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Challenges of Ethiopian Commodity Exchange Market Performance in Trading Partners in the Case of Wolaita Sodo Branch

Samuel Batisa*

Department of Management, College of Business and Economics, Wolaita Sodo University, Ethiopia

***Corresponding Author:** Samuel Batisa, Department of Management, College of Business and Economics, Wolaita Sodo University, Ethiopia, Email: samibatisa@gmail.com*

ABSTRACT

The purpose of this study was to investigate the challenges of ECX market performances for trading partners when they trade in the system. The specific participants were 210 ECX trading partners the Case of Wolaita Sodo branch. The study employed a descriptive research design. Questionnaire was prepared on market conduct variables for both traditional and modern markets (ECX) that were used to collect data. Furthermore, a semi-structured interview was used. Descriptive Statistics (Mean, and frequency),bar graph used for presentation, a Pearson Product-Moment correlation analysis, and linear regression were used to analyze the data obtained. The result of this study revealed that there was a significant and positive relationship between market conduct variables in both modern and traditional markets. The result of this study also indicates that the major constraints for the involvement of trading partners in ECX were affected by the character of buying and selling, shortage of finance, lack of information access to market, incapable store the existence of inconvenience transportation services. Government should promote awareness creating Medias regarding the opportunities of modern markets serving for trading partners as well as for the economy as a whole.

Keywords: *Commodity, conduct, Exchange, Market and variables.*

INTRODUCTION

Background of the Study

Linking of buyers and sellers in to commodity market for the effective and efficient accomplishment of transactions among the participants is the most challenging task. For long period of time agricultural commodities in Ethiopia have been sold within a routine and traditional market system in which market actors have no reliable information, access to major markets and devoid of fair exchange manner. (Ethiopian et al., 2012)

To bring economic development and poverty reduction in overall the country, integrated development in every sector is unquestionable. To achieve such integrated development the government of Ethiopia tried to motivate the farmers to produce market oriented, surplus and quality products. Farmers produce surplus and quality products, when the products have given equivalent price, otherwise the production will be subsistence. The government give due attention for farmers because majority of Ethiopia's economy is largely dependent on agriculture. The sector is not well developed and much of the produce is produced by small scale farmer. (Dessalew, 2011)

Even though Ethiopian Commodity Exchange (ECX) is at its infant stage, it is one of the exchange markets available in developing countries. Currently, Ethiopia is following a development policy of Growth and transformation plan (GTP). This policy of the government encourages both farmers and private investors to produce market oriented commodities so as to have industrial development in the long run. However, such a vision can only be achieved when there is an appropriate marketing system, regulations, and policies. The Ethiopian Commodity Exchange (ECX) is a public-private partnership initiative firm; establishment was 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, launched in Addis Ababa, Ethiopia, on April 24, 2007.

By the same proclamation No.550/2007 ECX Sodo branch has been established in July 2008 for trading limited types of agricultural commodities: crops such as coffee, Sesame Haricot bean, Maize and Wheat (Ethiopian Commodity Exchange Authority 2012).And the following services have been provided by the sector currently, warehousing(storage) service, grading and sampling service, dissemination of market information service, regulation, and liquidity services. This study will focuses on assessing the challenges of trading partners who are registered at Sodo branch ECX with regard to above services, clearing and settlement and their challenges when exchange (marketing) takes place at the center. It also tries to compare the traditional market service performance with that of ECX with different explanatory variables related to elements of market structure and market conduct.

Statement of the Problem

Ethiopian economy is based on agriculture which accompanied by low productivity, subsistence farming overwhelmingly dominates the country's economy. The sector has been given a primary focus by the development strategy of the FDRE government to generate surplus, quality and market oriented products. The development strategy hypothesized the installation of an efficient marketing system to create link between agriculture and industry thereby trickling down the economic growth in the agriculture sector to the urban population (Ministry of Economic Development (MoFED) January 2002).

Improved agricultural marketing and trade will contribute immensely to the industrialization of the agricultural sector. In Ethiopia at present, the presence of high transaction costs, related to the lack of sufficient market coordination between buyers and sellers, the lack of market information, the lack of trust among market actors, the lack of contract enforcement, and the lack of grades and standards, implies that buyers and sellers operate within narrow market channels, that is, only those channels for which they can obtain information and in which they have a few trusted trading partners. Despite market liberalization in the early1990s, the persistence of high transaction costs and contract risk have resulted in limited arbitrage and weak investments by private traders, leading to limited market volumes, weak responsiveness to price signals and high price volatility, all of which have a negative impact on smallholder producer livelihoods (Mukhebi, November 8, 2004).

The initiative to establish the Ethiopian Commodity Exchange was based on this concept. If markets function as to reward quality, reduce transaction costs of market participation thus increasing returns to market activity, enable quick capital return around thus increasing market volumes, and reduce risk of market participation, then markets will serve the needs of buyers and sellers and contribute to the well-being of all who participate in the market economy (Ethiopian Commodity Exchange Authority 2012). Thus, it is anticipated that ECX will reward quality to producers; reduce transaction costs of market participation thus increasing returns to market activity; enable quick capital return around thus increasing market volumes, and reduce risk related to counterparty default and prices, thus increasing market participation; increase information and transparency for all market actors.

In recognition of this, the Government of Ethiopia has organized Ethiopian Commodity Exchange through proclamation number 550/99 in order to eliminate market related problems and to facilitate, transparent, efficient and innovative marketing system to protect the interests of both producers and consumers. The Ethiopian commodity exchange is young established with bright vision and mission to contribute to the economic development of the country in general and to the individual trading partners in particular. (Ethiopia, Federal Negarit Gazeta of the Federal Democratic Republic of Ethiopia, 1999)

Even if different studies have been carried out on the contribution and challenges of ECX, this research will focuses on challenges of the trading partners in the systems and the contribution of the systems for the trading partners and the economy as the whole. In addition, comparisons of traditional and modern market (ECX) performance in respective of different explanatory variables were not assessed. Thus, the study was tried to assess the factors that hinder the involvement of trading partners in ECX in regard to different categories of membership. Further, the study also indicated the significance of ECX for trading partners' by comparing the performance of traditional market performance versus ECX in respective different explanatory variables.

LITERATURE REVIEWS

In the world Commodity exchange trading was started in the year 1840s, when Chicago became a commercial center in connecting railroad and telegraph lines with the East of the United States of America. Before that in the year 1730 grain traders in Japan had started the idea of exchange. So that Midwest Chicago has a good hope to sell their wheat for a good price. And to exchange cash for immediate delivery of grains there was a common place opened for farmers and dealers could meet to exchange in "spot" grain such as wheat in the year 1848.

In the year 1864 Chicago Board of Trade (CBOT) was launched and London Metal Exchange was followed in the year 1877.And also there were early initiatives in India and Argentina to encourage commodity exchanges. (Rashid S, 2010)

The largest and oldest commodity exchange, in the world was Chicago Board of Trade, which was established in the year 1848 by 82 grain traders in a small Midwestern town. The circumstances were not too much different from that of Ethiopian agriculture today. Since the exchange was not as such coordinated at that period, in the year of more harvest farmers went to Chicago to sell their cereal could not find buyers as result they had been dumped their unsold cereal in Lake Michigan. To coordinate the exchange of grains and livestock produced within different areas to the major market is a great challenges to Ethiopia today like that of USA faced 150 years ago. (Tafara, 2005)

According to (Forrester B.R., 1931) the history of commodity exchange dates back to the middle ages. The growth and the scale of overseas trade in England had created the incentive to establish the Royal Exchanges in the sixteenth century. The 1840s Berlin Grain Exchange in Germany (Hirschstein H. and Karl, 1931) and Chicago Exchange in the US (Eleni Z. Gabre-Madhin and Goggin, 2005) were eye-breakers in their respective country.

To facilitate the commercial transaction of their large market produce-rice the Japanese established spot commodity exchange in the same year (Sano Z. and S., 1931). Regarding the establishment of the stories of such market institutions in the developing nations, were a decade old far later than that of developed. The number of exchanges in developing countries are more than hundred, from which three of them are located in Africa (Eleni Z. Gabre-Madhin and Goggin, 2005).

By bringing more experience from the developed nations and with little practical examples in Africa, Ethiopian Commodity Exchange (ECX) was launched in April, 2008 and connected the pioneers in the continent. ECX has begun its operation by only offering spot trading and with a legal mandate to launch futures contract transactions in the future.(Ethiopian Commodity Exchange Authority 2008).

According to (Gabre-Madhin Z. Eleni, 2008) the benefit from a fair, orderly and efficient marketing system can be exploited in a better way when trading takes place in spot than in futures market because in future market there may a possibility of risk by excessive speculation given the existing food price crisis and the county's development stage. An organized marketing institution can also better serve its users by addressing the central function of the market- to address market risk- which can be better achieved by futures exchange than spot trading. (Gabre-Madhin Z. Eleni, 2007) .

Market structure is defined as characteristics of the organization of a market, which seem to influence strategically the nature of the competition and pricing within the market. (Clemence and Maria, 1994).It also shows the institutional environment among others in which transactions take place. In the short run competition and pricing is considered to be fixed for actor in the marketing channels. But in the long run market structure influences competition and pricing. As to Scott (1995), the elements of market structure include are type of intermediaries, type of marketing channels, and type of markets, number of actors, instruments /quality standards, physical market infrastructure and regulation of entry and exit.

Wolday also argued that (1994), market structure includes the characters of the organization of a market that appear to exercise a strategic influence on the nature of competition and pricing within the market. (Wolday Amha, 1994)

METHODOLOGY OF THE STUDY

Design of the Study

The study is conducted on challenges of Ethiopian Commodity Exchange (ECX) market performances in trading partners of Wolaita

Sodo branch. As the researcher's information there was no research conducted before on the issue in the town due to this reason the district was selected. The methods of survey were employed for the study was descriptive.

Population and Sample Size

The total number of trading partners who were engaged in ECX is 440 in the year 2017/2018. The researcher applied stratified random sampling method. From each stratum the sample were selected through random sampling technique. This technique avoids personal bias and all elements of the population to have equal chance of being selected. To determine the sample size the researcher used a formula determined by Yemane (1967) as follows

The following table shows the population size and sample size of the trading partners in case of Sodo branch ECX.

Member Category	Full Member	Limited Member	Trading Member	Intermediary Trading Member	Commercial Farmers	Cooperatives	Total
Population size	194	35	85	75	17	34	440
Sample size	93	17	40	36	8	16	210

Source: *ECX of Sodo branch*

$$n = \frac{N}{1 + N(e)^2}$$

Where

n= is the sample size,

N= is the population size,

e =is the level of precision.

Using the above formula the sample size was computed as follows.

$$n = \frac{440}{1 + 440(0.05)^2}$$

$n = 210$

Sources of Data and Method of Data Collection

The researcher has used both primary and secondary data to obtain relevant information. The questionnaires consisted, both self-administered closed and open ended questions with five point Liker scale ranges. Semi-structured interview were also employed to enable the researcher to gather additional information.

Data Analysis and Presentation

Descriptive and econometric analyses were used for analyzing the data collected from trading partner in the study area. The relationship of dependent and independent variables were employed by Pearson correlation coefficient.

Model Specification

The equation of regressions on this study is generally built around two sets of variables, namely dependent variable (performance of market) and independent variables (Finance related, Information of marketing, buying and selling characters, Storage related and transportation services). The basic objective of using regression equation on this study is to make the study more effective at describing, understanding and predicting the stated variables.

$Yi = \beta_0 + \beta_1 FR + \beta_2 IM + \beta_3 BS + \beta_4 SR + \beta_5 TS + €$

Where:

Y is the outcome or dependent variable Performance of market

FR= Finance, IM= Information of marketing, X_3= Buying and Selling, X_4= Storage, X_5= Transportation service, are the explanatory variables and €= standard error.

β_0 is the intercept term- constant which would be equal to the mean if all slope coefficients are 0.

β_1, β_2, β_3, β_4, β_5, are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables.

Data Analysis, Conclusion and Recommendation

Impact of Market Conduct Variables Buying and Selling in Modern and Traditional Markets Performance

Table4.1. *Modern and Traditional market performance by buying and selling characteristics*

Item	Category 1: Buying and Selling characteristics	Modern	Traditional
		Mean	Mean
1	Price volatility for different commodities	1.81	3.40
2	The existence of transparences between trading partners	3.60	1.50
3	The level of coordination and integration	4.44	1.94
4	Level of market efficiency	2.96	1.45
5	Level of price determination based on demand and supply conditions	4.40	2.36
Grand mean		**3.44**	**2.13**

Source: *Own survey 2018*

Regarding table 4.1 and figure 4.1, the level of coordination and integration and, level of price determination highly affects the performance of modern market through buying and selling characters with mean value of (4,44) &(4.40) respectively. While price volatility for different commodities and level of price determination were highly affects the traditional markets a mean score of(3.40) and (2.436) respectively. The remaining indicators were a less effect on both markets based on their scored mean values.

Finance Related Market Conduct Variables on Market Performance

Table4.2. *Finance related market conduct variables on market performance in modern and traditional markets*

Item	Category 2: Finance related variables	Modern market	Traditional market
		Mean	Mean
1	transaction cost variability	3.53	3.62
2	availability of membership seat fee to trade	3.66	1.16
3	The of degree of liquidity	2.39	3.92
4	availability of credit	1.88	3.85
Grand mean		2.865	3.1375

Source: *own survey 2018*

Concerning modern and traditional market angels financial related issues were indicted in table4.2 availability of membership seat fee and transaction cost were highly affects the performance of modern market with mean value of (3.66) and (3.53) respectively, whereas the degree of liquidity and availability of credit were a less impact on modern market performance. Regarding traditional markets were the degree of liquidity, availability of credit and transaction cost high impact on the performances a mean value of (3.92),(3.85) and (3.62) respectively. Other indicators were a less impact on tradition market performances compared to their scored mean value to that of grand mean.

Information Related Market Conduct Variables on Market Performance

Table4.3. *Information related market conduct variables on market performance*

Item	Category 3: Information related variables	Modern	Traditional
		Mean	Mean
1	access to market information	4.08	2.38
2	price match between actual price and the local one with displayed information	4.53	2.05
	Grand mean	4.305	2.215

Source: *own survey 2018*

Based on the above table results access to market information indicator was highly affects the performance of traditional market conditions a mean value of (2.38), but price match information were a higher impact on modern market performances with mean value of (4.53).

Table4.4. *Warehouse service conduct variables on market performance*

Item	Category4: Ware house service concerned variables	Modern market	Traditional market
		Mean	Mean
1	Services rendered by warehouse	3.38	2.04
2	Time to store and transfer commodities in warehouse	2.8	4.25

Grand mean	**3.09**	**3.145**

Source: *own survey 2018*

Storage Service Conduct Variables on Market Performance

The results in the table 4.4 shows that modern market were highly affected by service rendering indicators with mean value of (3.38) whereas traditional market performance were highly affected by time to store and transfer commodities indicators with scored value of (4.25).

The result implies that the degree of efficiency of warehouse service in modern market and traditional market is different in their impacts level of the services.

Transport Service Concerned Conduct Variables on Market Performance

Table.4.5. *Transport service concerned conduct variables on market performance*

Item	Category 5: transport service concerned variables	Modern market	Traditional market
		Mean	**Mean**
1	Efficiency of transport service	2.64	2.18
2	Transportation cost variability	3.53	4.3
	Grand mean	3.085	3.24

Source: *own survey 2018*

To gather statistics on efficiency of transport service in both markets were the performance level highly affected by transportation cost variability conditions by mean score of (3.53) and (4.3) respectively, while efficiency of transport service indicators were insignificant effects on both sides mean value of (2.64) and (2.18) respectively.

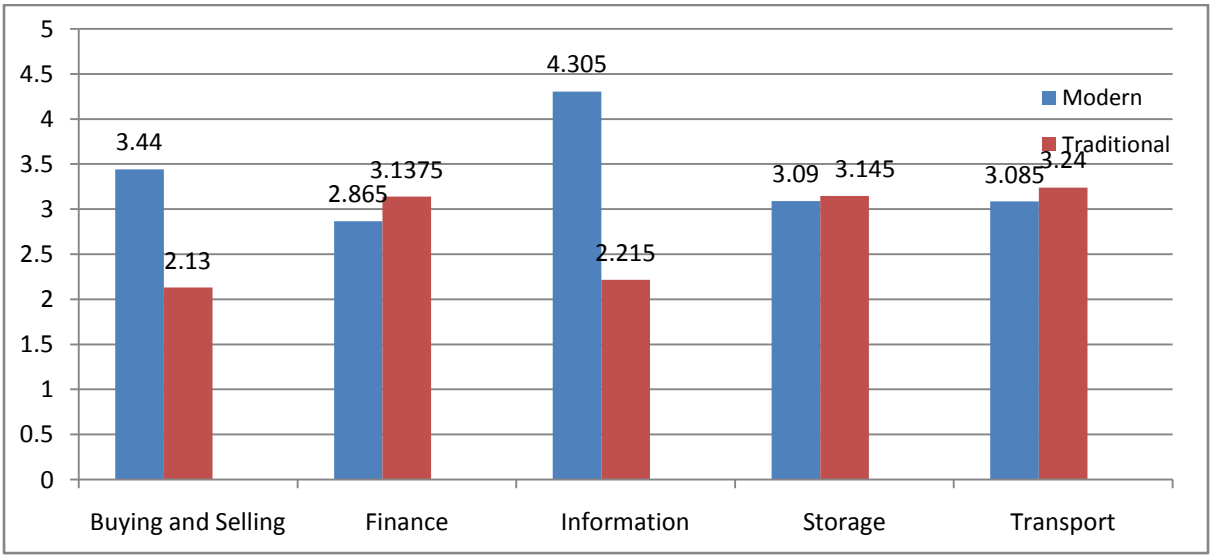

Figure4.1. *Comparison of the overall means for market conduct variables in traditional and modern markets*

In order to compare the performance of the modern and traditional markets by market conduct variables descriptive statistic were employed in both markets. As a result of mean statistics, the highly practiced and least practiced market conduct variables were determined in modern and traditional markets. Accordingly, as is the case for modern markets, information related variables were the most highly practiced market conduct variables by ECX followed by buying and selling characteristics variables. The least practiced market conduct variables by ECX were finance related variables, followed by transport service concerned variables. The finding also reveals that in terms of overall performance of the modern markets (ECX) in practicing market conduct variables were medium and high. In addition to the above notice as compared to other market conduct variables; modern markets (ECX) practicing poor in finance related variables. However; according to Gebrekiros Gebremedh in (2011) agricultural trade can be enhanced through liquidity if lenders aversion to the provision of inventory finance is addressed when the development of credible warehouse system allows stored commodities to be used as collateral for loan.

As shown in Table 4.5, like modern markets the transport service concerned variables were the most highly practiced market conduct variables by traditional markets, followed by warehouse service concerned variables. The least practiced market conduct variables were buying and selling characteristics variables followed by, information related variables. The results of the descriptive statistics show that traditional market practicing three of the market conduct variables moderately and two of the market conduct variables poorly.

Table4.6. *Correlation of Variables*

Variables	Buying and selling	Finance related	access to market information	Storage related	Transport service related	Performance of market
Buying and selling	0.793**	0.791**	0.618**	0.477**	0.831**	0.614**
Finance related	0.471**	0.778**	0.472**	0.188*	0.326**	0.766**
access to market information	0.786**	0.786**	0.692**	0.629**	0.860**	0.663**
Storage related	0.597**	0.604**	0.465**	0.373**	0.821**	0.467**
Transport service related	0.456**	0.191**	0.645**	0.168**	0.417**	0.437**
Performance of market	0.629**	0.499**	0.791**	0.474**	0.237**	0.55**

From the above table, one can understand that all independent variables are positively correlated with the dependent variables. It means that performance of the market increase as these explanatory variables increase.

Regression Result

A regression model test was developed to determine the significance and the various challenges affecting the performance markets. Table 4.7 below indicates that, output of the regression analysis model for business related and intra group related challenges. The dependent variable was performance and independent variables were finance, marketing information, buying and selling, storage related and transportation related challenges. The level of significance is kept at 0.05 because of the primary data has the probable chance of being uncertain.

Table4.7. *Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics
					Sig. F Change
1	.903[a]	.821	.816	.201	.000

Source: *SPSS data*

The analysis of the results of the model depicted an R value of .903, R square of .821 and an adjusted R square value of .816; this means that the accuracy of the model is 81.6% and the variations in local growth can be explained by the explanatory variables up to 81.6%. In addition to this, the model indicates a P value of 0.000, which is significant.(<0.05). This means that the regression model is adequate with the collected data and the variables are statistically significant at 5% and these findings show that the challenges identified in this study affect the performance of the market up to81.6% as indicated by the adjusted R square.

Coefficients Analysis

Table4.8. *Coefficients*[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.841	0.286		16.948	0.000
Financial challenges	-0.274	0.027	-0.399	-9.961	0.000
Information Marketing related	-0.135	0.027	-0.187	-4.982	0.000
Buying and selling	-0.189	0.025	-0.260	-7.435	0.000
Storage related	-0.089	0.028	-0.110	-3.169	0.002
Transportation related	-0.016	0.010	-0.029	-4.602	0.001

Dependent Variable: *performance market*

Based on the above results, the general form of the equation to predict the performance of market is Y= 4.841-27.4(FR) -13.5(IM) -18.9(BS) -8.9(SR) -1.6(TR) +E

CONCLUSION

The result of econometrics model indicated that the performance of modern and traditional market is significantly and negatively affected by buying and selling character, finance related, storage related, information of market and transportation service related conditions.

RECOMMENDATION

In order to enhance agricultural trade, the modern market (ECX) has to establish a modern and technologically assisted warehouse services system in order to improve their services by using the stored commodities as collateral for loan in order to solve finance related problems for the trading partners. Government should promote awareness creating Medias regarding the opportunities of modern markets serving for trading partners as well as for the economy as a whole. A modern market (ECX) has to improve transport service from market conduct variables category because most of lorry buses waiting idle for two or three days. There has to be time adjustment for right arrival and loading.

DIRECTION FOR FURTHER RESEARCH

It obvious that any study cannot be free from limitations, accordingly there are some limitation incurrent studies. It was focused only on challenges of market conduct variables of ECX market performance at Wolaita Sodo branch. Consequently the findings of this study may be difficult to generalize about all branches at national level. Finally, other researcher can also make comparative study on the performance of other branch by including different determinant variables through nation-wide.

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