acts establish relations of rights and duties; what is required of individuals to perform, avoid and forebear; economic status of individual such as security, conformity, liberty and exposure.

The common principles running through all of them are the principle of scarcity, efficiency, futurity, the working rule of collective action and the limiting and complementary factors of economic theory. In this tradition, institution is regarded as a supplementary to market where market cannot function and in a world of imperfect information institution carry information about the expected behavior of other agents to better coordinate economic activities.

North (1990) has forwarded a comprehensive definition of institutions based on his work in new institutional economic framework. He has defined institution as the set of "rules of the game" in a given society. These "rule of the game" consist of both formal rules like constitution, law, property right and informal constraint like sanctions, taboos, customs, traditions, and codes of conduct). More formally, North described institutions as constraint humans impose on their activities with each other to structure their interaction and therefore defines the incentives that determine the choice that they make that shape the performance of economy and society over time. Thus, institutional constraints include both what individuals are not allowed to do and, sometimes, under what conditions some individuals are permitted to undertake certain activities.

Schmid (2004), on the other hand, qualified this definition by arguing that institutions are more than just the rules of the game providing limits or constraints. They also enable individual to do what they cannot do alone. They also shape beliefs and choices and provide clues to uncalculated action. However, North (1990) emphasize that the extent to which there exist similarity between the objectives of the institutional constraints and the choice individuals make in that institutional setting relies on the effectiveness of enforcement. That is whether the strategy pay off obviously depends on the effectiveness of monitoring and the severity of punishment.

The cost of transacting arises because information is costly and held asymmetrically by the parties to exchange. As a result, institutions emerge to minimize these transaction costs and to facilitate market exchange (North, 1990). In the same token, a set of political and economic institutions that provide low-cost transacting makes possible the efficient factor and product markets underlying economic growth (North, 1992). In contrary, he argued that the institutions created by players to structure human interaction results in some degree of imperfection of the market. According to him in the cases where the institutional framework is more conducive to capturing the gains from trade, there will be encouragement to cheat, free ride, and so on that will in turn lead to market imperfections. However, institutions provide the incentive structure of an economy; as that structure grows, it shapes the trend of economic change towards growth, stagnation, or decline (North, 1991).

It is a well known fact that market transactions, especially in developing countries, are often rooted in long-term, personalized relationship (Granovetter 1985; Palaskas & Harriss-White, 1993). Personalized exchanges arise in reaction to commitment failures, in which the risk of contract infringement or opportunistic behavior is high, resulting from the lack of market information, ineffective regulation, and the lack of legal enforcement mechanism. Institution builds trust and promotes reputations and the lack of legal enforcement mechanism. Institution builds trust and promotes reputations and social capital, such as trade association, solidarity network, and groups that build up ethnic or religious ties, arise to avoid commitment failure (Fafchamps 1996; Greif, 1993; Platteau, 1994a).

Historically, institutions have emerged in various contexts to facilitate anonymous trade. North (1992) argued that the success stories of economic history describe institutional innovations that have lowered the costs of transacting and allowed more of the gains from trade to be realized, thereby allowing the expansion of markets.

Historical institutional analysis of pre-modern trade in medieval Europe by North (1990) showed that an institution known as the Law Merchant enabled impersonal exchange to occur in 12th- and 13th-centurey Champagne fairs. The Law Merchant underwent trade through a reputation mechanism that laid aside information about traders' past behavior and sanctioned violators of the commercial code. Greif (1993) viewed the Maghribi traders' coalition formed in the 11th century as a means of overcoming the commitment problem intrinsic to long-distance trade.

Clay (1993) reported that coalitions of long-distance traders in 19th –century Mexican California encourage honest exchange through information sharing and punishing of cheaters. In contrast, Platteau (1994a; 1994b) argued that decentralized arrangements based on reputation are not enough to ensure honest behavior and that private and public-order institution are essential to generate the social conditions necessary for markets to operate.

2.2. COMMODITY EXCHANGE AS AN INTEGRATED SOLUTION

A commodity exchange can have different characteristics as observed in various countries. However, these observations are well summarized in United Nations Conference on Trade and Development (UNCTAD) document as follows:

"*Commodity exchanges are defined in many distinct ways. For several observers in developed countries, a commodity exchange is a podium for the trade in futures contracts…any other form of trade would not categorize. For Turkish commodity exchanges could be a place where transaction are registered, for tax purpose – no actual trade needs to take place on such exchanges. In southern or Latin America, commodity exchanges can be a place where credits from institutional investors to producers are facilitated – spot or future trade is not the object. In many countries in Eastern Europe, commodity exchanges are like an*

*auction floor, where anyone can sell and buy whatever commodities or manufactured products available to them in some instances traders have established institutions that they refer to as commodity exchanges, which basically act as trading or brokerage processes" (*UNCTAD, 2005).

As workable definition, the definition given by UNCTAD and WB (1993) will be considered. Accordingly they define commodity exchange as organized or semi organized meeting place where various goods are bought and sold. This could include physical or on the spot commodities, future exchange contracts or financial instrument. Or we can consider UNCTAD (2007) definition as "commodity exchange is a market in which multiple buyers and sellers trade commodity-linked contracts on the basis of rules and procedures laid down by the exchanges." Alternatively we can consider Gabre-Madhin and Goggin (2005) definition as "commodity exchange is any organized market places where trades, with or without the presence of the actual commodities, is channeled via a single mechanisms that allow for maximum effective competition among buyers and among sellers."

Commodity exchange develop grade and standard that has to be used by the involved traders. Clearly defining grades and standards, the exchange will facilitate the inspection process, thus, avoiding risk of buying poor quality grain for traders (UNCTAD, 2005). Because grade and standards are public goods like any information, it is very cost effective, if they are supplied by central institution, like commodity exchange. Once grains are inspected for their quality and appropriate quality tag is assigned to them, they will immediately be stored up in authorized and sophisticated warehouses to reduce storage cost and crop damage (Gabre-Madhin et al., 2003; UNCTD, 2005). Due to existence of dimensional economics and use of modern storage facility, there will be significant reduction in storage cost and crop spoilage, in short reduction in transaction costs of storage.

Depositing their grain in warehouse, farmers and trades will get warehouse receipts (Gabre-Madhin & Goggin, 2005). The receipt will be used for exchange specification within the commodity exchange or outside the commodity exchange or it can be used as collateral for loan (Gabre-Madhin et al., 2003). The importance of quantity and quality of grain specified in warehouse receipt as base of exchange will facilitate the transaction process (Gabre-Madhin et al., 2003; Gabre-Madhin & Goggin, 2005; Rutten, 2001). The above fact coupled with the fact that exchange within commodity exchange is done on standardized contracts, there will be very low transaction costs, in general, and very low searching costs, in particular (Gabre-Madhin et al., 2003; Gabre-Madhin & Goggin, 2005, UNCTAD, 1998). Moreover the receipt can be used as collateral to have flexible access to credit needed by traders (Gabre-Madhin & Goggin, 2005). Taking into account the price risk involved in holding grain as collaterals, loans by financial institutions will be provided in discount basses, though (Gabre-Madhin et al., 2003).

This system in addition to its provision of flexible access of credit to traders can also solve the stress sell that can be faced by farmers. If farmers expect price increase in future which is greater than the storage and interest cost of using warehouse based loan, they can deposit their grain with in warehouse at much lower cost and can borrow from banks to cover their short term financial needs. Means warehouse receipt system will reduce both stress sell faced by farmers and will improve financial flexibility of traders. At the same time better storage facility will be provided to farmers (Gabre-Madhin et al., 2003).

The most important advantage of commodity exchange is related to its institutions which enable the development of macro trust without using the less efficient, less predictable and costly legal system. These institutions are necessary margin, limit in daily variability of price, minimum deposit requirement and mark to market settlement (Gabre-Madhin et al., 2003; UNCTAD, 1998). The focus at this time is on required margin and control on daily price variability.

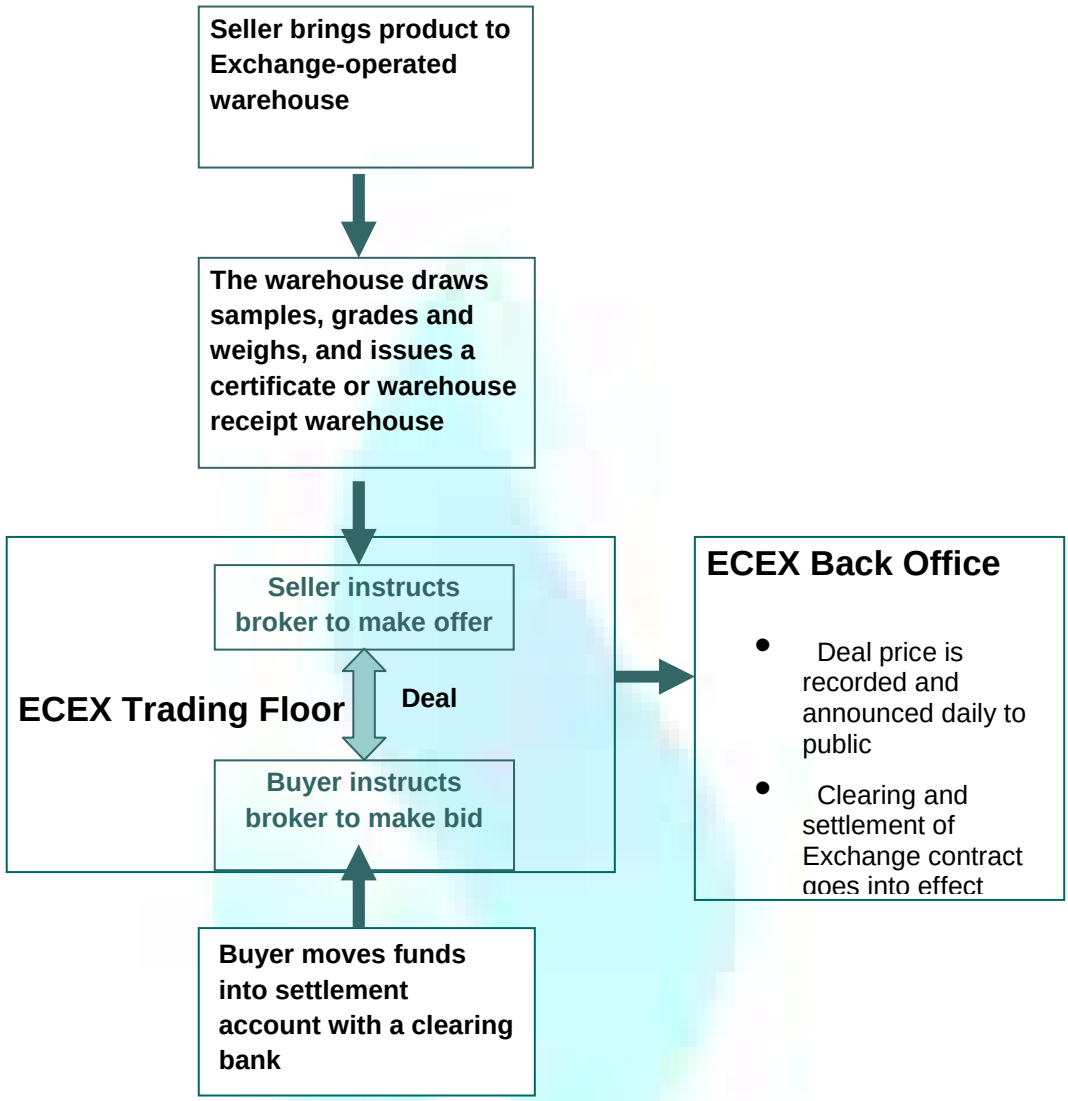
To stabilize the market and to give traders enough time to process information in face of group or collective thinking, this is usually observed in exchanges (Smith, 1991). Commodity exchange will normally limit the maximum amount of change allowed in price of grain in one day. If grain price show dramatic decline or rise, which is above acceptable limit, the commodity exchange will stop trading and will start it next work day. Fortunately, this has positive effect on reducing the risk exposed by commodity exchange. If the maximum change in price that can be allowed in one day is, say, birr 200 and trade transaction will take 1 day to complete, commodity exchange can demand required margin of, say, birr 300. If a trader after depositing 300 is able to buy Teff for birr 1000; but before the transaction is completed Teff price turn out to be birr 800 he/she can easily breach contract to gain birr 200. In such situations the early contract will end up cancelled, the grain will be sold at 800 birr and 200 birr from the deposit will be used to pay the seller birr 1000. By infringing or breaching contract the defaulting party will not be able to gain but will lose future right to use commodity exchange services (Smith, 1991).

Assuming commodity exchange has strong advantage over the next best alternative, the breaching trader will have to face high transaction cost which can push him out of market in face of severe competition. In brief within commodity exchanges it is at best interest of participating bodies to honor contract. Anyone who wants to buy or sell with in commodity exchange can buy and sell without belonging to specific network or social group. In short it will build macro level social capital. Within macro and micro level social capital you are guilty until proven innocent, but with in macro level social capital you are innocent until proven guilty.

Farther cohesion in to the system can be introduced by limiting trade between chair owner brokers in the exchange, who buy and sell grain for themselves and as agent of others (Gabre-Madhin & Goggin, 2005). Brokers who own share or chair within the exchange are ultimate owners of the commodity exchanges. Consequently, profitability and honesty of the commodity exchange is a very important corner stone for getting fair return on their investment (Lovelace, 1998).

2.3. OVER VIEW OF HOW ETHIOPIAN COMMODITY EXCHANGE WORKS

FIGURE 1: TRADING SYSTEM OF ETHIOPIAN COMMODITY EXCHANGES



Source: Gabre-Madhin (2006)

According to Gabre-Madhin (2006), it is understood that all orders to buy and sell on the Exchange are made by Members, who either trade for themselves or on behalf of others. Because members are liable for their transactions, membership is limited and is on the basis of very clear and transparent criteria, including trustworthiness, performance, capital adequacy, and willingness and continuous ability to follow the Exchange rules.

To trade on the Exchange, the owner of a physical product must bring the product to a certified Exchange warehouse, where it is sampled, graded, weighed, and issued a certificate. That certificate represents the identity of the commodity, and is the basis for a transaction on the Exchange. The certificate must be safe from fraud. One way to reduce possible fraud is through an electronic certificate, which is directly transmitted to the Exchange. In addition, samples of the product are retained by three parties: the seller, the warehouse, and the Exchange, in the event of dispute on quality. The product itself, once certified, must be secure and protected against adulteration and it must not disappear. One way to reduce this risk is to go beyond issuing a product certificate to a warehouse receipt system, which requires that the product be physically stored in a bonded Exchange warehouse. A warehouse receipt is thus effectively legal title to the product. In this way, the role of the warehouse becomes analogous to a bank, crediting and debiting deposits of an asset which, in this case, is a commodity asset, rather than money (Gabre-Madhin, 2006).

Once the warehouse receipt is issued, the seller can proceed to make an offer to sell a certain number of contracts (at a standard lot size and grade) on the Exchange. Because contract terms are standard, the key parameters are the price, delivery time, and location. Before the seller makes the offer, the Exchange will have received directly from the warehouse (if possible electronically) the receipt and the sample. The seller makes the offer using through a broker who is either working on the seller's Member account, if the seller is a member, or on the account of a Member who is offering intermediary services to the seller. For example, if a cooperative union who is not a member of the exchange wishes to sell a given amount of maize on the Exchange, it would deposit the grain in an Exchange warehouse and transmit a sell order to a broker, who is part of a brokerage firm that is an Exchange Member (Gabre-Madhin, 2006).

On the other side of the transaction, a buyer similarly places a bid order through a broker. Analogous to the seller who made deposited the commodity in an Exchange warehouse before the sell order, the buyer must move funds into what is known as a settlement account before submitting a buy order. The amount of money that is placed in the settlement account can either be a margin, or percentage of the total transaction value, or the total. This depends on whether the contract is for immediate delivery (spot) or for later delivery (future) Gabre-Madhin (2006).

2.4. EMPIRICAL REVIEW

The limited empirical support on the nature and importance of transaction costs is due to conceptual and measurement complexity (Stall et al., 1997). For instance, when transaction costs are sufficiently high in order to prevent exchanges from occurring, ultimately, these costs cannot be observed because no transaction took place. It follows that transaction costs of observed transactions are generally different from prohibitive transaction costs (Goetz, 1995).

However, Gabre-Madhin (2001 b) has estimated empirically the transaction cost for grain traders under the normal trading practices in terms of search time, cost of labor time invested in search, blocked up working capital in the form of grain for the time needed to search, and the number of trusted contact (trader's social capital).

In face of serious lack of adequate information and lack of proper grade and standards, the search process between buyers and sellers will be very costly. Note that it is not only about finding a buyer or seller, but to find a buyer or seller with right price, quantity and quality. Under imperfect information and lack of clearly defined grade and standards, the search process will be very sluggish and very costly. This will result on high search cost or high transaction cost (Gabre-Madhin, 2001a).

The problems observed in grain trade are related to high transaction cost which can result on dysfunctional and missing markets. High transaction cost can result from one or many of the following problems observed in developing economies market:

- Lack of appropriate grades and standards (Fafchamps & Minten, 1999a, 1999b; Gabre-Madhin, 2001b; Gabre-Madhin et al., 2003)
- Lack of adequate information and high risk (Fafchamps & Minten, 1999a; Gabre-Madhin, 2001b; Gabre-Madhin et al., 2003; Newbery & Stiglitz, 1981; Stiglitz, 2001)
- Lack of access to finance (Barrett, 1997; Fafchamps, 1997a; Gabre-Madhin et al., 2003; Jayne et al., 2002; Johnson et al., 1999; McMillan & Woodruff, 1998)
- Lack of appropriate marketing infrastructure (Bryceson, 1994; Gabre-Madhin, 2001b; Gabre-Madhin et al., 2003; Jayne et al., 2002)
- Inefficient enforcement of contract (Bigsten et al., 1998; Fafchamps, 1996)

While the findings of Mukhebi (1998) Kenyan Agricultural Commodity Exchange faces several constraints that hold up the KACE from the successful accomplishment are ;first, poor quality of produce that farmers deliver combined with the fact that most small-scale farmers find it difficult to deliver in bulk which is ideal for an exchange; and secondly, most of the commodities in Kenya are heavily regulated by boards and are grown and marketed in an environment of under anxiety cooperatives, which are inefficient, mismanaged and have cumbersome internal bureaucracies. And the other major factor recognized in the study was intervention of Kenyan government, in grain markets distorts prices and discourages increased private sector participation in commodity markets.

Mukhebi, Kundu, and Okolla (2007), in their study "linking farmers to market through modern information technology on Kenyan agricultural commodity exchange (KACE)," identified the challenges faced by the (KACE) including poor infrastructure that imposes high transport costs to markets, high costs of mobile phone calls and SMS and small quantities of produce of varying quality offered. Dadi, Negasha, and franzel (1992) who also studied about "marketing maize and Teff in western Ethiopia" showed that lack of grain standardization results in prices that are difficult to compare. The lack of grades and standards is a key factor in marketing behavior of traders.

In 2001, Gabre-Madhin studied on "Market Institutions, Transaction Costs, and Social Capital in the Ethiopian Grain Market". She found that market institution has great role in reducing transaction cost for traders participating in the market.

Additionally in a survey of grain traders, Gabre-Madhin (2001) found that the infrastructure and services required for grain markets to function effectively was lacking. Traders frequently did not have access to credit, market information, transport, contract enforcement and other vital resources.

Not only Infrastructure problems are market constraints but also a study by Gabre-madhin (2001) and Bekel (2002) on Ethiopia grain market more ever indicated that importance of transaction cost which are constraint to trade. This costs which are which are distinct from physical marketing cost are costs incurred in conducting or coordinating market transaction between traders such as costs of looking for screening a trade partner, the costs of searching information on price qualities and quantities of product the costs of negotiating contract the costs of following -up contract performance, the costs incurred in enforcing contract. Since the costs are difficult and complex to identify and to measure they are usually ignored nevertheless they provide powerful explanations for the existence of missing market or market failure. However, the existence of brokers will have significantly positive impact on reducing the search cost of grain trade (Gabre-Madhin, 2001a, 2001b). Instead of searching each other, number of traders can easily contact small number of brokers; which in turn have to search each other to settle the market. The presence of brokers will not only drive down transaction cost to increase volume of trade, it also has significant positive impact on welfare of the society (Gabre-Madhin, 2001a). Further analysis by Gebre-Madhin (2001b) revealed that 70 percent of traders transact in the Addis Ababa market with brokers, who operate within the bounds of quite formal "rules of the game."

Gebrekiros (2011) found that in controlling dishonest or irresponsible practice by counterparties, intermediaries, banks constraining speculative excess and arbitration mechanisms for dispute settlements. In addition to the above as the finding of the study found the bank clearing and settlement of the exchange was adequately equipped with technology ,infrastructure and man power in matching up of each buy and sell transaction ,coordination of members and the exchange.

Taddese and fikadu (2010) in their study on stricture conduct and performance for grain trading in Tigray and its impact demand on commodity exchange have provided an insight in understanding factors that contribute for a higher performance of traders to use ECX's service and its cost benefit analyses as well. On their study by using the probit model they found some determinants of trader's willingness to pay ECX service to trade through the ECX. These are education, location traders found, current capital, language spoken, search cost, buying cost as they have a positive significant effect on traders willingness to pay for ECX service where as experience and network in own market has been found as they have negative effect on traders willingness to pay for ECX service.

As per the finding by Alemu and Gerdien (2010) by using a descriptive analysis comparison between the situation before and after the ECX indicates that transaction costs have declined in terms of, the average number of intermediaries each trader used (buying agents, brokers, and selling agents), average number of people consulted and involved to make a transaction per market day (number of people consulted in the main market and in other markets, number of employees involved to collect market information), and time required per transaction (number of trips made to market centers, costs incurred in paying trips and time required to purchase and sale). Similarly, the marketing costs have show reduction after the ECX, which is estimated to decline by about 57% as compared to the situation before the start of the ECX.

Besides, Alemu and Gerdien (2010) by using the probit model indentified five determinants of trader's willingness to trade through ECX and these, are demographic factors such as education in years and number of language spoken as they have a positive significant impact on trader's willingness to sustain trade through the ECX. In terms of asset ownership, traders with large amount of current asset tend to be more willing trade through the ECX. Similarly transaction cost related explanatory variables, the number of buying agents the trader works with and perceived change in time required for a transaction with the ECX were found to positively influence traders willingness to continue trade through the ECX.

Likewise research conducted by Alemu et al. (2010) showed that exporters in Ethiopia face several quality problems in terms of quality grading, sampling representation of commodities and adulteration especially by mixing sesame seed of different origin. As per the finding, this has lead to difficulty in setting prices for certain quality grades. Quality grading of the Ethiopian Quality and Standard Authority (EQSA) takes a long time as well as prone to corruption.

According to Mohamed (2011) on his survey study by using the probit model on maize trader's willingness to trade through the ECX, eight variables were found to have significant effect on traders' willingness. These are education in years, working capital, number of people counseled to undertake transaction on other market, number of people involved in collecting price information in own enterprise, time take to find a buyer, time take to find a seller and social capital.

In summary, the study tried to review the variables that were identified by different researchers that affect sesame trader's willingness to sustain trade through ECX. This variables are **demographic** such as education in year, number of language spoken, **asset ownership** such as warehouse ownership, truck ownership, working capital and **transaction cost** related variables such as number of people counseled to undertake transaction on other market, number of people involved in collecting price information in own enterprise, time take to find a buyer, time taken to find a seller. Besides, the study tried to review the level of satisfaction in the grading system of ECX to effect trader's willingness to sustain trade through ECX.

3. STATEMENT OF THE PROBLEM

Following the current hypothesis by Gabre-Madhin (2001) ECX is a monopolized market to address all problems in the green market and to reduce the presences of high transaction cost and market imperfection which are the outcome of the existed market institution in different regions. However, to leave market

participants with no freedom of choice really just replaces previous single channel marketing systems with a new one. The whole idea of a free market is that it is exactly what it says it is by providing participants with the freedom to choose when, where and how they want to buy or sell their commodities.

As per my preliminary study with some traders of sesame currently in Humera and Metema city they are facing several problems to continue trade in Ethiopian commodity market with different reasons. Thus, this research assessed major determinant factors that affect sesame trader's willingness to continue trading through Ethiopian Commodity Exchange (ECX) and tested the hypothesis in light of new institutional economic framework.

4. OBJECTIVES OF THE STUDY

The overall objective of this study was to investigate the major determinants of sesame trader's willingness to sustain trading through Ethiopian Commodity Exchange (ECX). Its specific objectives were:

1) To identify main determinants for sesame traders' willingness to sustain their trading through EXC.
2) To examine the relationship between traders' willingness to sustain trade through ECX and the factors affecting them.

5. RESEARCH METHODOLOGY

5.1. STUDY DESIGN AND STRATEGY

The study investigated the relationship between variables at a point in time. This research used the cross sectional study design because this study design takes a one-time shot data to analyze the relationship between variables. It has applied the quantitative study to identify the determinants factors and examine their effect on traders' willingness by using probit model.

5.2. DATA TYPE AND SOURCE

Primary (survey) data collected from sesame traders who were trading in the ECX market in order to address the general and specific objectives of the study.

5.3. SAMPLING DESIGN

Population of the study was grain traders who were trading sesame in Humera and Metema cities. The sample frame, or list of the commodity exchange participants or actors, had been taken from the branches of Ethiopian Commodity Exchange found in Metema and Humera city. By using the Yamane (1967) formula this study selected a sample of 87 respondents, which is 12% of the 715 traders' population at 10% error term.

The sample was selected through a two-stage stratified random sampling technique using proportional size allocation. First, by geographical location of the traders found in Metema and Humera and second, by trader type such as assembler, full intermediary member, and full trading member of each main strata or city. In each stratum the study used lottery method to select the respondents to be included in the sample. The study was employing two-stage stratified random sampling technique in order to make better representative of respondents by their location and trader type.

TABLE 1: SAMPLING FRAME

Trader type	Humera city	Metema (shehidy gendawhu)	Total
Assembler (Akrabi)	300	200	500
Full Intermediary member	75	60	135
Full Trading member	45	35	80
TOTAL	420	295	715

Source: ECX (2013) Report

TABLE 2: SAMPLE OF RESPONDENTS FROM EACH MARKET CENTER BY TRADER TYPE

Trader type	Humera city	Metema (shehidy gendawhu)	Total
Assembler (Akrabi)	36	24	60
Full Intermediary member	9	7	16
Full Trading member	6	5	11
Total	51	36	87

Source: Own Survey (2013)

Sesame trader mean traders which are buying and selling sesame through ECX centre. **There are three types** of traders which are trading sesame through ECX centre thus are:-

- Assembler (Akrabi) they buy sesame from small holder farmers (produce less than 50 quintal) then they will sale on the ECX center and investor which are produce above 50 quintal. Because ECX will not allow to exchange below 50 quintal of sesame.
- Full intermediary member whose membership seat is permanent and freely transferable, and who can trade in any commodity either on his or her own account or on behalf of Clients.
- Full trading members, whose membership seat is permanent and freely transferable, and who can trade in any commodity.

5.4. DATA COLLECTION INSTRUMENTS

Primary data was collected from respondents by using open ended and closed ended structured questionnaires.

5.5. DATA PROCESSING AND ANALYSIS

The primary data that was collected through questionnaire was statistically analyzed by using probit model. In order to identify the factors affecting the willingness of traders to sustain trade through the ECX, traders were categorized into willing (1), consisting of traders who were interested to continue trading through the ECX and non-willing (0), consisting of traders who have no interest to continue trading sesame through the ECX.

The probit model was selected due to the nature of dependent variable, where a discrete dependent variable is involved; willing to continue trade through ECX and non-willing to continue trade through ECX valued as 1 &0, respectively, probit model is appropriate.

The probit model is specified as:

$$Z = \beta' X + \varepsilon,\ \varepsilon \sim N_{(0,1)} \quad \ldots \quad (1)$$

$Y = 1$ if $Z > 0$ and $Y = 0$ if $Z \leq 0$

Where

β' represents vector of parameters to be estimated

Z is observed probability to have interest to trade through the ECX (willing)

Y is estimated probability to have interest to trade through the ECX

X represents vector of independent variables listed

ε is error term

Marginal effects, which measure the change in the probability to have interest to continue trade through the ECX due to a unit change in an explanatory variable, can be estimated either at the sample means of the data or at every observation and using the sample average of the individual marginal effects. In this study, the marginal effects were estimated by using the sample means of the respective explanatory variables as:

$$\partial Y/\partial X_i = Pr(Y=1, \tilde{X}, \Delta X_i) \quad \ldots\ldots \quad (2)$$

Where

$\partial Y/\partial X_i$ = the marginal effect of explanatory variable X_i on the probability to have interest to trade through the ECX

$\tilde{X}$ = represents the sample means of other explanatory variables

ΔX_i =is the unit change of X_i

Traders' willingness was the dependent variable. Operational meaning of willingness is desire of traders to sustain trade through ECX center. The variable was coded as follows:

- The traders will be coded 1 if they are willing to sustain trade through ECX.
- The traders will be coded 0 if they are not willing to sustain trade through ECX.

The independent variables that are the determinants of trader's willingness to trade through ECX were categorized into:

- **Trader's socio-demographic factors**, i.e., Age, Education level, and Language
- **Level of satisfaction with the Grading system** (1=satisfied 0=unsatisfied)
- **Asset (Resource) ownership,** i.e., Warehouse ownership (1=Yes, 0=No); Cleaning facility ownership (1=Yes, 0=No); Truck ownership (1=Yes, 0=No); and Amount of working capital
- **Transaction cost,** i.e., Number of people consulted in main market to get price information; Number of people consulted in other market to get price information; Number of purchase markets; Number of trip to market; Time required to undertake a transaction (days); and Level of satisfaction with the Grading system (1=satisfied 0=unsatisfied)

The hypothesized variables that were derived through extensive review of literature are summarized as follows.

TABLE 3: HYPOTHESIZED VARIABLES

Concept	Variable	Measurement scale	Expected sign On Dependent variable	Rationale
	Willingness to continue trading in ECX	**Nominal**		
Demographic	Age of household head in years	Scale	+	Age is a proxy for experience, which can positively influence willingness
	Formal education in years	Ordinal	+	Education is a source of skill to undertake economic activity
	Number of language spoken (both local and foreign)	Scale	+	As the number of language spoken increases, traders ability for getting international experience increases
Resource ownership	Warehouse ownership (1=Yes, 0=No)	Nominal	+	The higher resources, the better the ability to try new things and to tolerate risk
	Truck ownership(1=Yes, 0=No)	Nominal	+	
	Cleaning facility ownership (1=Yes, 0=No)	Nominal	+	
	Working capital (in Million ETB)	Scale	+	
Transaction cost related variables	Number of purchase markets	Scale	+	If the number of purchase markets is high, traders will be interested to sustain trade through the ECX to reduce the transaction costs due involvement in many markets
	Number of people consulted in own market	Scale	+	If the number of counseled people in own market high , traders will be interested to sustain trade through the ECX to reduce the transaction costs due involvement in many markets
	Number of people consulted in other market	Scale	+	If the number of people consulted in other market to reduce the transaction costs due involvement in many markets
	Average time take to find a buyer (in days)	Scale	+	If the number of days required to undertake a transaction cost is low traders will be willing to sustain trading through ECX
	Average time taken to find a seller(in days)	Scale		
	Level of satisfaction with the current grading system of ECX	nominal	+	If there measurements are clearly stated to set grades trades will be willing to continue trading in ECX.

Source: Adopted from Alemu and Gerdien (2010); Mohamed (2011)

For validation of the model, multicollinearity tests has been performed using variance inflation factor (VIF) and Breusch-Pagan/Cook-Weisberg test for heteroskedasticty and omitted variables was cheeked using Ramsey RESET so that adjustments has been made accordingly.

To check the presence of omitted variables it was used Ramsey RESET test and it was found as the model has no omitted variables. Breusch-Pagan was used to deal with heteroskedasticty problem, i.e., the probit model was tested for heteroskedasticty through Breusch-Pagan heteroskedasticty test and the result showed that Prob> chi2 was 0.3625 (36.25%), which is greater than that of the significance level of 1%, 5%, and 10%. This result indicated that there is no heteroskedasticty problem and there is equal variance among the error terms and the model properly specified and well fitted. Besides, the validity of the assumption imposed in the model was tested to check the problem of multicollinearity for the determinants' of trader's willingness, variance inflation factor (VIF) was used. All variables were blow 10, i.e., maximum was 7.67, which mean there is no multicollinearity problem. Because of the problem of multicollinearity can be expressed as valuation of the assumption of covariance between the variables should be equal to zero. To arrive at this point two variables was dropped Experience year of establishment and information asymmetric. Thus the avoidance of such problem enables the explanatory variable to separately contribute to the variation in the dependent variable.

6. RESULTS AND DISCUSSIONS

For the purpose of examining the determinants of trader's willingness to sustain their trading through ECX have taken 87 traders as a sample and 80 questionnaires were filled and returned. The probit regression analysis was used to find out what factors influence traders willingness to sustain their trading in the ECX. Hence the probit model was estimated along with its marginal effect and the result presented as follows.

TABLE 4: THE ESTIMATE OF DETERMINATES OF TRADERS WILLINGNESS TO SUSTAIN TRADE IN THE ECX

Variable	Definition of the variable	Coefficient	Robust Std Error	Z	P>|Z|
Demographics	Age of household head in years	-.0559043	.0435927	-1.28	0.200
	Formal education in years	.3423009	.171948	.990	0.047**
	Number of language spoken (both local and foreign)	-.25526	.6117789	.205	0.040**
Resource ownership	Warehouse ownership (1=Yes, 0=No)	1.706988	1.367595	-1.25	0.110
	Truck ownership (1=Yes, 0=No)	3.960252	1.897304	2.09	0.437
	Working capital (in Million ETB)	.0002729	.0004136	0.66	0.009*
Transaction cost related variables	Number of purchase market	-.0013596	.0010789	-1.26	0.208
	Number of people consulted in own market	.8629946	.8145153	1.06	0.439
	Number of people consulted in other market	.413106	.9608784	1.47	0.014**
	Number of people involved in searching price information	.4546206	.6021091	0.76	0.050**
	Average time required to find a buyer (in days)	.2062921	.2385625	0.86	0.231
	Average time required to find a seller (in a day)	-.4275598	.4887471	-0.87	0.038**
	Level of satisfaction with current grading system (1=satisfied, 0= dissatisfied)	.621848	1.101851	- 1.47	0.041**

Source: STATA output from own survey (2013)

Note: ** and * indicate significant at 5% and 1%, respectively.

Table 4 above presented the estimate of determinates of traders willingness to sustain trade in the ECX along with the overall significance of the model. From the hypothesized 13 explanatory variables, seven variables were found to significantly affect the trader's willingness to sustain trade through the ECX.

In terms of demographics:

- Trader's age of household head in years was insignificant it implies age of household have not an effect on trader's willingness.
- Formal education tends to have positive effect on traders willing to sustain trade through the ECX and it is significant at 5% level, implying that traders with higher formal education tend to be willing to sustain their trading through ECX which confirms that education always having the power individuals perception and at the same time creating or invention solution for the challenges come through the trading system of ECX.
- Number of languages spoken was found to have negative effect on traders willingness and it is significant at 5% level implying that traders with higher number of language spoken tend to be unwilling to sustain trading through the ECX which confirms when communication ability with others or social capital increase traders interest will decline to sustain trading through ECX.

In terms of resource ownership:

- Warehouse ownership and truck ownership were found statistically insignificant effect on trader's willingness to sustain trading through the ECX center.
- Working capital has a positive effect on traders' willingness at 1% level of significance implying that traders with higher working capital are willing to sustain trading through ECX. This is an implication of those who have high working capital have the capacity to tolerate risk to some extent than those who have low working capital.

Among transaction cost related explanatory variables:

- Number of purchase market, number of peoples consulted in own market and time required to sell or to find a buyer was fund to be insignificant to affect traders willingness to sustain their trading through the ECX center.
- Number of people consulted to undertake transaction in other market and number of people involving in searching price information and time required to buy are found to positively affect trader's willingness. If the number of peoples consulted and participating in collecting price information as well as the time required in finding a seller decrease ECX traders will be willing to sustain trading within the ECX center.

In terms the level of satisfaction with the grading system in the ECX found to negatively affect willingness of traders to sustain trade through the ECX center. This implies when level of dissatisfaction increase with the grading system in the ECX center, traders will be unwilling to sustain trading through the ECX. This is in contrary with the theory that institutional markets or commodity exchange centers have the power of setting the right grades for each product as well as they will set a standard to which level of grade the product will be traded in the center so that traders will be willing to trade through ECX to sell or purchase with predetermined grade of product.

TABLE 5: PROBIT REGRESSION, REPORTING MARGINAL EFFECT FOR WILLINGNESS TO SUSTAIN TRADE THROUGH ECX

Variable	Definition of the variable	dy/dx	Robust Std Error	Z	X
Demographics	Age of household head in years	-.0209712	.01783	-1.18	.860087
	Formal education in years	.128406	.07221	1.78	.898730
	Number of language spoken (both local and foreign)	-.047088	.26116	1.80	.189873
Resource ownership	Warehouse ownership (1=Yes, 0=No)	-.5940083	.39039	-1.52	.56962
	Truck ownership (1=Yes, 0=No)	.8826259	.20517	4.30	.607595
	Working capital (in Million ETB)	-.00051	.00046	-1.10	1254.3
Transaction cost related variables	Number of purchase market	.0001024	.00016	0.62	1930.13
	Number of people consulted in own market	.3237319	.32737	0.99	1.56962
	Number of people consulted in other market	.5300932	.41073	-1.29	1.4557
	Number of people involved in searching information	.0605401	.23085	0.74	1.59494
	Average time required to find a buyer (in days)	.0360388	.19997	0.80	1.90506
	Average time required to find a seller (in a day)	.0373856	.09531	0.81	.55696
	Level of satisfaction with current grading system (1=satisfied, 0= dissatisfied)	.5805259	.31884	1.82	.341772
Number of Obs. = 80; RL chi2(22) = 94.43; Prob. > chi2 = 0.0000; pseudo r2 = 0.5819; log likelihood = 11.773681					

Source: STATA output from own survey (2013)

Note: ** and * indicate significant at 5% and 1%, respectively.

The marginal effect report of the probit regression provides the probability that a trader will be willing to sustain trade through the ECX center. Table 5 above provides the probability estimation for the likelihood of willingness of traders given statistically significant variables (i.e., formal education, number of language spoken, working capital, number of people consulted to undertake transaction in the other market, number of peoples involved in searching price information, average time required to find a seller and level of satisfaction with the current grading system of ECX).

The marginal effect shows that:

- A unit increase in formal education will increase the probability of trader's willingness to sustain performing transaction through the ECX by about 12.8 %.
- A unit-change in language spoken increases the probability of unwillingness of a trader to sustain trading through ECX by 4.7%.
- The likelihood that of that the trader will be willing to sustain trade through ECX center as result of one birr increase at mean value in working capital is 5%.
- A unit increase at mean vale of number of people consulted to undertake transaction in the other market and number of peoples involved in searching price information, before ECX will increase trader's willingness to sustain trade through the ECX by 6.05% and 3.6%, respectively.

- An increase in time required to buy at mean value in days will increase the probability of trader's willingness to sustain trade through ECX centre.
- Moreover, the probability those traders will be unwilling to sustain trade through the ECX center will increase as a result of increase level of dissatisfaction in the grading system of ECX center.

7. CONCLUSIONS AND RECOMMENDATIONS

7.1. CONCLUSIONS

This study was aimed to assess the main determinates of traders willingness to continue trade through the ECX. To this end, primary data was collected from 80 ECX traders that were proportionately selected on randomly basis from each stratum of the assembler, full intermediary, and full trading members from Metema and Humera city. Moreover, the data was analyzed based on the probit model.

Accordingly, the probit model estimate of the determinants of traders' willingness to sustain trade through the ECX showed that:

- Traders with higher formal education tend to be more willing to continue trade through the ECX; this might be the knowledge they have helps them to understand how to use modern marketing system. Whereas higher number of languages spoken tend to be more unwilling to sustain trade through the ECX; this might be because of the traders are in border area so that they might have an interest to make illegal trade with Sudan traders.
- Traders with higher working capital tend to be more willing to sustain trading through ECX; this might be traders with higher working capital have the capacity to tolerate risk excepting future benefit.
- In terms of transaction costs, explanatory variables such as (i) number of people consulted at other markets per market day, (ii) number of employees participating in information collection, and (iii) time required to find a seller were found to positively influence traders' willingness to sustain trading through ECX.
- The level of satisfaction with the grading system in the ECX has been found to negatively affect willingness of traders to sustain trade through the ECX center. An increase in the level of dissatisfaction with the grading system in the ECX center, traders will be unwilling to sustain trading through the ECX. Because of grades have a direct relationship with product prices and adversely affect traders' behavior. Most of the time they are not willing to accept the grade provided to their product, because of corruption even they have not trust on the center, and the level of awareness on how the grade is provided to their product is very low.

7.2. RECOMMENDATIONS

The following recommendations are forwarded based on the research findings in order to show directions to policy makers to address issues pertinent to traders' willingness to sustain trading through ECX:

- One of the important obstacles to sustain trade in the ECX was quality grading and sampling system. The quality grading specialists of the exchange should treat all participants equally (without bias) and should be free from corruption. In addition to this training and capacity building should be given for the quality grading specialists in order to upgrade their knowledge and skill. Also it is better to mix all sesame purchased by traders from different small holders because of they have different quality the sample taken from the mix will result single grade for all quintals. This will improve the level of satisfaction for sesame traders so that they might be willing to continue trade through ECX.
- In order to mitigate the unnecessary increase time required to sell, it is better to add weighting machine, improve infrastructure such as lighting and internet connection problems.
- Why so many traders are reluctant to trade through the ECX remains still somewhat unclear. The awareness of traders about the trading system, grading system is very low. The ECX should make awareness creation activities through Broachers, Medias, as well as conducting conferences with traders about the importance of commodity exchange at a regular basis till traders become aware about the importance of the institution.
- It could be better traders to have a chance of alternative legal market centers to trade their product so as they will take a comparison.

7.3. LIMITATIONS AND SUGGESTIONS FOR FURTHER STUDY

The study dealt with the determinants of traders' willingness to sustain their trading through ECX by taking Sesame traders out of all traders trading through ECX. That is, the study focuses only on major determinants of sesame trader's willingness to continue trading activity in ECX in Metema city and Humera city. The study used variables such as demographics, resource ownership, transaction cost, and level of satisfaction with the current grading system. Therefore, further researches may be conducted by considering variables such as greater likelihood of being taxed when selling through the ECX, information asymmetry, and social capital in order to understand the effect of these variables on traders' willingness to sustain trading through ECX.

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