PROSPECTS FOR A SECURITIES MARKET IN ETHIOPIA[1]

Yishak Mengesha*

ABSTRACT

This paper highlights the need for a securities market, the supply and demand prospects for it as well as some of the challenge of the market. It shows that the financial structure of the country is dominated by commercial banks whose major function is mobilising short-term liabilities and largely making short-term loans. The banks' activities in financing long-term loans are limited. On the other hand, a look at the demand prospects for a securities market suggests that there is sufficient ground to start such a market. The ongoing privatization process as well as the existing and newly-formed share companies will be potential supply sources of the market. Government securities may be another source when and if it resorts to indirect monetary policy instruments. Demand for stocks may come from portfolio adjustment of individuals, institutional savers, growth and distribution in income and employment. Initially, the market will be small in size. Nonetheless, it can help fill some of the gaps in the financing of investment activities in the country. Once started, the future growth of the securities market depends on the growth of the overall economy, the extent to which a stable economic, political and regulatory environment is maintained, as well as the capacity to generate professional analysts and managers.

1. INTRODUCTION

Securities markets, where shares and bonds are traded and re-traded, are becoming part and parcel of the financial institutions in many low-income African countries. The need for a securities market, as the next step in the ongoing financial liberalisation is gaining consensus among various groups in the country.[2] A number of efforts,

---

*The author is chief economist at the Commercial Bank of Ethiopia and is grateful to the editors of this journal, for substantially improving the readability of the paper, and the two anonymous referees who made substantive comments on it. Critical comments and useful suggestions received from Ato Tekle Birhan G. Michael, Ato H. Selassie Hagos, Dr. Eyob Tesfay and Ato W. Gabriel Tewelde are also gratefully acknowledged. Remaining errors are, nonetheless, the author's. The final version of this paper was submitted in June 2000.

notably by the Addis Ababa Chamber of Commerce and the National Bank of Ethiopia, are being made towards institutionalising the market. What is perhaps lacking at this stage is a clearer explanation of what exactly the market is for, and an assessment of the potential sources of supply and demand in the market, as well as the major challenges ahead.

This paper attempts to fill some of the gaps by (a) providing some of the justification for a securities market in Ethiopia; (b) assessing the potential supply and demand for securities; and (c) identifying some of the major challenges that the market is likely to face in the future.

This paper is organised into seven parts. Part two reviews some of the relevant literature. Part three assesses the saving and investment trends. It also looks into the current financial structure in the country identifying the potential role a securities market can play in the economy. Part four deals with the assessment of the potential sources of supply and demand in a securities market. Part five explores the likely size of the market. Part six draws attention to the issues and constraints, both for the formation of the market and the factors likely to determine its size and strength once the market is formed. And part seven provides the summary and conclusion of the paper.

2. A BRIEF REVIEW OF THE LITERATURE

Securities markets play an important role in the financial sectors of many developed and emerging economies. Many African countries are also instituting the market one after the other (Kenny and Todd 1998). Many see the market as a vehicle to mobilise new capital that can be channelled to industries and companies that need it most (Drake 1985; Samuel and Yacout 1981; Kitchen 1987; Jefferis 1995; Popiel 1993). Drake (1977, 1985), Kitchen (1987) and Jefferis (1995) have summarised the main advantages of securities markets, which mainly include:

1. Provide resources that will finance long-term investments; i.e., for new plants and equipment as well as expansion of existing plants.
2. Make available risk capital for which there is no maturity date and the company is not obliged to repay it back (i.e., in the case of shares).
3. Provide the opportunity for a broader public ownership of companies.
4. Enhance competition in the financial sector, and in doing so,
5. Improve the allocation of scarce financial resources among competing projects or companies.
6. Foreign resource inflow may be encouraged provided the market is opened to the rest of the world and the return is sufficiently attractive.

7. A well-developed stock market can also reduce over-dependence of companies on the banking sector and reduce the risk emanating from high debt-equity ratio.
8. Provide an opportunity for institutional savers (e.g. Pension Fund and Insurance Companies) to buy shares and corporate bonds, which would help diversify towards a more balanced portfolio holding instead of exclusively holding government bonds and treasury bills, which are of low return.

Although many of the writers on the stock market are optimistic about the contribution it can make to economic development, there are, nonetheless, others with a dissenting view or at best with a cautiously optimistic view. Pessimistic views (e.g., Calamanti; Singh) or cautiously optimistic views (e.g., Samuel and Yacout) on the securities market in developing countries often spring from the efficiency of the market, and its allocation and distribution impacts on savings, income and wealth. Calamanti (quoted in Drake (1985), and Jefferis (1995)), based on studies he conducted on some African markets, for example, pointed out the undesirability of the market, mainly because of the volatility likely to be introduced by the market might amplify, if not cause, economic fluctuations, which may undermine the financial stability and growth. This, he argued, would adversely affect the allocation of savings, income and wealth.

The point raised by Calamanti is also shared by Singh (Singh 1993). He argued that share prices do not often reflect the true "long-term expected earnings" of companies since, by and large, they are determined by events, speculative and short-term profit motives of those who participate in the market (Singh 1993:14). He asserts that developing countries should develop the banking system rather than the stock market which is often characterised by high volatility and speculative activities, with a consequence of "more harm than good to the real economy" (Singh 1993:23).

Stock price volatility is of course a serious problem for a fledgling market with a few number of listed companies, less liquid and low level of capitalisation. However, the issue is putting the cause and effect in their proper perspective. In most cases, stock prices tend to be unstable when confidence-eroding shocks arise somewhere in the system. It is argued that overall stock price behaviour generally follows the industrial sector's performance and policies (Nishat and Saghir 1991:140; Ahmed 1998:77). Stock market traders simply react to these shocks and policies (Kenny and Todd 1998:837). This suggests that under sound macro-microeconomic and regulatory environment, stock price volatility becomes an unimportant issue.

The debate on bank-based *versus* stock market is an unsettled issue (Demirguc-Kunt and Levine 1999). But in a number ways, the argument for a stock market does not seem to be a matter of choice over banks. First, banks alone may not be able to provide all the necessary financial resources for all type of investors. Banks also operate under strict prudential regulatory limits with no room for investment risk sharing. In this respect, a stock market would be more preferred in as far as it allows risk sharing among diverse shareholders (Kenny and Todd 1998:837; Craigwell and Grandbois 1999). Secondly, in some respects, banks and stock markets may be mutually supportive to each other. The information disclosure requirement, which raises accounting and auditing standards, and other regulatory and institutional infrastructures required for a securities market may increase the flow and availability of more accurate information that could be useful for banks in their lending decisions. Banks, through their branch network, can facilitate the transaction of securities (Kenny and Todd 1998:837). Evidence is also emerging that shows the complementarity between banks and stock markets (Demirguc-Kunt and Levine 1996:314-316). Boyd and Smith (1996) also concluded that debt and equity markets complement each other rather than substituting.

Based on an analysis of the Nigerian stock market, Samuel and Yacout (Samuel and Yacout 1981), argued that given the small market size, a "fair game" for traders and a "fair pricing" of shares is difficult to expect. Limited supply of shares, excess demand for shares together with the motive of 'buying shares in order to hold', and discontinuities in trading would hinder market prices from fully and instantly transmitting available information and reflect demand and supply situations. Olowe (1998) also contends that stock markets in Africa suffer from poor information disclosure and doubtful pricing methods with the consequence of securities being 'grossly overpriced' or 'under-priced'. He found some empirical evidence from the Nigerian stock market suggesting some 'abnormal returns' from share trading which corroborates the argument advanced by Samuel and Yacout's. His test was based on the semi-strong form of market efficiency[3]. By and large, this may be attributed to some kind of monopolistic access to information and might have a bearing on the saving allocations as well as on the income and wealth distribution as pointed out by Samuel and Yacout. Poor communication infrastructures and low level of literacy in financial analysis and interpretation obviously suggest a weak information processing capacity, with a negative impact on the efficiency of the market (Olowe 1998).

The issue of market inefficiency may not, however, be suggestive of the undesirability of the market. It can only warn against placing undue emphasis on the market. In spite of market imperfections, securities markets are asserting their place in the financial sectors of many developing countries. Market efficiency is strongly linked with the institutional, human capacity and the economic environment at large. It improves as the economic and institutional environment changes for the better. Empirical evidence by Demirguc-Kunt and Levine (1999) based on developing and developed countries shows that "in higher income countries, stock markets become more active and more efficient relative to banks" (Demirguc-Kunt and Levine 1999:36).

3. JUSTIFICATIONS FOR A SECURITIES MARKET IN ETHIOPIA

Obviously, the potential role of a securities market in Ethiopia should be to fill gaps in the financing structure of the economy. The need for a securities market in Ethiopia may be justified on grounds of macroeconomic conditions, particularly on the saving-investment situations, and the structure of the financial institutions involved in the mobilisation and allocation of financial resources. It can be argued that a securities market may be treated as an additional means through which financial resources can be mobilised so as to augment the overall saving rate in the country. The inadequacy of the existing financial institutions, particularly in the financing of investment projects with long-term payback period also calls, among others, for a securities market.

3.1. Saving and Investment Trends

A brief assessment of the saving and investment situations of the country shows that although the ratio of investment to GDP during the Derg (1974-91) was not much different from the imperial era, the saving rate nonetheless went down significantly during the latter period. The rate of capital formation towards the end of the imperial era was about 12.6% (Table 1), of which gross domestic saving financed about 87%. External resource inflow constituted a mere 1.6% of GDP or about 12.7% of the investment expenditure made in the country. The fiscal stance of the Imperial government was also characterised by low levels of budgetary deficit, domestic and external borrowings. Current expenditure was, more or less, in line with current revenue suggesting the saving rate, that stood at about 11%, was entirely due to the private sector. Capital expenditure hardly exceeded 4% during this period, the financing of which was largely from external borrowing (about 3%) and domestic borrowing (less 1%) (Eshetu and Mekonnen 1992). The saving- investment trends observed during this period coupled with the low budgetary deficit led to a low debt-to-GDP ratio.

In contrast to the Imperial period, the saving rate during the Derg deteriorated rather drastically. It went down to about 4%. The rate of capital formation more or less stagnated at about 12.3% on average but the largest proportion of it was financed by external resource inflow. Resource gap grew from 3.2% at the beginning of the Derg era to about 9.8% at the end of the period (Table 1). Nearly 70% of the investment expenditure actually made was financed by external borrowings and assistance. This significantly increased the country's dependence on the external world and raised the debt-to-GDP ratio to a significant degree.

The investment rate during the last seven years of post reform period shows recovery as it went up to about 18% on the average compared to 14% at the end of the Derg period. Still this is largely financed by external resources in the form of borrowing and transfers. Domestic saving stagnated at about 7% in the post reform period but resource gap grew to about 11% (Table 1) of GDP from 9.8% at the end of the Derg Period. Gross National Savings, however, rose to 15% from 10.6% at the end of the Derg era. At any rate, dependence on the rest of the world has not shown any sign of abatement, and resource gap amounts to nearly 63% of the country's investment expenditure.

At the household level, a recent survey shows that countrywide rate of saving stands at 4.6% (Table 5). This suggests that over 65% of the country's domestic saving comes from the household sector. Urban households save about 8.6% of their earnings as opposed to the 3.6% of the rural households. Table 5 reports the saving and non-saving groups of the households. Of the total households, only about 20% make a positive saving suggesting that the countrywide 4.6% saving rate cited above was entirely due to this group. This group of households is, of course, a relatively well to do as they claim a third of the total households' earnings. About 46% of the households claiming about 31% of the total earnings, on the other hand, spend more than their earnings, while nearly 34% of the households claiming about 38% of the total earnings make neither positive nor negative savings (Table 5). About 84% and 79% of the urban and rural households, respectively, make either negative savings or none[4]. As a reflection of the low level of savings, the households' expenditure pattern shows that consumption expenditure constitutes well over 92% (Table 8).

If saving rate is so low, what resources is the securities market to raise? This is a legitimate question. Low level of domestic saving is generally attributed to a low level of income but need not suggest the absence of potentials to mobilise additional resources for investment through the institutionalisation of additional markets such as those of securities. One can cite a number of reasons why Ethiopia needs a securities market despite low level of income.

First saving mobilisation depends on a number of other socio-economic factors though income is certainly very important. Accessibility to banking and other alternative means of asset holdings, for example, could be an important factor in households' decision to save or not to save[5]. In a recent cross-country analysis of Sub-Saharan African (SSA) countries by Ikhide (1996), in which Ethiopia was included, bank branch per population ratio turned out to be an important variable in determining the gross domestic saving ratio[6]. Second, the current external Debt-GDP ratio, which stands above 100% does not seem to be sustainable and dependence on external resource inflow is less likely to continue for long, at least at the current level let alone at a level that matches the needs of the country (World Development Report 1997). Third, Gross Domestic Saving rate of low income countries on the average stands at 30%. Excluding China and India, this rate stands at about 10% which is significantly higher than the 7% for Ethiopia. The average for sub-Saharan Africa, on the other hand, stands at 16% of GDP (World Development Report 1997). Fourth, in spite of the fact that income is low, studies show that there are substantial voluntary saving potentialities even among rural population in Africa (Ingham 1992; Mofunanya 1992). Given appropriate strategies including better rate of return and that access to financial services are in place, these potential savings can be mobilised and channelled to more productive investment activities. Fifth, even in the absence of potentials to mobilise, stock markets may induce economic actors to change their asset portfolio holdings away from physical and passive asset holding towards shares which are easily mobile and convertible into cash and investible assets. Finally, a securities market is not new to Ethiopia. Though rudimentary, there was a stock market in the country prior to the 1975 period, known as the Addis Ababa Share Dealing Group. This was formally established in 1960, when the government put up a department that facilities a share dealing and exchange under the state Bank of Ethiopia (Von Pischke 1968; Feyera 1995). Von Piscke (1968) reported that the public response during the first few years was quite encouraging. In about four years, the number of listed companies more than doubled; total value of shares bought and sold to the public significantly increased, which, considering the embryonic stage of the industrial and commercial activities, were quite encouraging[7].

3.2. Current Financial Structure

3.2.1. Institutional Structure

The financial structure of Ethiopia is such that it has completely been dominated by the banking sector for the last two and half decades. Currently, there are three government owned banks, one operating as a commercial bank–the Commercial Bank of Ethiopia (CBE); one development bank–the Development Bank of Ethiopia (DBE), and the Construction and Business Bank (CBB). The DBE is a specialised bank geared towards project financing. The CBB had a tradition of exclusive involvement in the housing and real estate development sector prior to its re-establishment in 1994[8]. Currently, the CBB provides universal banking services. Six private commercial banks established since the country started economic liberalisation are also operating in the market. In addition, one government owned insurance company and eight private insurance companies, and one pension fund are operating in the financial market.

In spite of long banking history, there are only about 270 banking branches operating throughout the country, roughly suggesting a population to branch ratio of 230,000. This is indeed extremely low even compared to many African countries. Evidence from Ghana and Malawi shows a population to branch ratio of less than 30,000 (Nissanke 1991). This, to a large extent, suggests that the effort to mobilise domestic resources for investment have been limited, which perhaps may have contributed to the low level of savings.

The institutional structure of the financial sector further shows that risk sharing and other institutions such as mutual funds, private pension funds, investment banks, money and capital markets, venture capital companies etc. that offer broader opportunities for saving and investment are lacking.

3.2.2. Trends in Bank Credit Allocation

Outstanding loans and advances from the banking system (excluding from the National Bank of Ethiopia (NBE)) extended to the various sectors in the economy is about 36%[9] of GDP. Of the total loans, claims on the central government accounts for nearly 18%, while the rest is accounted for by the non-central government (Table 2). This picture is changing rapidly in favour of the private sector which is growing faster than the central government (Commercial Bank of Ethiopia 1998; Alemayehu Geda 1999).

A sectoral breakdown of loans and advances from the banking sector for 1999 show that credit to the domestic and foreign trade accounts for about 28% followed by the central government which accounts for 17.8% (Table 2). Both of these claims for about 46%, which are indeed short-term loans maturing mainly within or less than a year. Agriculture and industry account for 7 and 11%, respectively. But a good part of this goes to finance fertiliser import and distribution as well as meeting working capital needs of Public Enterprises (PEs) and private companies rather than investment activities[10]. Statistics on the sources of loans show that about 73% of the loan made in 1999 originated from the commercial banks, which by and large, are short-term loans (Table 2). The DBE and the CBB constituted about 22% and 4.8% of the total credit, respectively. As stated above, a good part of the loan extended by the DBE was to finance agricultural inputs such as fertiliser distribution, which often has a maturity period of less than a year. The CBB, though has a wide involvement in the housing and construction sector, shifted towards providing universal banking services including short-term loans. Thus, the size of the long- term credit is likely to be smaller than is suggested by the share of the DBE and CBB.

This perhaps shows that long-term loans are not well received by the banking sector. In the long-term, fundamental economic and financial variables in the economy may change their course, making long- term loans more liable to interest rate and exchange rate risks as well as to liquidity risks than is short- term loans. This would, in the face of short-term maturing liabilities as discussed below, inhibit banks from extending loans to projects with long payback periods. In some cases, it appears rational for banks to prefer excess liquidity build up rather extending credits to finance projects[11]

The share of long-term loans of the CBE, mainly extended in syndicate with the DBE hardly exceeds 10% of its total credit (Commercial Bank of Ethiopia 1998). In addition, project finance extended by commercial banks has limited grace period. Disbursement is spread over the project life (i.e., implementation period) mainly to avoid mismatch in the assets-liabilities of a bank[12]. It also generally covers about 40% to 60% of project costs. Customers desiring beyond 60% equity finance from the commercial banks are less likely to be entertained.

There is also another dimension to this problem. The high level of non-performing loans experienced by banks in many countries and the consequence cautious attitudes adopted would make banks less reliable to venture into long-term investment activities (Drake 1985). In the African banking sector, the share of non-performing loans for some selected countries such as Kenya at one time was as high as 15%[13], 20-40% for Zambia, 70% for Uganda and 60% for Nigeria (Brownbridge 1996a, 1996b, 1996c, 1996d).

Ethiopia's situation is no better[14]. These situations are not entirely the outcome of allocating banking fund to long-term projects but the consequence of gross misallocation of resources including to wrong lines of activities which ultimately undermines the operation of the banking sector and precipitates banking failure. Nonetheless, the alarming rate of doubtful loans would make banks cautious to extend loans likely to turn out to be non-performing.

Another feature of the banking sector is the collateral requirement. Many of the banks require a minimum collateral of 100% to 150% of the loan depending on the purpose of the loan and type of the collateral. This is the case with the CBE. The DBE as well requires collateral of 125% for a loan extending up to 15 years (Bekele 1998). Collateral requirement is generally a major problem particularly for projects and companies with good growth prospects but without adequate tangible assets. This would negatively impact both short- and long-term credit expansion, and consequently investment activities in the country[15].

Even if one ignores the issue of project financing, the need for a securities market becomes not entirely a matter of preference (i.e., banks versus stock markets). The resource needs of an economy, as large as that of Ethiopia, at least in terms of population size, is unlikely to be met by banks alone. Securities markets can serve as additional conduit through which resources can pass from the general public to the investing community (Craigwell et al., 1999). Moreover, although banks can extend loans to finance investment activities, securities markets may be better than banks in some respects. Securities markets permit risk sharing among shareholders suggesting that companies would be more encouraged to invest and expand their range of operations (Craigwell and Grandbois 1999; Kenny and Todd 1998).

3.2.3. Trends in Deposit Liabilities of the Banking System

The resource base of the banking sector as well suggests that the room to involve in long-term loan by the banking sector is limited. First, nearly 91% of the deposits is in the form of demand and savings deposits which are payable at request or at short notice[16]. The share of time deposits, which roughly match up with the medium and long- term loans, constitute only about 9% of the total deposits (Table 3). Thus, long-term loan is likely to be constrained by the type and size of funds received by the banking system in the form of deposits. Secondly, nearly 93% of the deposits is mobilised through the commercial banks. The DBE, and the CBB which to some extent is thought to involve in medium and long-term loans, mobilise only 7.3% of the total (Table 3). The share of the DBE is extremely low amounting only to 4.4%. It largely depends on the resources mobilised by the other commercial banks, mainly the CBE, and on the NBE (Bekele 1998).

Apart from this, development banks tend to suffer disproportionately from defaults and accumulation of non-performing loans with a negative consequence on their capacity to make further long-term loans. The evidence from Ethiopia as well as from other countries is that banks providing development loans are often undercapitalised, severely liquidity-constrained and often with a negative net worth (Nissanke 1991, Bekele 1998). Moreover, it has been indicated that owing to the weak resource base, the DBE can meet only about 10% of the total project costs approved by the Ethiopian Investment Authority (Bekele 1998).

Inadequacy of resources for long-term projects is likely to be a formidable constraint placed on investment activities in the country, but at the same time, it shows the potential role securities markets could play in the future. Of course, maturity transformation (e.g., borrowing short-term and lending long-term) is one of the basic functions of banks. But the practice shows that granting loans that mature up to ten years or more can only be made under exceptional circumstances and with extreme caution.

4. SUPPLY AND DEMAND PROSPECTS FOR A SECURITIES MARKET[17]

The foregoing assessment shows that the financial structure in Ethiopia is dominated by the commercial banks whose major focus is on mobilising short-term liabilities and extending predominantly short-term loans. The recently established private commercial banks have limited capacity and are less reliable to support project financing[18]. The banks, expected to extend loans for projects with long-term pay back, have limited resources of their own to sustainably support long-term credit supply to the economy. This clearly indicates that a securities market is a missing element in the financial structure of the country. What follows is an assessment of the demand and supply prospects for establishing a securities market in the economy.

4.1. Supply of Shares

The process of privatisation currently underway, existing share companies, new investors coming into the scene and government securities are likely to be the potential source of supply of shares for the market. These are briefly discussed below.

Privatisation

Country experience shows that privatisation generally deepen and widen an existing securities market as it boosts the supply of shares and increase the number of participants in the market (Freckleton 1995). Market capitalisation and turn over ratios tend to grow rapidly following privatisation. This was in particular notable in Jamaica, among others, in which privatisation has been used to stimulate the stock market (Freckleton 1995). The stock market in Nigeria made significant expansion in the late 1980s and early 1990s when public offer of securities was one of the most popular means of privatisation (Ikhide 1997). Privatisation benefits from the opportunities the securities market provides as it allows the wider public to participate in the privatisation process and help partially, if not wholly, overcome the capital constraints needed for divestment.

The absence of a securities market in Ethiopia may have a negative impact on the speed of privatisation but privatisation itself is likely to create a propitious ground for the establishment of this market by augmenting the potential supply of securities in the near future. So far, Ethiopia has divested over 170 public enterprises (PEs), most of which constitute small shops and hotels. Given the small size of the PEs privatised to date, their conversion to share companies is likely to be limited. Large-scale PEs, numbering over 120, are planned for privatisation over the next three years. The large size of these companies together with the limited financial capacity of the domestic entrepreneurs suggests the need for participating of the general public at large[19] if privatisation is to succeed. And, share floating is the most convenient modality to ensure the participation of the general public (Economic Commission for Africa 1999). Even in this case, successful participation of the public depends on a number of factors including on the efforts made to create awareness, the way share prices are set, and if the public is convinced that share prices bring higher rate of returns than alternative forms of investment. Given a low level of income and saving, the public can be expected to make a notable participation if share prices are set sufficiently low.

The just enacted privatisation law stipulates, among others, that some of the PEs shall be converted into share companies before being transferred into the hands of the private sector (Ethiopian Privatisation Agency June 1999E). Per this proclamation, a number of the PEs are being converted into share companies to prepare the ground for share floating to the public. This source may at least be an important one in the short to medium period; in the long-term, the driving force for the securities market would be the motive to expand by the existing companies and the establishment of new ones.

Existing Share Companies

Once shares are acquired, they have to be traded and re-traded in the secondary market in response to the motives and needs of individuals for liquidity, and acquire other securities with a better rate of return. However, in a situation where the securities market is a missing element, the possibilities to easily dispose of shares and acquiring other securities appears to be difficult if not impossible. The transaction costs involved under such a situation is likely to be significantly higher than would have been under the presence of a securities market. Moreover, the ease with which shares are transferred matters a lot for individuals' decisions to hold shares.

High transaction cost is unlikely to be true in Ethiopia as a sizeable number of share companies and shareholders exist in the country, partly owing to the deregulation of the economy which made licensing relatively easy for new investments and establishments. Though country-wide data is not available, there are about 133 share companies with a total capital of 1.06 billion Birr, registered with the Addis Ababa Administration, Trade and Industry Bureau[20] (Table 6). Total shareholders of these companies stand at 9,509, and membership ranges from as few as 3 to 1,400. Of these, 17 companies are with shareholders above 100. Of these companies, nine of them have an initial capital of 50 million Birr and above, while about 21 of them have an initial capital ranging between 10 and 50 million Birr. More than 50% of the share companies, however, have an initial capital of less than a million Birr, suggesting majority of them are owned by close relatives which are generally regarded as less willing to let the control of their businesses to outsiders.

Nevertheless, with the opening up of a securities market, more companies in need of resources larger than what their own fund allows may come to the picture. Existing under-capitalised companies may as well be encouraged to issue additional shares to bring their paid up capital to the required level[21]. Large corporations with significant long-term investments may as well be important players in augmenting the supply side of the market in the future, mainly by issuing corporate bonds[22]. In the meantime, the absence of a securities market makes entry and exit of individuals holding equity shares relatively difficult and probably of high cost. This would be sufficient to discourage individuals from holding shares. The establishment of a securities market may thus be expected to provide much more flexibility in the transferability of shares (i.e., through its secondary market) and hence improve resource allocation as entry and exit would be easier than is currently being practised.

New Investors

Newly established companies could be another source of supply of shares to the market[23]. Overall investment activities in the country is generally on the rise, though modestly, as indicated by the investment rate which grew from 14% to 18% over the last seven years. Up until December 1998, about 4817 projects worth about 40 billion Birr, have been licensed by the Ethiopian Investment Authority and investment bureaux of the regions[24]. Of these, about 1358 projects worth 9.0 billion Birr went into operation, which constitutes 22.5% of the total in value terms.

While this may be an encouraging trend, the gap between licensed and those actually implemented nevertheless suggest that investment in the country is not as much as one would have liked. Over 77% of the licensed projects have not been implemented because of several possible reasons. While many of these projects may not show a true commitment on the part of the licensee (Collier and Gunning 1995:238), the financial constraints, particularly obtaining bank credit given collateral requirements cannot be understated at this stage. The banking sector, as discussed above, is hardly in a position to entertain all investment demands. The wide gap between actual investment and licensed projects may nonetheless indicate the potential supply of shares in the future. With the establishment of a securities market, many of the licensees may find the stock market attractive to raise equity funds to finance their projects. Even those having access to bank credit may prefer the stock market so as to reduce their risks associated with bank debt. The fact that risk is diversified among many shareholders would generally make equity finance of lower risk to the issuing company, and motivate companies to involve in higher investment risk than they would be able with bank loan (Kenny and Todd 1998). Companies financing by issuing shares are also relieved from interest payments on a regular basis, which in times of weak performance, may be a source of risk.

Government Securities

A distinction is generally made between shares and bonds with the latter entitling the holder a fixed interest income, and issued mainly by governments, both at local and federal levels and to some extent by corporations. Shares and bonds also differ based on the degree of risk attached to them. Shares are generally high-risk investment to the holder for the return from share holding depends on the profitability of the company issuing it. Bonds, particularly government bonds carry low risk. Inflation is the only source of risk for bondholders. In times of settlement of claims emanating from liquidation, bondholders also get priority over shareholders (The Economist, November 13, 1999).

Nonetheless, both bonds and shares are, in many cases, traded in the same market. In fact, it is often reported that government securities dominate the stock markets in many developing countries, particularly at the early stage. Transactions of government securities in value terms, for Nigeria, for example, have been above 90% of the total transaction in the 1970s, though constituting only 20% in volume because of the large denomination of the par value so as to reduce transaction costs (Samuel and Yacout 1981). This same market was transformed into an equity market in the 1980s and 1990s, with bonds constituting an increasingly smaller size than equities (Ikhide 1997). This same trend was true with the Abidjan stock exchange (Calamanti 1980).

There are at least two reasons why governments issue bonds and treasury bills. One major reason is to finance budgetary deficits that may principally arise because relative to expenditure and/or overall expenditures may be in excess of total revenue. The record shows that the stock of outstanding Ethiopian government borrowing from the banking sector is quite a sizeable amount, accounting for almost 30% of the GDP (Table 4). About 59% of this is direct advance from the National Bank of Ethiopia[25], while about 30% was raised by issuing bonds. Treasury bills constituted about 11% of the total, but the yearly gross borrowing by issuing treasury bills is much higher than this. Most of the treasury bills being issued have a maturity date of 28 and 90 days and to a limited extent 182 days.

The second reason for a government to involve in securities market arises from the need to regulate the money supply in the economy. The central bank (i.e. NBE) sells bonds and treasury bills whenever it feels the overall money supply is in excess of the amount that would maintain a stable price and exchange rate, and it buys whenever the economy is strangulated by inadequate money supply. In this respect, a government involves not only as a supplier of securities but also as a buyer.

In Ethiopia, open market operation to regulate money supply is hardly practised. But bonds and treasury bills may increase in the future owing to the increased liberalisation of the economy including the financial sector, and consequently, the increased government resort to indirect monetary control as opposed to direct regulation. This, together with the motive to fill financing gaps, are factors likely to increase the supply of securities in the economy in the future. The fact that government bonds are relatively of low risk may make them relatively more preferred form of asset holdings than shares.

4.2. Demand for Shares

Demand for shares may come from various sources. Portfolio adjustments of individual asset holders, institutional savers, and the growth in the middle and high-income groups of the population may be regarded as potential buyers of shares.

Portfolio Adjustment

In a semi-urbanised society such as Ethiopia, assets may be held in the form of cash, bank deposits, physical assets in the form of land, real estates, livestock, precious metals and consumer durables such as vehicles as well as in hard currency. Data regarding the form of asset holdings and the relative size of each is hard to come by. These are traditional forms of asset holdings of the society at large and the establishment of a securities market will create another form of asset holdings and incentives to diversify asset portfolio for individuals. Thus, one may expect significant asset holding adjustments towards shares following the establishment of a securities market in the country. This is likely to be more intensive in the urban areas where commercial activities predominate people's lives. In the long run, farmers may be drawn into the market based on the motives to reduce the impact of uncertainties arising from drought and shortage of grazing land, as well as in anticipation of better returns from securities. Available evidence from some African countries, however, show that the impact of the stock markets on the farming sector was rather limited as the market itself is mainly urban based (Calamanti 1980; Osei 1998) though broad based asset ownership is one of the objectives the market seeks to achieve.[26] On the other hand, even if portfolio adjustment may not help raise overall savings in the urban areas, it can help release resources from passive forms of asset holdings to more active and productive activities, and long-term investments, at least in the long-term. It all depends on the rate of return from share holding *vis-à-vis* other alternative forms of asset holdings. A significantly high returns and low risks from share holdings may encourage individuals and companies to shift to this market.

Small and Institutional Savers

Under current legal and policy environment, small savers have limited choice as to hold their savings. The only available avenue is to put it in the banks in the form of saving and time deposits. The size of private companies and individual saving in the banking sector is fast surpassing that of the public sector, after the start of the ongoing liberalisation process (Commercial Bank of Ethiopia 1998; Alemayehu Geda 1999). Whether individuals and private companies have been motivated by the rate of return banks offer or by the protection motive is an open question. If the former dominates the latter, then one would expect a shift of resources to share holdings provided share-holding offers a return in excess of the bank rate. Opening up a securities market may as well bring about additional options of investment for these small savers, which in some respects, may lead to a competitive situation between the banks and the securities market.[27]

Insurance corporations and pension funds often believed to have a sizeable amount of surplus money (Jefferis 1995) and which can be channelled for long-term investments are the other potential sources of demand for the market. There are about eight insurance companies, with the Ethiopian Insurance Corporation having over 66% of the total asset (Bekele 1999), and one Pension Authority in the country[28]. A good part of the financial resources of these companies and corporation is generally invested in treasury bills and government bonds, the yield of which is far below the 6% minimum deposit rates of the banking sector[29]. These are obviously investment areas of low return for these companies, and a significant portfolio adjustment towards share holding can be expected following the establishment of a securities market.

Thrift associations mainly of public sector employees, and 'Equbs' and 'Edirs', which are part of the informal financial sector and traditional forms of saving mobilisation in the country can also be good source of demand. The size of resources mobilised by the 'Equbs' and 'Edirs' is not however known at this stage with some degree of certainty. Research conducted in 1976, for example, showed that savings mobilised by 'Equbs' alone was estimated at 8-10% of the GDP (Tschakert 1976; quoted in Bouman (1995:373)). Another study made in 1987 as well indicated that 95% of the 'Equbs' surveyed in Addis Ababa were found to raise funds amounting to 15% of the total household saving deposits with the CBE (Mauri 1987; quoted in Bouman (1995:373)). Such estimates, of course, are likely to involve wide margin of errors. Nevertheless the order of magnitude suggested shows that 'Equbs' and 'Edirs' are likely to be good source of demand for the market. 'Equbs' in particular are widely used among traders in the towns as a means to raise funds to run their business, and may increasingly be drawn into the market to diversify their investments and asset holdings.

Income and Employment

Level, growth and distribution in income, and employment expansion are generally some of the major sources of demand for securities. Overall per capita income in the country is, of course, low and GDP growth picked up only recently, albeit modestly. The level of income as well as growth trends in income determines the size and strength of the market. Low level of income, suggests that the expected securities market is likely to be thin and small in size.

Income distribution pattern may also be another factor with significant implication on the market since it determines the size of the upper and middle-income groups of the population. These groups are potential securities buyers as the experience from other African countries shows.[30] The group consists of traders, professionals, and employees of the public and private sectors including wage earners (Calamanti 1980; Osei 1998). The World Development Report (1993) indicated that in Ethiopia the highest 10% and 20% of the population in 1981/82 used to command about 27.5% and 41% of the income/consumption expenditure, respectively, while the lowest 20% had a share of 8.6% (Table 7b). Although these are relatively outdated statistics, they, nevertheless, indicate that income distribution was significantly asymmetrical even when the economy was under the command system. With economic liberalisation and further deregulation, income inequality is likely to be worsened, perhaps increasing the size of the population that can potentially be involved in the securities market. Data obtained from a recent household survey seems to suggest that nearly a fifth of the top households claim about 50% of the income/expenditure of the total households, while 40% of the bottom claim only about 16% (Tables 7a and 7b).

Comprehensive data on employment in the modern sector is not easily available. The overall public sector employees as of 1995, is estimated to be about half a million, of which 42% are employees of the public enterprises sector, while the rest belong to the civil service sector (United Nations Development Programme 1998; World Bank 1997). Employment of the public sector is thus extremely low given a population of 61.7 million.[31] The earning structure of the public employees is even more disheartening from the perspective of the securities market. 19% earn less than 200 Birr, while 67% of them earn less than 500 Birr. Those public employees with a monthly earning of 500 to 1000 Birr account for 22%. Only 2.5% earn above 1000 Birr (United Nations Development Programme 1998). This earning structure, by and large, suggests that public employees' participation in the market would, at best be modest.

The number of employees in the large and medium scale manufacturing sector (both public and private) as of 1997, was also about 90,000. This shows a growth rate of 2.2% per annum compared to the 82,644 in 1991/92 (Table 9), still a negligible proportions when compared with the total population of the country. The average wage rate per annum for this sector as well grew from 3379 in 1992 to 5076 Birr in 1997, indicating an average growth rate of 10.7%, in nominal terms. This is an encouraging trend, though not large enough to offset the cumulative erosions in real wages over the years. In addition, over 70% of them earn less than 500 Birr indicating many of them are low-income groups (Table 10).

The number of persons engaged in the wholesale and retail trade as well as in the small service sectors was also estimated at 548,483, of which 28.8% are salaried groups. Of the salaried groups, 7.7% earn above 550 Birr, while about 15.6% earn above 350 Birr. Average net profit per firm per month stands at 10,672 Birr for the wholesale, 472 Birr for the retail, and 365 Birr for the small service sector (Tables 11 and 12). One, however, needs to cautiously read these statistics given the fact that businessmen often fail to record their transactions and understate their income, probably for reasons of taxation. Nonetheless, these are the group of people one would expect as a potential source of demand for the market particularly for shares, mainly because their average income is significantly better than the average citizen and are capable of making some savings.

5. HOW BIG MIGHT THE MARKET BE?

The supply and demand assessment made above is suggestive of the size of the market. Low level of income, employment and urbanisation would mean that a robust demand for shares could only be realised in the long run. In addition, conservative attitudes towards share holdings that characterise many low-income countries of which Ethiopia is not an exception, and the risk likely to be perceived from securities holding would be factors undermining the demand for shares (Drake 1977). On the other hand, a predominantly agricultural economy with the manufacturing sector contributing only about 10 per cent of the gross domestic product would potentially be a limiting factor on the supply side of the market. About 65 per cent of the large- and medium-scale manufacturing industries, both public and private owned, have employment size of less than 50 persons and a paid-up capital of less than one million Birr (Tables 13 and 14). Of the privately owned, about 63% have no book of accounts. For the domestic trade and service sector, this proportion goes up to over 90 per cent (Table 15), suggesting that they are operating on the border of the informal sector. The potential number of companies likely to adopt a corporate form of organisation and willing to let public participation is thus small, to say the obvious. Smallness does not, however, preclude the starting of the market.

Even in the developed countries where equity markets are highly developed, banks and other sources, mainly retained earnings, by and large, dominate the investment financing structures of firms, when judged in terms of the net resources raised[32]. Nonetheless, world stock markets, measured in terms of market capitalisation have been growing at a rapid rate over the last one and half decade. Over the 1985-1994 period, world market capitalisation[33] grew from \$4.7 to \$15.2 trillion (Demirguc-Kunt and Levine 1999). In Asia and Latin America, market capitalisation grew from \$1.6 to \$9.6 trillion, showing the fastest growth. For many Asian countries, market capitalisation ratio is well over 100 per cent showing that share markets are significant form of resource mobilisation and allocation in these economies (Feldman and Kumar 1995).

In contrast, stock market development in Africa is incomparably low. With the exception of Kenya and Zimbabwe, the capitalisation ratio is well below 10%. The ratio for Kenya and Zimbabwe, however, stands at about 25%. This leaves much to be desired compared to Asian countries (Feldman and Kumar 1995). The low capitalisation ratio shows that resources mobilised through the stock markets in SSA countries is very small. Numbers of listed companies by themselves are generally in the range of 10 to 50 (Kenny and Todd 1998). Only Nigeria (186), Zimbabwe (64) and Kenya (56) have higher than 50 listed companies in the market. Turnover ratios are also very low, reflecting the low demand for snares (Kenny and Todd: 831).

Although the size of the market is low in SSA, it has nonetheless shown significant growth in the late 1980s and 1990s. Kenny and Moss (1998), for example, reported that over the 1990-1996 period, the number of listed companies and market capitalisation for some SSA countries more than doubled [Kenny and Todd 1998:830]. Turnover ratio is rising indicating an improvement in liquidity. Trading of newly issued shares as a proportion of GDP is low, but growing overtime (Ikhide 1997), showing an increasing resort of investors to the market. These are indeed signs of hope for those countries contemplating to institute the market. The positive association between growth in the securities market and per capita income (Demirguc-Kunt and Levine 1996) is also evidence of the potential role of the market in countries such as Ethiopia. Thus, even if the supply and demand conditions assessed above suggest that the market is likely to be small in size, the recent rapid growth observed in low- income SSA countries is a good indicator of its viability and potentialities in the long-term.

6. AREAS OF EMPHASIS

6.1. Legal and Institutional Infrastructures

Like all other markets, the first requirement for the realisation of a securities market, however small it is, is the existence of both the supply and demand conditions. The above assessment of the potential supply and demand suggests that the prospect for a securities market does seem to be good. There are already a number of share companies and shareholders in the country. Some degree of informal share transactions may thus be taking place owing to the absence of the required institutional and legal arrangements necessary to formalise the market.

What legal and institutional framework is needed depends on the nature of the market. Securities markets, particularly at the early stage, are susceptible to volatility, partly owing to the thinness of the market where the action of individual companies has significant impact on the price of the market. The fact that the market is highly exposed to fraudulent, speculative and insiders' manipulation calls for instituting an appropriate legal and institutional framework to ensure stability, smoothen the operation of the market, protect shareholders and promote public confidence (Horch 1989). Ethiopia's Commercial Code provides the minimum requirements for a share market to take place (Addis Ababa Chamber of Commerce 1999; Porter 1996). But further refinements, mainly in the forms of additional specific regulatory rules, to formalise and create a more propitious ground may be essential for the market to start operation and develop.[34]

Rules and procedures issued as laws or by-laws should be able to define the modes of operation of the market. Companies that raise funds from the market should be listed upon fulfilment of the regulatory requirements. The modalities for share pricing and the frequencies of trading of shares must be determined depending on considerations of supply and demand as well as the overall environment. Information disclosure procedures of companies need to be clearly stipulated and regularly monitored.

Providing incentive systems may be an essential component of the market, particularly at the early stage. Should capital gain taxes are to be applicable on the share market, this needs to be determined, and the magnitude spelt out. The same is true with dividends. At the early stage, tax incentives to listed companies may be unavoidable to encourage companies and shareholders, as the market itself would be new to potential participants. The experience of other countries such as Korea and Brazil suggests tax relief as an appropriate instrument to encourage the growth and development of the market (Horch 1989).

Institutions that regulate and manage the day to day operation of the market need to be in place, and its mandates defined. Historical records of other countries show that there have been two ways of institutionalising the market. One is through the associations of securities dealers and brokers, with the responsibility of defining the conduct of the market through its own by-laws and managing the day to day operation of the market. This was the way some of the largest stock markets in the world had initially started to operate and evolved over time (Porter 1996). Another is through the establishment of an agency that manages the operation of the market. This is often organised as an autonomous agency. Experience of other countries shows that the agency is accountable to a board of directors reporting to a government ministry such as the ministry of finance (Jefferis 1995; Ikhide 1997; Calamanti 1980). Securities Exchange Commissions (SEC) of this type are very common these days in a number of SSA countries.

Both ways of institutionalising the market may have their own merits. Permitting a securities market to be run by dealers' and brokers' association may help avoid unnecessary government intervention in the market. Establishing a commission or an agency headed by a government appointed board of directors to manage the market, on the other hand, may help obtain a positive support of the government. The latter is also likely to encourage public participation and develop trust in the market, which is an essential element for such markets particularly in countries with low communication and information infrastructures, such as Ethiopia.

6.2. Managerial Capacity

When individuals and companies buy shares of a company they have an implicit or explicit belief in the strength of the company as well as on the management that runs the company. Investors will seek to have a full and up-to-date information not only on the company's performance but also on the status, quality, professional track record etc. of the management. Good management with the required skill and with unquestioned integrity and honesty is required, among others, to win peoples' confidence and trust on the listed companies if the securities market, once established, is to develop in breadth and depth.

The legal and institutional infrastructures cited above are not too difficult to put in place. However, they are not sufficient by themselves. Implementation requires skilled and professional managers, analysts etc., the generation of which has been extremely limited in Ethiopia.[35] The possibility of conflict of interest between shareholders (owners) and managers running these companies, would also mean that the true financial position of companies may not be revealed by the regular reports made by managers in line with the information disclosure procedures of the stock market. Managers have, at least in theory, an incentive to present rosy reports in spite of difficulties faced by companies.[36] In this respect, the public would find it difficult to differentiate the best performer from an inefficient one.

Poor record-keeping and low accounting rules and standards, which are conspicuous in the country, are also factors to have a compounding effect (Table 15). The absence of independent rating agencies, or audit companies with high quality and reputation, on the other hand, suggest that individual stockholders have to bear the burden of acquiring pertinent information while deciding to buy shares of a company. But the costs involved to do so as well as the lack of skills, at least by most potential share buyers to process information would prove to be one of the handicaps for the growth of the market. The dearth of qualified and career professional managers are thus factors likely to pose significant challenges for the development and viability of a securities market. There also seems to be system-wide corrupt and unethical practices in this country.[37] This would, in particular, have the potential to erode public confidence in the market.

6.3. Stable Environment

A securities market, once established, is shaped by a number of factors, both economic and non-economic. Economic and political events are very important in the developed countries as well. Nonetheless, the amplitude and consequences of economic (e.g. terms of trade shocks, policies change such as major currency devaluation etc.) and political instabilities on the market in low-income countries are much larger than in the developed countries (Kenny and Todd 1998). Narrow industrial and export base of countries such as Ethiopia would mean that terms of trade shock has significant impact on the economy and on the securities markets that are generally thin and small as is the case in other SSA countries.[38] Shocks arising from drought, war and other natural and man made calamities etc. are by no means less important in impacting the economies of low-income countries such as Ethiopia.

A stable environment is thus one of the requirements for the market to operate smoothly and grow over time. And, this is one of the major challenges of many markets of low-income countries such as Ethiopia. It is a challenging task because many of these sources of instability may not always be manageable, and are likely to create significant havoc on the market. Stock markets at best stagnate when the economy performs poorly, as was the case in Jamaica (Freckleton 1995). Muzamani (1993), observing the Zimbabwe stock exchange, concluded that " when the performance of the stock exchange is good with rising indices, firms make extensive use of the stock exchange as a market to raise funds", but shows great reluctance when the market collapses. This shows that investors would find the market less attractive to raise funds when the overall climate determining demand and investment activities is unfavourable and vice versa.

7. SUMMARY AND CONCLUSION

Securities markets are essential elements of a financial market. They help mobilise and allocate resources to long-term investment activities. In doing so, they fill the gap left by the banking sector. In light of this, attempt has been made to assess the prospects for a securities market in Ethiopia. Although securities markets are still at infancy in sub-Saharan Africa, trends show that this is a growing, dynamic and essential component of the financial sector.

The saving and investment situation in Ethiopia reveals that resource mobilisation is not only far below what a rapid growth would require but also compared to countries with similar level of development. The low level of income need not, however, imply the absence of potentials for further resource mobilisation. There are ample evidences from rural Africa showing considerable saving potentials that can be channelled to more productive activities through appropriate mix of incentives and mechanisms. Domestic saving rates of countries with similar level of development in SSA stands at 16% which is more than twice the rate for Ethiopia. Even if overall saving rate is not raised, the establishment of a securities market may help release resources from low productive and passive forms of asset holdings to more active, easily mobile assets. Finally, more than 60% of the investment of the country is financed by external resources but sustained economic growth, to a large extent, would require reliance on domestic resources.

The financial sector in the country suggests that the securities market is a missing element. Nearly 93% of the savings are mobilised by the commercial banks, and 91% of the deposits constitutes demand and saving deposits which are short-term maturing liabilities. Time deposit remains limited in size. A disproportionately large part of the bank loans extended to the various sectors constitute short and medium term loans. Long-term investment finance is marginalized because of its obvious implication on asset - liability mismatch. The DBE caters to this market but has an extremely limited resource base. The fact, that banks require collateral valued at 100% to 150% of the loan value to ensure repayment of loans is another factor that discourages investments.

A look at the supply and demand side of the market suggests that there are sufficient grounds to start the market. The deregulation of the economy, which made licensing relatively easy and the privatisation process are factors expected to increase share companies in the economy. Government securities are the other supply sources to the market. And, this source is likely to increase with the increased resort of the government to indirect monetary policy instruments, i.e., open market operations.

Demand for shares, on the other hand, may be expected to come from various sources including from portfolio adjustment of individuals, small and institutional savers and growth and distribution in income, and employment. The key motivating factor to prefer shares and bonds to other alternative asset holdings is that their rate of return, adjusted for risk, is sufficiently higher.

Given these developments, the economy does seem ready to have a securities market. The size of the market is likely to be very small initially, but can help fill some of the gaps in the financing of long-term investment activities. Experience in SSA also shows that even if such markets are small, they nonetheless tend to grow at rapid rate. Effective and transparent rules and regulations are needed to ensure the stability of the market and promote public confidence on the market.

Once the market is established, its future growth will depend on the growth of the economy and maintenance of a stable economic and political environment, as well as the capacity to generate professional managers, analysts etc. The fact that the economy is vulnerable to a number of shocks (such as terms of trade, natural and man made calamities etc.) is expected to be one of the constraints to the market. The lack of professional career managers with unquestionable integrity and honesty is likely to pose formidable challenges to the market. The public can involve in the trading of shares if supplied with reliable information and have confidence in the operation of companies listed in the market.

NOTES

[1] Securities markets, capital markets and equity markets are interchangeably used in the literature in spite of some substantive differences (see chart 1 for a clear distinction among these). It should also be noted that a securities market has two interdependent market segments, i.e., the primary and secondary markets. The initial transfer (sale) of shares and bonds from the issuing company to the public constitutes the primary market. The sale and resale of shares and bonds through the intermediary of brokers and dealers, on the other hand, constitutes the secondary market (see Popiel 1993).

[2] See, for example, Addis Ababa Chamber of Commerce (Addis Ababa Chamber of Commerce 1999); and Eyob and Felleke (1998).

[3] Three methodologies are commonly used in the literature to assess the efficiency of a securities market; i.e., a weak form, a semi-strong form and a strong form. A weak form seeks to test whether share prices are independent of historical price trends or not. A semi-strong form is employed to test the sensitivity of share prices of a firm to all publicly available economic and financial information including historical price trends. Predictability of the share prices from these variables suggests inefficiency of the market. The strong form of market efficiency, on the other hand, tests the response of asset prices to information available to insiders, i.e., that are not published (Osei 1998); (Craigwell et al., 1999); (Olowe 1998).

[4] Household saving is defined in the survey to constitute expenditures on 'Equb' , loans given out, loans repaid, bank deposit, pension contribution, interest and 'Edir' contributions (Central Statistical Authority 1998).

[5] Of course, securities markets are urban based and are no better accessible to the large rural population than banks.

[6] Individual country regression, however, showed this variable was insignificant for Ethiopia because the branch to population ratio varied little during the period selected (Ikhide 1996).

[7] This point does not provide the justification for a securities market but to some extent could suggest the kind of response from the various groups and sectors of the economy when the market is instituted in the future.

[8] The Construction and Business Bank used to be called as the Housing and Savings Bank prior to 1994. The bank was re-named and allowed to involve in universal banking services in addition to the construction sector (Council of Ministers Regulation No. 203/1994).

[9] Excludes inter-bank loans and advances.

[10] Of the annual agricultural loans disbursed by the DBE in 1996, 76% constituted working capital while investment loans claimed 24%. Fertiliser loan constituted about 26% of the agricultural loan (Development Bank of Ethiopia Annual Report 1997).

[11] The CBE enjoys some degree of excess liquidity (Commercial Bank of Ethiopia 1998) but the share of its long-term loan remains low, not because there is no demand for long-term loan but largely because of the fear of asset-liability mismatch.

[12] Discussion with the manager, project finance of the CBE, revealed that this is the case with the CBE.

[13] This is significantly higher than the 1-5 per cent observed in the industrialised countries (see Andrew Sheng 1996).

[14] Accurate and official data with regard to non-performing loans are often difficult to obtain for the banking sector; estimates ranging between 20 and 30% is likely to be reasonable estimate (see also World Bank 1998; Alemayehu Geda 1999).

[15] A survey by the CSA for the Distributive and small service sector shows that shortage of capital is one of the major problems, both to start up, expand and operate at capacity level (Central Statistical Authority 1997).

[16] It is stated in the saving passbook that banks have the right to require 30 days notice for withdrawals from savings accounts in excess of certain limits (e.g. in excess of 500 Birr in the case of CBE, and 1000 Birr in the case of Awash International Bank). But this is often less binding in practice.

[17] The discussion on demand and supply is limited to the internal sources. The capital control likely to remain in place for some time, low level of market size, poor communication infrastructures and the

relatively high level of investment risk rating often least developing countries receive (Cohen et al., 1999)) would make the international capital market a less important source in the immediate future.

[18] The share of deposits and loans of the private commercial banks hardly exceeds 8 and 7 per cent, respectively (Tables 2 and 3). However, their loan market share is higher than this if one takes the annual loan disbursement (excluding overdraft loans) (the flow) instead of the outstanding loan (the stock) (see Alemayehu Geda 1999).

[19] Some estimates put the asset value of the PEs slated for privatisation over the next three years at over 40 billion Birr (Reporter, Amharic Newspaper 1998). This is much higher than the resources mobilised by the banking systems in the country, and reliance on domestic resources alone seems to be inadequate to effectively transfer the PEs to the private hands as per the scheduled time period.

[20] This does not include companies registered with the Federal Ministry of Trade and Industry, and with the other Regional states, the data for which proved to be less accessible.

[21] The recent NBE regulation requiring banks (mainly private banks), to raise their paid up capital by almost 100% is a case in point that could have a substantial positive implication on the supply of shares.

[22] The Policy Framework Paper of the government agreed with the IMF and World Bank in 1998 states that Ethiopian Electric Power Corporation, Ethiopian Air Lines and the Development Bank of Ethiopia will be encouraged to raise resources by issuing long-term debt securities (Government of Ethiopia 1998).

[23] Of course, the regulatory procedures for listing companies may not allow newly formed and little known companies, but the securities market may be of help for investors to easily raise capital to form new companies provided adequate publicity work is done.

[24] Data obtained from the Ethiopian Investment Authority.

[25] The policy Framework paper referred to above (footnote 22) also envisages to securitize part of the overdraft position of the government with the NBE.

[26] Investment by profession in the Ghanian stock market shows that farmers and artisans account for 2.8% and 5% of the traded value, respectively; while small business owners, office clerks including teachers, middle managers, chief executives, and pensioners account for 34.2%, 15%, 18.8%, 11.7% and 12.5% respectively (Osei 1998:15].

[27] Banks and stock markets may not always be competitive. The stock market may bring with it ancillary business activities and source of revenue for banks. Shares may serve as collateral to obtain bank loans. Banks may serve as brokers and underwriters of shares particularly at the early stages of the stock market, which through their branch network may help diffuse the spread of shares and make accessible to wider potential buyers. In return, banks may obtain a sizeable income in the form of commission and service charges. In one of the stock exchange centres in Africa, the Abidjan Stock Exchange, share transactions at the early stage used to be carried out by banks (Calamanti 1980). In fact, it is argued that stock markets thrive in countries where there is a well-developed banking and non-banking financial intermediaries (Demirguc-Kunt and Levine 1996).

[28] Institutional savers such as mutual funds, private pension funds, investment banks etc., have not come into the scene showing the undeveloped nature of the financial sector in this area as well.

[29] The yield from treasury bills generally ranges between 3-4%, and the rate of return from investment on government bonds is somewhat higher than this but less than the bank deposit rate *(NBE, unpublished bond yield data)*.

[30] The Ghanian stock market cited earlier shows that, of the participants of the market, middle income group, upper middle income group and high income group constitute 28.3%, 28.3% and 27.5%, respectively [Osei 1998:17).

[31] See World Bank, World Development Report (1997).

[32] A study by Mayer (1990) of eight industrialised countries showed that the net financial resources raised (by non-financial firms) through short-term securities, shares and bonds hardly exceed 5 per cent of the total finance raised for investment. This rate goes up to only 10-12 per cent for the US and Canada where equity and bond markets are more developed than in the other developed countries (Mayer, 1990; quoted in Gibson and Tsakalotos Freckleton 1995:613); (See also Stiglitz 1993:22).

[33] Market capitalisation is generally defined as the ratio of the value of listed shares to GDP.

[34] Porter (Porter 1996) argues that no legal impediment exist in Ethiopia barring individuals from involving in over the counter (OTC) securities market, but a regulatory framework is needed to establish an organised and properly functioning securities market (*Ibid.*).

[35] Gross enrolment rate at all educational level is low even by SSA standard (United Nations Development Programme 1998). The quality of education is generally accepted as poor, considering many indicators including shortage of budgetary resources, qualified teachers, teaching equipment and facilities, poor management, and poor linkage with the economy [UNDP 1998:37]. This is compounded by the brain drain believed to be very high in Ethiopia (The Ethiopian Herald, 19 March 2000:3).

[36] This is the well- known principal-agent problem in the literature.

[37] A workshop under the theme of 'The Danger of Corruption on the Economic Development of Ethiopia' organised by Walta Information Centre, revealed the pervasiveness of corruption in the country (Addis Zemen, Amharic Newspaper 1999).

[38] It is argued that securities market prices strongly depend on the performance of the industrial sector. Empirical evidence shows a strong causality between the industrial sector and the stock market, and share prices vary depending on the performance of the industrial sector (Nishat and Saghir 1991:140).

REFERENCES

Addis Ababa Chamber of Commerce (1999), Proposal for the Formation of a Share Market in Ethiopia. Addis Ababa, December 1998.

Addis Zemen, Amharic Daily News Paper, Issues from June 24 to July 8, 1999, Addis Ababa.

Ahmed, M. Farid (1998) 'Equity Market Performance in Bangladesh: An Evaluation' **Saving and Development, A quarterly Review,** 22(1).

Alemayehu Geda (1999), The New Financial Sector and Its Regulation: The Ethiopian Case. Paper Presented at the UNU/WIDER Project Meeting on Underdevelopment, Transition and Reconstruction in Sub-Saharan Africa, Helsinki, 16-17 April.

Bekele Tilahun (1998), The Role of the Development Bank of Ethiopia in Promoting Private Investement in the process of Economic Liberalization. Report Prepared for the Symposium Prepared for Senior Officials of the Financial Industry. Ethiopian Institute of Banking and Insurance.

Bekele Wolde Abajifar 1999, The Role of Financial Institutions and Services in the Transition to a Market Oriented Economy. In Meheret & Berihun (eds.) The Role of Professional Management in the Transition to Good Governance and Market Oriented Economy in Ethiopia. Proceedings of the Fourth Annual Conference on Management in Ethiopia, Addis Ababa.

Bouman, F. J. A. (1995) 'Rotating and Accumulating Savings and Credit Associations: A Development Perspective', **World Development,** 23(3):371-384.

Boyd, John and Bruce Smith (1996) 'The Coevolution of the Real and Financial Sectors in the Growth Process, **The World Bank Economic Review**, 10(2):371-396.

Brownbridge, Martin (1996b) 'Financial Repression and Financial Reform in Uganda,' **IDS Working paper**, No.30, June.

Brownbridge, Martin (1996a) 'Financial Policies and the Banking Systems in Zambia,' **IDS Working paper,** No.32, June.

Brownbridge, Martin (1996c) 'Government Policies and the Development of Banking in Kenya,' **IDS Working paper,** No.29, May.

Brownbridge, Martin (1996d) 'The Impact of Public Policy on the Banking System in Nigeria,' **IDS Working paper,** No.31, June.

Calamanti, Andrea (1980) ' The Abidjan Stock Exchange: An Instrument for Savings Mobilization and the Indigenization of Economic Activity', **Saving and Development,** 4(2).

Central Statistical Authority, Report on Distributive and Service Trade survey. Statistical Bulletine, No. 179, October 1997. Addis Ababa.

Central Statistical Authority (1998) 'Revised Report on the 1995/96 Household Income, Consumption, and Expenditure Survey,' **Statistical Bulletin,** No. 204, 1998, Addis Ababa.

Cohen, D. et al. (1999), 'Will the Euro Create a Bonaza for Africa,' **World Bank Working Paper,** No. 2251.

Collier, Pual and Jan Willem Gunning (1995) 'War, Peace and Private Portfolios,' **World Development,** 23(2):233-241.

Commercial Bank of Ethiopia (1997), Annual Report.

Commercial Bank of Ethiopia (1998), Statistical Review.

Council of Ministers Regulation No. 203/1994. Negarit Gazeta, No. 112, Addis Ababa.

Craigwell, Roland C. and Christell Grandbois (1999) 'The performance of the Securities Exchange of Barbados' **Saving and Development,** A Quarterly Review, 23(4).

Demirguc- Kunt, Asli and Ross Levine (1996) 'Stock market Development and Financial Intermediaries: Stylized Facts, **The World Bank Economic Review**, 10(2), May.

Demirguc- Kunt, Asli and Ross Levine (1999) 'Bank-Based and Market- Based Financial Systems: Cross Country Comparisons', **World Bank Policy Research Working Paper**, No. 2143.

Development Bank of Ethiopia 1997, Annual Report.

Drake, P. J., (1977) 'Securities Markets in Less Developed Countries' in P.C.I. Ayre (ed.) **Finance in Developing Countries.** Frank cass & co. Ltd, Great Britain.

Drake, Peter J., (1985) 'Some Reflections on Problems Affecting Securities Markets in Less Developed Countries', **Saving and Development,** 9(1).

Economic Commission for Africa (1999) 'Broadening Local Participation in Privatization of Public Assets in Africa', Working Paper Series ESPD/WPS/99/01, Addis Ababa.

Eshetu Chole and Mekonnen Manyazewal 1992, The Macroeconomic Performance of the Ethiopian Economy. In Mekonen Taddess (ed) The Ethiopian Economy: Structures, Problems and Policy Issues. Proceedings of the First Annual Conference on the Ethiopian Economy, Addis Ababa.

Ethiopian Insurance Corporation 1995/96, **Annual Report.**.

Ethiopian Privatization Agency (1999), Privatization News, June 1999.

Ethiopian Social Security Authority(1997), Annual Report.

Eyob Tesfay and Felleke Mamo (1998) 'Does Ethiopia Need a Capital Market?', **Birritu,** No. 63. National Bank of Ethiopia.

Feldman, Robert and Manmoban S. Kumar (1995) 'Emerging Equity Markets: Growth, Benefits, and Policy Concerns,' **World Bank Research Observer**, 10(2), August.

Feyera Milkesa (1995) 'Capital Market and the Role it would have for Privatization and Private Sector Development in Ethiopia,' **Birritu**, No.2.

Freckleton, M., (1995) 'Privatization and Capital Market Development in Jamaica,' **Saving and Development,** 19(3).

Gibson, Heather D. and Euclid Tsakalots (1994) 'The Scope and Limits of Financial Liberalization in Developing Countries: A Critical Survey', **The Journal Of Development Studies**, 30(3):578-628.

Government of Ethiopia, Economic Reforms for 1998/99-2000/2001: The Policy Framework Paper. September 1998.

Horch, Hans (1989), Development of Securities Market in Brazil, EDI Working Papers. The World Bank, Washington D.C.,

Ikhide (1996) 'Commercial Bank Offices and the Mobilization of Private Savings in Selected Sub-Saharan Africa Country,' **The Journal of Development studies,** 33(1):117-132.

Ikhide, S.I., (1997) 'Financial Liberalization and the Growth of the Capital Market in Nigeria', **Africa Review of Money, Finance and Banking**, 1-2/97.

Ingham, Barbara (1992) 'Household Savings & Credit: A Long View of Policy', in J.H. Frimpong-Ansah and et al (eds.) **Saving for Economic Recovery in Africa**. Heinemann Educational Books Inc. London.

Jefferis, Keith (1995) 'The Botswana Share Market and its Role in the Financial and Economic Development,' **World Development**, 23(4):663-678.

Kenny, Charles J. and Todd J. Moss (1998) 'Stock Markets in Africa: Emerging Lions or White Elephants?' **World Development**, 26(5):829-843.

Kitchen, Richard (1987) 'The Role of the Jamaica Stock Exchange in the Capital Market: An Historical Analysis', **Saving and Development,** 11(3).

Levine, Ross and Sara Zervos (1996) 'Stock market Development and Long Run Growth,' **The World Bank Economic Review**, 10(2), May.

Mofunanya, B. E., (1992) 'The Mobilization of Rural Savings in Nigeria: Farmers Attitudes to Formal and Informal Institutions', In J. H. Frimpong- Ansah and et al (eds.) **Saving for Economic Recovery in Africa**. Heinemann Educational Books Inc. London.

Muzamani, J.T., (1993) 'The Zimbabwe Stock Exchange,' **African Review of Money, Finance and Banking** -1/93.

National Bank of Ethiuopia, Annual Report, 1995/96.

Nishat, M., and Saghir, A. (1991) 'The Stock Market and Pakistan Economy - 1964 - 87' **Savings and Development,** 15(2).

Nissanke, Machiko (1991) 'Mobilizing Domestic Resources for African Development and Diversification: Structural Impediments to Financial Intermediation', in Ajay Chhibber et al (eds.), **Economic Reform in Sub-Saharan Africa, A World Bank Symposium.** The World Bank, Washington, D.C.

Olowe, Ayodeji R. (1998) 'Stock Splits and the Efficiency of the Nigerian Stock Market,' **African Review of Money, Finance and Banking** 1-2/98.

Osei, Kofi a. **(1998)** 'Analysis of Factors Affecting the Development of an Emerging Capital Market: The Case of the Ghana Stock Market', **African Economic Research Consortium,** Research Paper No. 76, Nairobi, Kenya.

Popiel, Paul A. (1993) 'Developing Financial Markets in sub- Saharan Africa', in Philippe Callier (eds.) **Financial Systems and Development in Africa.** EDI Seminar Series, The World Bank, Washington, D.C.

Porter, Michael (1996), A Securities Market for Ethiopia, Graduate Bulletin, Faculty of Law, Addis Ababa University.

Reporter, Amharic Newspaper Vol. 3, No. 27/132, 1998, Addis Ababa.

Samuel, J.M. and N. Yacout (1981) 'Stock Exchanges in Developing Countries', **Savings and Development**, 5(4).

Sheng, Andrew (1996) 'Banking Fragility in 1980's: An overview' in Andrew Sheng (ed.) **Banking Restructuring: Lessons from the 1980's**. The World Bank, Washington D.C.

Singh, Ajit (1993) 'The Stock Market and Economic Development: Should Developing Countries Encourage Stock Markets?' **UNCTAD Review,** No. 4, General.

Stiglitz, Joseph E. 1993, The Role of the State in Financial Markets. Proceedings of The World Bank Annual Conference on Development Economics. World Bank.

The Economist, November 13, 1999.

The Ethiopian Herald, 19 March 2000.

United Nation Development Program, Human Development Report 1998: Ethiopia, Addis Ababa.

Von Pischke, J. D. (1968), Shares and Share Trading in Addis Ababa, College of Business Administration, H.S.I .University, Addis Ababa.

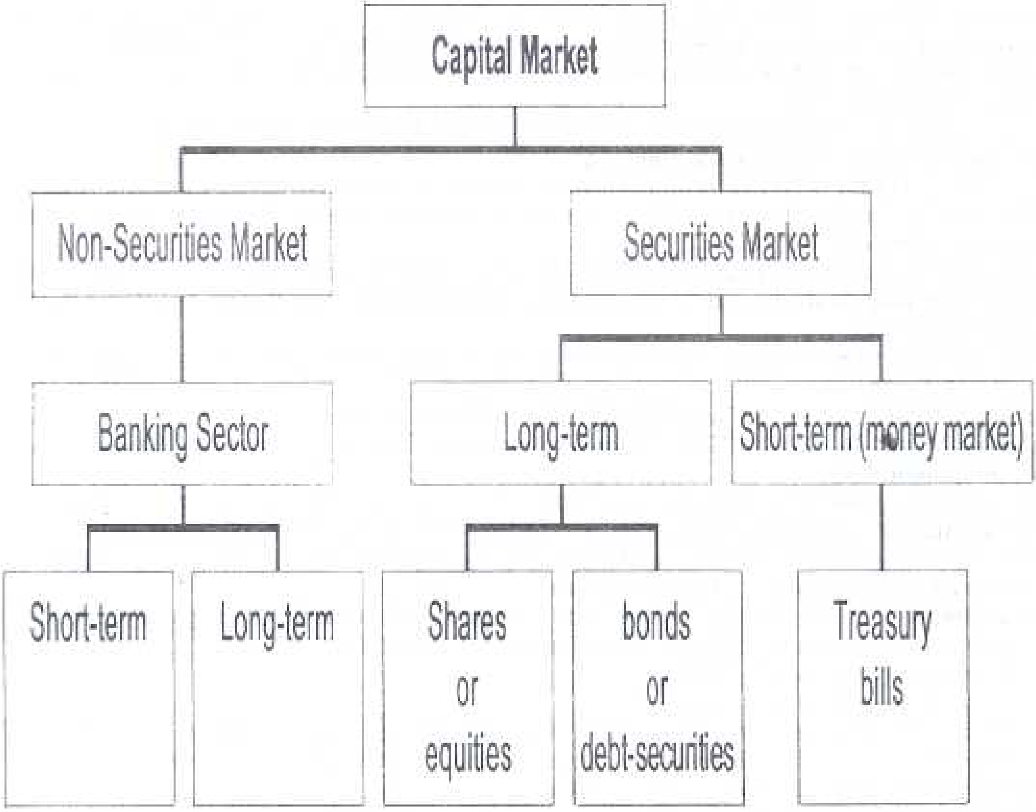
World Bank (1997), Ethiopia: Public Expenditure Review, November.

World Bank (1998), Ethiopia: Financial Sector Review.

World Development Report, 1997.

World Development Report, 1993.

Chart 1*



* I am grateful to Ato Tekle Brahan G.Michael for his suggestion to use this chart so as to avoid confusions in using terminologies related to capital markets (see also Popiel, 1990, pp. 218-222).

Table 1. TRENDS IN MAJOR MACROECONOMIC INDICATORS

	Towards the End of the Imperial Era (1)				1974-1991 period (1)					1992-1997 period (2)
	1967-1971/72	1971/72	1972/73	1973/74	1974/90	1979-83	1984/85	1986/87	1988-90	1992/93-1997/98
Real GDP growth rate	4	4.5	2.5	1.4	1.9	4.2	-5.3	7.9	1.0	5.2
Export of goods and services as % of GDP	10.3	-	13.0	14.8		12.4	12.1	12.0	11.3	13.3
Import of goods & services as % of GDP	11.9		11.0	11.7		18.9	22.9	22.7	21.1	24.5
Resource balance as % of GDP	-1.6		2.0	3.1		-6.5	-10.8	-10.7	-9.8	-11.1
Gross domestic savings as % GDP	11.0		13.3	12.9		3.9	2.6	4.3	4.0	6.7
Gross National savings as % of GDP(2)	-	-	-	-	-	-	6.5	10.3	10.6	15.0
Gross capital formation as % of GDP	12.6		11.3	9.8		8.7	13.4	15.1	13.8	17.8
Resource balance as % of Investment	12.7		17.7	31.6		74.7	80.6	70.9	71.0	62.6
Overall budgetary deficit as % of GDP	4.1*		3.2	2.8		-9.4	-14.8	-11.3	-13.5	-4.0
Current Gov't saving as % of GDP	-2.0*		-0.1	0.4		1.4	4.8	1.1	1.3	5.0
External finance as % of GDP	2.9*		3.0	2.9		5.6	10.2	6.7	7.8	6.7
Domestic saving as % of GDP	1.2*		0.2	-1.9		15.8	26.5	28.6	33.6	2.1

(1) Source: Eshetu Chole and Mekonen Manyazewal (1992) in Mekonnen Tadesse (ed) The Ethiopian Economy, Structure Problems and Policy Issues. Proceedings of the First Annual Conference on the Ethiopian Economy, Addis Ababa.

(2) MEDaC, National Income Accounting Division, unpublished data.

Table 2: Breakdown of Outstanding Loans & Advances from the Banking System by Sector*

(In Million Birr)	June 30, 1997		June 30, 1998		June 30, 1999	
	Mn Birr	% Share[1]	Mn Birr	% Share[1]	Mn Birr	% Share[1]
Central Gov. borrowing	2089.8	15.7	2,283.1	14.3	3,269.8	17.8
Agriculture	907.2	6.8	1,078.1	7.0	1,315.3	7.1
Industry	1,713.8	12.8	1,789.0	11.6	2,078.7	11.3
Domestic Trade	2,143.4	16.7	2,224.1	14.4	1,901.8	10.4
International Trade	2,502.2	18.7	2,905.5	18.8	3,221.8	17.6
Export	937.1	7.0	1,006.9	6.5	1,176.1	6.4
Import	1,565.1	11.7	1,898.4	12.3	2,045.7	11.2
Housing & Construction	1,452.1	10.9	1,479.8	9.6	1,555.7	8.5
Transport & Communication	990.5	7.4	922.4	6.0	662.8	3.6
Hotel & Tourism	363.0	2.7	424.1	2.7	425.8	2.3
Mines, Power & Water Res	29.9	0.2	31.5	0.2	23.4	0.1
Personal	17.7	0.1	115.7	0.7	18.6	0.1
Others	579.3	4.3	1,765.2	11.4	3,250.0	17.8
Inter Bank Lending	540.8	4.0	496.7	3.2	546.9	3.0
Total (Including Inter -Bank Lending)	13,329.7		15,435.0		18,270.6	
Total (Excluding Inter -Bank Lending)	12,788.9	100.0	14,938.3	100.0	17,723.7	100.0

Source: National Bank of Ethiopia (Annual & Quarterly Reports).

1 *As a proportion of total loans excluding inter banking lending.*

**Share of banks of outstanding loans and advance 1999*

Banks	Mn Birr	Share (%)
CBE	12129.6	66.3
DBE	3996.5	21.8
CBB	891.6	4.8
Awash Bank	392.5	2.1
Dashen Bank	396.5	2.1
Bank of Abyssinia	241.6	1.3
Wegagen	222.3	1.2
Total	18,270.6	100

Source: NBE Quartery Reports (1996, 1997 and 1998)

Table 3. Breakdown of Deposits by Type and Mobilising Bank (mln Birr)

	June 30, 1997		June 30, 1998		June 30, 1999	
Banks	Mn Birr	% Share	Mn Birr	% Share	Mn Birr	% Share
Commercial Banks*						
Demand	7,270.8	54.8	9,489.8	57.5	9022.0	54.6
Saving	5,424.9	40.8	6,225.7	37.7	6879.6	41.7
Time	587.6	4.4	789.4	4.8	603.7	3.7
Total	**13,282.3**	**100.0**	**16,504.9**	**100.0**	**16505.3**	**100**
DBE						
Demand	35.5	94.1	29.6	4.7	15.0	2.0
Saving	2.1	5.6	2.0	0.3	2.1	0.2
Time	0.1	0.3	600.4	95.0	758.9	97.8
Total	**37.7**	**100.0**	**632.0**	**100.0**	**776.0**	**100**
CBB						
Demand	36.7	6.6	26.8	4.7	39.9	7.5
Saving	260.8	46.8	256.0	45.1	265.3	50.1
Time	259.1	46.5	285.3	50.2	249.2	47.0
Total	**556.4**	**100.0**	**568.1**	**100.0**	**529.5**	**100**
All Banks						
Demand	7,342.4	53.0	9,573.0	54.1	9076.9	50.9
Saving	5,687.4	41.0	6,739.7	38.1	7147.0	40.1
Time	846.8	6.0	1,960.4	11.1	1611.3	9.0
Total	13876.6	100.0	17,705.0	100.0	17835.7	100.0

Source: National Bank of Ethiopia (Annual & Quarterly Reports)

* Includes the CBE and the private commercial banks. The share of deposits of private banks for 1999 is:

Type of Deposit	*Amount*	%
Demand	442.5	4.9
Saving	879.5	12.3
Time	166.4	10.3
Total	1488.4	8.3

Table 4. Government Internal Debt by Holder (mn Birr)*

	1997		1998		1999	
	Mn. Birr	%	Mn. Birr	%	Mn. Birr	%
National Bank of Ethiopia						
• Direct Advance	6686.0	54	7845.0	58.8	8636.0	58.7
• Gov't Bonds	2152.9	17.4	1974	14.8	1926.2	13.1
Commercial Banks						
• Gov't Bonds	2089.8	16.9	2089.8	15.7	2089.8	14.2
• Treasury Bills	47.1	0.4	123.3	0.9	401.8	2.7
Others						
• Gov't Bonds	483.8	3.9	429.0	3.2	420.5	2.9
• Treasury Bills	899.4	7.3	877.6	6.6	1226.0	8.3
Total Government Indebtedness	**12359.0**	**100**	**13339.0**	**100**	**14700.3**	**100**

Source: NBE, Quarterly Bulletin Vol. 14, No. 4, 1999.

*

	1997	*1998*	*1999*
Direct Advance	54	58.8	58.7
Government Bond	38.2	33.7	30.2
Treasury Bills	7.7	7.5	11.0
Government Internal indebtedness as % of GDP	29.8	29.6	29.8
Other Sectors' Borrowing (excluding Inter bank loan) from the banking sector (excluding NBE) as % GDP	30.8	33.2	36

Table 5. Percentage of Saving, Non-saving and Dis-saving Household Groups and their Percentage Shares of Income/Receipt

	Urban	Rural	Country-wide
Earnings and Expenditures			
HHs who spend what they earn[1] (%)	18.0	36.6	33.7
Share from total HH Income	43.3	35.6	37.5
HHs who spend more than their earnings[2](%)	66.4	42.4	46.1
Share from total HH Income	28.0	31.6	30.8
HHs who spend less than their earnings[3](%)	15.7	21.0	20.1
Share from total HH Income	28.6	32.8	31.8
Receipts and Payments			
HHs who paid what they received[1](%)	18.2	36.0	33.3
Share from total HH Receipts	48.5	35.2	38.6
HHs who paid more than their receipts[2](%)	66.5	43.6	47.1
Share from total HH Receipts	27.8	33.0	31.6
HHs who paid less than their receipts[3](%)	15.4	20.4	19.6
Share from total HH Receipts	23.7	31.8	29.7
HH Saving out of total Earnings	**8.6**	**3.6**	**4.6**

Note: 1. The Non-Saving Group, 2. dis-saving Group, and 3. Saving Group. HH: Household

Domestic Expenditure: total expenditure incurred by the HH or any of its members. It includes expenditure on consumption as well as non-consumption items.

Payments: Domestic expenditure plus other expenditures such as remittance paid, Pension and other contributions, donations, fines and other related legal expenses, income tax, 'equb' payments, 'Idir' contributions, etc.

Income: refers to consumption of own crops and livestock, wages and Salaries, allowance, overtime, bonus, pension, Commission , discounts (i.e. concessions obtained, imputed rent of free housing (subsidised amount only), imputed rent of owner occupied housing, value of items obtained free, alimony, etc.

Receipts: refers to income plus "Equb" and "Idir", gifts, loans, Repayment of Loans, Insurance, legal damages, withdrawal from saving and sale of HH durable goods and personal effects.

Source: Central Statistical Authority, Revised Report on the 1995/96 Household Income, Consumption and Expenditure Survey. Extracted from the text part of the survey. Bulletin No. 204, Addis Ababa, Ethiopia.

Table 6. Registered Share Companies by Amount of Capital and Shareholder Size (1997)

A. By Amount of Capital

	No. of Companies		No. of Shareholders		Total Capital	
Capital Size	No.	%	No.	%	In thousand birr	%
<1 Million	68	51.5	3032	31.9	13,846.68	1.3
1 Million to 5 Million	26	19.7	706	7.4	61,982.62	5.8
5 Million to 10 Million	8	6.1	1102	11.6	51,766.00	4.9
10 Million to 20 Million	13	9.8	1221	12.8	160,616.93	15.1
20 Million to 50 Million	8	6.1	1694	17.8	209,615.01	19.7
50 Million to 100 Million	7	5.3	1744	18.3	363,000.00	34.2
>100 Million	2	1.5	10	0.1	202,000.00	19.0
Total	132	100.0	9509	100.0	1,062,827.23	100.0

B. By Size of Shareholders

	No. of Companies		No. of Shareholders		Total Capital	
No. of Shareholders of Companies	No.	%	No.	%	In thousand birr	%
<5	17	12.9	22	0.2	24,476.63	2.3
5 to 10	60	45.5	320	3.4	431,071.05	40.6
10 to 50	27	20.5	611	6.4	234,064.75	22.0
50 to 100	11	8.3	798	8.4	46,395[illegible]00	4.4
>100	17	12.9	7,758	81.6	326,819.81	30.8
Total	132	100.0	9,509	100.0	1,062,827.23	100.0

Source: Addis Ababa City Administration, Trade Industry and Tourism.

Table 7a. Income Distribution by Income Group (%)

	Urban		Rural		Country	
Income group (Birr)	Share of HHs	Share of Income	Share of HHs	Share of Income	Share of HHs	Share of Income
<600	3.71	0.16	0.65	0.06	1.12	0.08
600-999	4.96	0.45	2.24	0.38	2.66	0.39
1000-1399	7.18	0.98	3.77	0.94	4.29	0.95
1400-1999	10.68	2.07	8.47	2.98	8.81	2.76
2000-2599	8.54	2.21	10.08	4.83	9.84	4.21
2600-3399	9.24	3.18	14.72	9.18	13.88	7.76
3400-4199	7.67	3.29	13.32	10.50	12.45	8.79
4200-5399	10.15	5.52	16.13	15.91	15.21	13.45
5400-6599	8.64	5.86	9.86	12.63	9.67	11.03
6600-8999	9.87	8.77	11.37	17.86	11.14	15.71
9000-12599	6.87	15.19	6.11	13.15	6.23	13.63
12600-16199	4.19	8.04	2.03	5.93	2.36	6.43
16200-19999	2.52	6.04	0.65	2.41	0.94	3.26
20000 and over	5.79	38.25	0.59	3.25	1.39	11.53
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Central Statistical Authority (1998), Revised Report on the 1995/96 Household Income, Consumption and Expenditure Survey, tables 10a, 10b, 10c, 15a, 15c. Bulletin No. 204, Addis Ababa.

Table 7b. Distribution of Income or Consumption Expenditures

Early Period of Command Economy		Early Post Reform Period
Fractiles of Persons	% Share of consumption Expenditure (1981/82)	% Share of Consumption Expenditure (1995/96)
Lowest 10%	-	3
Lowest 20%	8.6	7.1
Second Quintile	12.7	10.9
Third Quintile	16.4	14.5
Fourth Quintile	21.1	19.8
Highest 20%	41.3	47.7
Highest 10%	27.5	33.7

Source: World Bank. World Development Report, 1993 and 1999

Table 8. Percentage Distribution of Expenditures of Households by Items

	Urban %	Rural %	Country %
All Items	**100.00**	**100.00**	**100.00**
Consumption Expenditure	**88.55**	**93.92**	**92.78**
food	47.08	54.23	52.71
beverages	0.39	0.39	0.39
Cigarettes & Tobacco	0.41	0.42	0.42
Clothing & Footwear	9.49	9.60	9.57
House Rent, Con. Mater. Water, Fuel & Power	14.97	15.81	15.63
Furniture, Furnishings & HH Equipment	4.73	4.70	4.71
Medical Care & health Expenses	1.19	1.10	1.12
Transport 7 Communication	3.19	1.10	1.54
Recreation & Education	1.55	0.38	0.63
Personal Care & Effects	1.40	1.33	1.35
Miscellaneous Goods & services	4.15	4.86	4.71
Non-consumption Expenditure	**11.45**	**6.08**	**7.22**
Equib	4.62	0.80	1.61
Loans given out	1.02	0.55	0.65
Loans Repaid	1.15	0.82	0.89
Insurance Premiums	0.03	-	0.01
Bank deposit	0.43	0.87	0.78
Pension Contribution	0.47	0.02	0.12
Interest	0.01	0.02	0.02
Income tax on Wages & Salaries	0.78	0.13	0.27
Association's membership	0.09	0.07	0.08
Edir Contribution	0.85	0.49	0.57
Religious Contribution	0.11	0.32	0.28
Remittance	0.18	0.03	0.06
Alsm	0.18	0.18	0.18
Gifts	1.16	1.63	1.53
Lottery Ticket	0.29	0.04	0.09
Others	0.08	0.09	0.08

Source: Central Statistical Authority (1998). Revised Report on the 1995/96 Household Income, Consumption and Expenditure Survey, tables 12a and 12b, Bulletin No. 204, Addis Ababa.

Table 9. Total Number of Employees in the Large and Medium Scale Manufacturing Sector-Public and Private

Year	No. of Employees	Growth Rate	Per Capita Wage and Salaries Paid per Employee	Growth Rate
1991/92*	82,644		3,379	
1992/93	82,082	-0.7	4,113	21.7
1993/94	88,242	7.5	4,516	9.8
1994/95	90,213	2.2	4,726	4.7
1995/96	90,039	-0.2	5,076	7.4
1996/97	92,365	2.6	5,301	4.4

Source: *C.S.A., Report on Large and Medium Scale manufacturing and Electricity Industry Survey, Statistical Bulletin No. 178, October 1997. Summary Table 3.3 and 3.4, pages 21-22 and Statistical Bulletin No. 191, October 1998.

Table 10. Total Number of Permanent Employees in Large and Medium Scale Manufacturing Industries by wages and salaries Group- Public and Private 1996/97 (1989 E.F.Y.)

Gross Salary Group	Number of Employees	Proportion of the Total
Under 105	1,748	2.0
105-299	34,359	39.7
300-499	24,573	28.4
500-699	9,618	11.1
700-999	9,334	10.8
1000-1499	4,948	5.7
1500-1999	1,695	2.0
2000 & Over	363	0.4
Total	86,638	100

Source: C.S.A., Report on Large and Medium Scale Manufacturing and Electricity Industry Survey, Statistical Bulletin No. 178, October 1998, Summary Table 4.14, pp. 69-70.

Table 11. Number of Persons Engaged in Distributive and Service Sector by Nationality and Type Establishment and Average Net-profit per Firm per Month: 1996 (National Urban)

Establishment	Number of Persons Engaged					
	Ethiopians	Foreigners	Total	Of which Permanent Salaried Workers	Non-Salaried Groups	Average Net profit per Firm per Month in Birr*
Wholesale Business	37,444	405	37,849	17,719	6,650	10,672
Retail Business	233,016	1,535	234,551	23,179	92,513	472
Service Business	278,028	1,291	279,319	113,077	77,651	365
Total	548,488	3,231	551,719	153,975	176,814	11,509

Source: CSA, Report on Distributive and Service trade Survey, statistical Bulletin No. 179, October 1997, tables 34, 35 and 36, pp 90-93 and * tables 3.10A, 3.10B and 3.10C, pp. 44-46.

Table 12. Total Number of Permanent (Paid) Employees of the Distributive and service Sector Type of National Urban

Salary group (in birr)	Wholesale Business		Retail Business		Retail Business	
	Number	Proportion of the Total	Number	Proportion of the Total	Number	Proportion of the Total
Under 150	4,337.0	23.9	12,568.0	50.9	59,319.0	51.4
150-349	6,589.0	36.3	8,510.0	34.5	42,239.0	36.6
350-549	2,289.0	12.6	2,211.0	9.0	8,063.0	7.0
550-749	1,471.0	8.1	583.0	2.4	2,899.0	2.5
750-949	1,122.0	6.2	234.0	0.9	761.0	0.7
950+	2,349.0	12.9	565.0	2.3	2,175.0	1.9
Total	18,157.0	100.0	24,671.0	100.0	115,456.0	100.0

Source: CSA, Report on Distributive and Service trade Survey, statistical Bulletin No. 179, October 1997, tables 34, 35 and 36, pp 90-93 and * tables 3.10A, 3.10B and 3.10C, pp. 44-46.

Table 13. Plant Size by Employment of Large and Medium Scale Manufacturing Industries

Employment Size	Public and Private		Public		Private	
	No	%	No	%	No	%
10-19	301	40.6	5	3.1	296	51.0
20-49	185	25.0	6	3.7	179	30.9
50 & Over	255	34.4	150	93.2	105	18.1
Total	741	100	161	100	580	100

Source: CSA (1998). Report on Large and Medium Scale Manufacturing and Electricity Industries Survey, Bulletin No 191. Addis Ababa

Table 14. Plant Size by Size of Paid-up Capital of Large and Medium Scale Manufacturing Industries

Size of Paid up Capital	Public and Private		Public		Private	
	No	%	No	%	No	%
Up to 50,000	99	13.6	2	1.3	97	16.9
50,001 - 100,000	76	10.4	1	0.6	75	13.9
100,001 - 250,000	117	16.1	7	4.6	110	19.2
250,001 - 500,000	101	13.9	8	5.2	93	16.2
500,001 - 1,000,000	84	11.5	18	11.7	66	11.5
Over 1,000,000	251	34.5	118	76.6	133	23.2
Total	728	100	154	100	574	100

Source: CSA (1998). Report on Large and Medium Scale Manufacturing and Electricity Industries Survey, Bulletin No. 191. Addis Ababa.

Table 15. Establishments With and Without Book of Accounts

	Number				Percentage		
	With	Without	With but not full	Total	With	Without	With but Not full
A. Large and Medium Scale Manufacturing and Electricity Industry (for 1996/97)							
• Public and Private	369	372	-	741	49.8	50.2	-
• Public	154	7	-	161	95.6	4.3	-
• Private	215	365	-	580	37.1	62.9	-
B. Distributive and Service Trade /1996							
• Wholesale Business	546	6,058	1,175	7,779	7.0	77.9	15.1
• Retail Trade	1,938	114,931	6,859	123,728	1.6	92.9	5.5
• Service Trade	1,719	76,080	3,358	81,157	2.1	93.7	4.1

Source: CSA (1998). Report on Large and Medium Scale Manufacturing and Electricity Industries Survey, Bulletin No. 191. Addis Ababa and CSA (1997). Report on Distributive and Service Trade Survey. Statistical Bulletin No 179. Addis Ababa.