

# THE RISE OF BANKING IN ETHIOPIA

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## 1. Introduction

Ethiopia, after Egypt, is the country in Africa which can boast the longest history as an organized state<sup>1</sup>. Because of the mountainous nature of the territory and the indomitable spirit of its inhabitants, that have constituted an impenetrable bastion against invaders, this country has been able to preserve, more than any other country in the continent, its own national identity and cultural heritage. It is not a surprise, therefore, if, in contrast with the rest of Africa, one can hardly note in Ethiopia the distinguishing imprint of a single colonial power or foreign conqueror. This is true even in the financial sector, where, given the backward conditions of the country at the beginning of the century, it was necessary to have large recourse to foreign assistance in setting up institutions and markets.

The history of banking in Ethiopia goes back in fact to the reign of the Emperor Menelek II. The Emperor, as a second step after the institution of a national monetary system<sup>2</sup>, wanted to establish a bank in the country, at that time called Abyssinia. For understandable motives of national pride he gave preference to an institution at least formally independent rather than to an easier solution represented by a branch office of an expatriate bank. There are differing versions of the events which led up to the constitution of this bank. According to Pankhurst (1963), who relies primarily on British sources, the first contacts were made with France, but later the Menelek's sympathies shifted towards Great Britain; therefore the task of establishing a national bank in Abyssinia was entrusted only to that country. A slightly different and perhaps more complete version of the facts suggests that the Emperor contacted envoys from a number of European countries asking to work together on this project (Mauri, 1967). While political and financial aspects of the project were being discussed in France and in Italy, the prompt British answer reached Addis Ababa. London was ready to provide assistance and felt it was best to entrust the task to the National Bank of Egypt (NBEt), a private bank, under British control registered in Egypt as a limited company. During negotiations, in exchange for granting a banking and note issuing monopoly in Abyssinia lasting fifty years, Menelek put forward three conditions: (a) the internationalization of the institution on the three tiers

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1. Modern Ethiopia corresponds to the ancient Axumite Kingdom.

2. This system was based on the Ethiopian thaler, almost identical in weight to the Maria Theresa thaler. The silver coin on one side bore the effigy of the Emperor surrounded by the inscription "Menelek II, King of Kings of Ethiopia" in Amharic and on the other side showed the representation of the lion of Judah bearing a cross. In addition to the thaler the system included six fractional coins, three of silver and three of copper.

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represented respectively by the shareholders, the Board of Directors and the management; (b) a number of seats in the Board to be reserved to Imperial nominees; (c) the transfer to the Emperor of a substantial share of profits.

The last clause might have been regarded as a consideration for the concession of monopoly, while the first two aimed at limiting British influence in the Abyssinian bank due to the fact that presumably there would have been conflicting positions of representatives of European countries within the Board of Directors.

## 2. The Bank of Abyssinia

Negotiations got off well and on March 10th, 1905 a convention for establishing the bank was signed in Addis Ababa by the two parties (the Emperor and the NBEt). The convention, known as "Charter for the Bank of Abyssinia", drawn in a twin-language text (English and Amharic), had provisions which covered the main features to be conferred to the Bank and listed the following eight privileges guaranteed to this institution by the Ethiopian Government for 50 years: (1) the banking monopoly, (2) the sole right to issue notes, legal tender in the country, (3) the sole right to mint coins, (4) to be the sole financial agent of the Government, (5) the preference for all issues of Government loans, (6) the permission to build bonded warehouses, (7) the free grant of all the land needed for the Bank's premises, (8) the transport of its specie by rail in the country at Government rates. The third article had a clause which Menelek felt very strongly about, requiring a 10 % of profit be placed in the reserve, to be distributed to shareholders a 7 % (presumably of paid-up capital) dividend, and 20 % of the remainder to be assigned to the Emperor in compensation for the privileges granted to the bank.

The Governments of Paris and Rome, being informed that something was hatching in Addis Ababa, approached the Foreign Office requesting clarification and claiming their right to participate in setting up the Abyssinian bank. The British answer pointed out that, since it was a purely private affair, French and Italian participation was not a matter to be discussed at government level; rather, there should be private negotiations between the banks concerned and these should take place in Cairo at the head office of NBEt.

Meanwhile, in Cairo, the new bank had been established according to the Egyptian commercial law at the end of May 1905. The statute was drawn up bearing in mind the clauses contained in the convention of Addis Ababa. The share capital of Bank of Abyssinia (BA) was set at 500,000 sterling pounds, divided into 5-pound shares. Of this authorized capital a 25 % was to be paid-in at the time of the constitution. Cairo was chosen for the registered office of the institution and consequently as the forum for Board of

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Directors' and Shareholders' meetings.

The statute called for the adoption of the pound sterling as the unit of account of BA, even though most bank transactions would be carried out in Maria Theresa thalers; this feature was not to have unimportant consequences for the Bank, since the money of account was on gold standard, while the specie normally used in Ethiopia was based on the silver standard. The Governor of NBET was to be the Board's ex-officio Chairman; he was to be a voting member as were the Governor of the BA (Vice Chairman of the Board) and an additional eight ordinary members. The latter were to be nominated by the Shareholders' meeting; at least three of them were to be chosen among Board members of the Egyptian bank and two among Ethiopian notables. No statutory provision applied to the remaining three seats on the Board of Directors. Thanks to the casting vote of the Board Chairman, the control of the bank was guaranteed to the British even in the unlikely event of a coalition among all other (European and Ethiopian) members. On the British side the promise to involve other countries in the project was renewed. In fact a meeting was set up between the NBET representatives and those of the French and Italian banking groups.

At the meeting, held in Paris in June, 1905, most of the French and Italian requests were accepted and taken into consideration in drawing up the text of the syndication agreement, a compromise that left largely unaltered the NBET's position of predominance.

The 100,000 shares of BA were assigned as follows:

– Anglo-Egyptian Group	50,000 shares
– French Group	25,000 shares
– Italian Group	25,000 shares

However all the shares were to be placed in a common account administered by NBET, which had pledged to take up 29,000 shares for itself and for the eight directors; parallel pledges were made by the French and Italian groups for 13,000 shares each. In order to offer the remaining 45,000 shares for public subscription, a banking syndicate, located in Paris at the headquarters of the Société Générale de Crédit Industriel et Commercial (SGCIC), was formed, in which NBET held 50 % and French and Italian groups 25 % each.

The Syndication agreement of July 17th, 1905, fixed the geographical distribution of share allotment for public subscription. The largest number of shares to be issued for public subscription was to be offered in the country where the BA was to operate, that is Ethiopia (7,500 shares). England, Egypt, France and Italy were to be treated equally (6,625 shares each). Slightly smaller was the lot to be placed in the German market

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(5,000 shares) and lastly smaller lots were to be allotted to the capital markets in the Austrian-Hungarian Empire and in the United States (3,000 shares each).

The Steering Committee of the Syndicate later decided the technical details of the allocation operation. The shares, whose face value was 5 pounds, one fourth of which paid-up, were offered to the public at a price of £3.5s.0d, since the Syndicate reserved for itself a premium of 2 pounds per share. The BA could request later the remaining payment. In addition subscribers were promised that the necessary steps would be taken to have the shares traded in the stock exchange. It was resolved to open the public subscription for one day only, the November 7th, through the following banks: NBET in London, Cairo and Alexandria, SGCIC in Paris, Banca d'Italia and Banco di Roma in Rome, Credito Italiano in Genoa, Banca Commerciale Italiana and Società Bancaria Italiana in Milan, Bank für Handel und Industrie in Berlin, Credit Anstalt für Handel und Gewerbe in Vienna, Baring Magoun & Company in New York. Subscriptions were also collected in Addis Ababa.

Subscription, as expected, had a considerable success; in fact 610,000 shares, i.e. more than thirteen times the total amount offered, were subscribed. At the conclusion, the 45,000 shares sold through public subscription were distributed by nationality as follows: 14,000 shares to Anglo-Egyptian subscribers, 7,000 to French subscribers, 7,000 to Italian subscribers, 10,820 to German, Austrian and American subscribers, 6,180 to Ethiopian subscribers. Final holdings of the 95,000 BA shares (set aside the 5,000 shares reserved to the Board's members) summing up distribution among members of the Syndicate and public subscription, were: Anglo-Egyptian holders 41.05 % of the share capital, French holders 20.53 %, Italian holders 20.53 %, Ethiopian holders 6.50 %, all other holders 11.39 %.

In the first Board of Directors of BA, besides the Chairman, the Governor of NBET, three seats were assigned to directors of NBET, two to Ethiopian notables and three to the minority, one each to the French, the Italian and the German Groups (Mauri, 1967).

The opening ceremony for the Addis Ababa head office of BA was held on February 15th, 1906 in the presence of the Emperor and his retinue of court dignitaries and diplomatic envoys (Pollera, 1926). At the outset of its activities the BA ran into its first obstacles; on the one side Menelek, who perhaps too late had become aware of the British supremacy in running the Bank, and on the other side the Ethiopian public, yet unaccustomed to making use of bank services.

Menelek found it difficult to accept that the most important administrative decisions were taken at the Board of Directors meetings held in Cairo, where the two Ethiopian



directors were usually absent. He thought that in the negotiations preceding the signing of the Addis Ababa convention, his incompetence had led him to ask for much less than would have been fair in the interest of his country considering the series of privileges conceded to the Bank's founders. He therefore felt that the Convention should be revised and, accordingly, presented a number of requests dealing with the governance of the bank (Mauri, 1967). Perhaps the most important request concerned the formation of an Executive Committee in Addis Ababa, to be invested with wide-ranging delegation of powers, composed of the Governor of the Bank and of the two Ethiopian directors. All the decisions of the Committee were to be unanimous. Other requests were also aimed at increasing the independence of the Bank in respect to the founding Egyptian bank and at the same time at making the BA, in the guise of a true state bank, dependent on the Ethiopian Government. Specifically, the Emperor demanded that the Ethiopian authorities be given the right to take monetary decisions, such as fixing backing ratios for issuing notes, and the power to send inspectors to the Bank.

Menelek, while awaiting a reply from Cairo, adopted a non-cooperative attitude. In other words he did not make use of his authority to ensure that pledges made in the Addis Ababa convention were respected. Specifically point four of the third part which appointed BA exclusive financial agent of the Government was ignored by Ethiopian authorities. Furthermore Customs and Post Office officials often refused payments made in bank-notes (Rey, 1923). At the same time French and Italian hopes to increase the share of control of the Bank grew; to this end Paris and Rome put forward a proposal to set up a six-member Executive Committee located in Addis Ababa, with one French and one Italian representative.

From the beginning of its activity the BA made conscious efforts to build its administrative organization and lay out a network of branches in the country. Soon after the inauguration of the headquarters in Addis Ababa, a branch office was opened in Harar (Zervos, 1936), long known as a trading centre with the Somali coast. Two years later a branch was opened in Direedawa, a city that had become important after the completion of the first trunk of the Djibouti-Addis Ababa railway. In 1910 the Bank's new headquarters were inaugurated in Addis Ababa (Pankhurst, 1963) and in 1912 a branch was opened in Gore, with suboffices in Gambela and Dembidollo, all caravan centres for trade with Sudan. After an interval of about eight years embracing the entire World War era, the Bank underwent a further network expansion: this was marked by the opening of a branch at Dessye on the caravan route linking Shoa to Eritrea and a foreign office in Djibouti.

The management of the BA from the very start of the Bank's operations continued

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Menelek's cause of spreading the use of national currency throughout the country. The widening of the monetary area of the Ethiopian economy was in fact an objective pursued, although with differing ends, both by the Government and the BA: the former aimed at the country's progress, the latter at gaining the confidence of the public for the expansion of its business.

The content of the Addis Ababa convention may lead one to think that the BA had full control of the money supply in Ethiopia, given that it minted coins for the State, issued notes under monopoly and was the only depository institution in the country. In truth the Bank's powers were greatly limited, since national specie and bank notes had a very narrow circulation, which did not reach beyond the major urban centres. At the same time, the Maria Theresa silver thaler was in use everywhere not only in Ethiopia but also in the countries of the Red Sea Littoral. According to Pankhurst (1965) and other authors the MT thaler, besides its use as a coin, i.e. means of payment, standard of value and store of value, also performed important non-monetary functions: in fact it served as a jewel, as a certified source of silver (content 833.33 %) for melting down and even as a measure of weight (28.0668 grams). Coming back to the issue of notes by BA, it has to be underlined that these notes had to be fully covered by silver coins. Lastly, demand deposits held only a marginal position among the kinds of money used.

Because of the country's backwardness, which made transfer of money quite difficult and expensive, large cash balances in specie were needed in branches. It is not therefore too surprising to find out that earning assets represented less than half of the Bank's total assets. In part loans and investments were made in Egypt, primarily during the Bank's early years. The usual lending of BA in Egypt was made by advances on securities, a type of transaction unknown in Ethiopia, where guaranteed loans, overdraft facilities and advances on goods, often stored in warehouses, were granted. The annual interest rate charged on loans guaranteed by collateral was 12 %. In general an advance equalled 75 % of the value of goods. Overdraft on current accounts were almost exclusively granted to companies run by foreigners and were much favoured by the Bank since they allowed for the expansion of the use of deposit money; in fact no compulsory reserve requirements were applied on deposit balances. From the first days of this venture a great part of bank credit was channelled to financing international trade. Indigenous borrowers were discriminated by the adoption of "sound banking" canons tailored to suit needs and habits of more developed countries. For a limited period, however, mortgage loans were also made, but difficulties arisen in collection discouraged further transactions of this type. Finally are to be mentioned personal loans to Ethiopian citizens; these loans, requiring two guarantors, carried an interest rate of 15 %. The higher rate on these transactions was due

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mainly to procedural differences in debt collection depending on the borrower's status, European or native. Ethiopian subjects were in fact governed by customary law, which was somewhat primitive. It should not come as a surprise, therefore, that BA had set part of its premises to use as a prison where recalcitrant debtors were held until their relatives settled the debts, accrued monthly not only with interests, but also with expenses for maintenance of prisoners (National Bank of Egypt, 1948). Investments in British Government bonds were also important, as a second line liquidity reserve. During the World War, a large quantity of English National War 5 % Bonds flowed into the Bank's portfolio.

Even deposit operations were not as successful as had been hoped. In particular, the inflow of savings deposits was scarce because of a number of factors such as the modest branch network, the low level of per capita product, the limited monetization of the country, the lack of confidence on the part of the public and the unattractive interest rate offered, i.e. 3 % per annum. Current account deposits recorded better levels, since they were used by foreign businessmen and rich Ethiopian clients more accustomed to banking services. The BA also drew in considerable proceeds from exchange operations and imported huge quantities of MT thalers which were placed in the domestic market. Transfer of funds within the country was also a good source of revenue, since a 0.5 % commission was charged for the service. International transfers however were even more profitable.

A glance at the BA series of Profit and loss statements reveals considerable variability of results due both to business climate changes (connected with Ethiopian export) and fluctuations in the price of silver. Losses were recorded during the first years of operation, but starting from 1909 profits are recorded. However caution dissuaded directors from paying dividends until 1918 in order to recover preceding losses. For two years after dividends to shareholders were paid until a three year slump of the Ethiopian economy. Payment of dividends recommenced in 1924 and continued without interruptions until 1930.

At the end of 1930 the total amount of notes in circulation was 1,740,000 thalers (evaluated £. 88,549.12s.4.d in the Balance Sheet) fully covered in the assets side by an equivalent amount of silver coins. Cash on hand in specie was almost £. 164 thousand and overall deposits more than £. 250 thousand.

### **3. Enter French Bankers**

The Addis Ababa Convention of 1905 had guaranteed to BA the country's banking monopoly for fifty years, but this pledge was not long maintained by Menelek. After just



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a few years, in fact, the Société Nationale d'Ethiopie pour le Développement de l'Agriculture et du Commerce (SNEDAC) was founded. Unlike BA, this bank was a wholly Ethiopian institution, even though the Emperor used the services of a Greek long time resident in Addis Ababa in this enterprise. With this exception, all personnel were Ethiopian as was the institution's share capital (Pollera, 1926; Pankhurst, 1963).

One may ask first of all what objectives Menelek had in mind in making himself the promoter of bringing into being a second financial institution just a few years after conceding the banking monopoly to BA; second, what might have motivated the lack of opposition by BA to this new venture openly violating past agreements.

As far as the first query is concerned, it must be recalled that the Emperor had watched disappointedly as BA fell under British control through shareholding by NBEt and did not approve in particular the lending policy followed by the BA. A policy mainly oriented to financing foreign enterprises and wealthy clients in the country and international trade on the one hand and rationing loans to domestic small borrowers as farmers, traders, craftsmen, householders on the other. Credit rationing was mainly implemented through non-price mechanisms, i.e. practices of manipulating non-interest terms in lending operations. As a result, the BA loan portfolio was highly concentrated in favour of large non-rationed borrowers. Unsatisfied borrowers were forced to seek credit on informal finance.

Menelek wanted therefore to establish a second bank in the country to fill the gaps of BA lending and by this way combating the scourge of usury. The SNEDAC's loans were granted at the annual rate of 10 % and generally backed by personal guarantees.

SNEDAC's lending was concentrated in a segment of the market for loans on purpose neglected by BA and therefore was not felt as a competitor by the latter. In this way may be the conciliatory behaviour of the Abyssinian bank towards the newcomer may be easily understood.

Before reviewing the successive development of SNEDAC after French capital became involved, a digression must be made. France, after the initial lack of success recorded in the BA affair, did not renounce its aims of penetration into the Ethiopian financial market. The French strategy was however more subtle and articulate than the Italian one, which was exclusively focused on the governance of the BA. French strategy ran along two main lines: while backing Italian claims for more equitable distribution of power at the Bank's summit, it tried at the same time to convince authorities in Addis Ababa to revoke unilaterally the 50-years privilege granted to BA, so to clear the way for the establishment of French banks in Ethiopia. As hopes of increasing power within BA faded, French efforts shifted gradually towards the second option.

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Initially attempts were made to introduce financial services in the Abyssinian Post Office, which was a French domain; later the target of obtaining authorization for opening branch offices of the Banque de l'Indochine (Ble) prevailed. This bank, in fact, a few years earlier, had established an important branch in Djibouti and claimed that its entry into the Ethiopian financial market would accelerate the completion of the work underway on the railroad linking Addis Ababa with the Indian Ocean port. Furthermore Ble's Djibouti office had been successfully operating for some time with Ethiopian merchants, mostly from Harar, offering better terms and conditions than those practiced by BA (Ahooja, 1965). The BA's forceful opposition however torpedoed a 1908 Ble attempt to open a branch in Diredawa, temporary terminus of the railway.

The BA's different attitude towards other banks' attempt to enter the Ethiopian credit market is quite understandable. SNEDAC did not represent a real danger to BA's interests and did not pose a political threat to the British position in the country. Instead, the acceptance of Ble's application by the Ethiopian authorities would have been dangerous from both an economic and a political point of view: Ble would have been a competitor and its entry would have reinforced the French position in the country.

After repeated attempts to open up Ethiopia to French banks had been made in vain, in the late 20s, when the Addis Ababa Government had in mind to cancel the concession of BA, Paris' attention focused on SNEDAC. A French financial group made the necessary contacts with Ethiopian authorities to hand over the control of this company. The SNEDAC became the Société Nationale d'Ethiopie (SNE) on August 1st, 1928; its capital was increased to one million thalers, of which 60 % was subscribed by the Société Financière de France (Ouannou, 1961). SNE collected deposits, both savings and current accounts, and granted loans. Lending operations were: (a) mortgage loans to Ethiopian citizens owning real estate in Addis Ababa, (b) advances on import and export goods, (c) discounting and overdraft facilities mainly to European business. A further step on the way of French penetration into the Ethiopian financial market was made in 1934, when Ble succeeded in opening a branch office in Addis Ababa.

After the Italian invasion of Ethiopia and the constitution in 1936 of the empire of Italian East Africa, French bankers chose to withdraw from the country. Consequently the Ble branch office in Addis Ababa was closed and the shares of SNE were sold to an Italian financial group. The institution however continued operation under the new name of Società Nazionale d'Etiopia (Mauri, 1967).

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#### 4. The Bank of Abyssinia Goes into Liquidation

Haile Selassie, previously Regent Ras Tafari Makonnen, after acceding to the throne in 1930, continued the Menelek's policy aiming at the independence, modernization and progress of Ethiopia. The new Emperor, who had once been a member of the Board of Directors of BA, following this line, gave priority to the reform of the monetary and banking system of the country. The BA had been of undeniable utility to the Ethiopian economy, but times had changed and it was no longer possible for him to accept the fact that the only issuing bank in Ethiopia was owned by foreigners.

Haile Selassie made his decision known to NBEt and since the Egyptian bank was not particularly reluctant to withdraw from Ethiopia, provided an adequate compensation, negotiations began in Cairo for BA liquidation.

In retrospect, the legitimate and long standing Ethiopian aspiration of creating a truly national bank of issue did not necessarily imply the liquidation of BA. It would have been sufficient to cancel the BA's privileges of issuing currency, of banking monopoly and of exclusive right to act as fiscal agent for the Government. At the same time, a new Ethiopian state bank could have been created. Nevertheless, both parties' interests lay in liquidating BA. On the one hand the NBEt was not so much interested to remain in the Horn of Africa under the less favourable conditions brought about by the change in the political setting and on the other the Ethiopian Government wanted to make use of the existing organization (personnel and premises) of BA for the new bank.

Negotiations were concluded on April 16th, 1930 with an agreement calling for (Zervos, 1936):

- a) the revocation of concession and privileges granted to BA in the 1905 convention;
- b) the winding up of the Egyptian joint-stock company "Bank of Abyssinia";
- c) the liquidation of BA through conveyance en bloc of its assets and its liabilities to the Ethiopian Government;
- d) the payment by the Ethiopian Government of a sum of 40,000 pounds to BA shareholders as a compensation for terminating the concession nearly 25 years before it was scheduled to end and for the bank's goodwill.

In accordance with agreed conditions the Ethiopian Government paid up a total of £. 203,807. 7s. 6d in instalments until July 1931. This amount was calculated by summing up the adjusted book value of BA, the above mentioned compensation of 40,000 pounds and the interest (at a rate of 6%) on the debt of the Ethiopian Government from the end of 1930 to July 16th, 1931, the day on which the last instalment was paid. An important agreement was signed with the Ethiopian authorities on July 13th, 1932 regarding the

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notes issued by BA. The liquidators transferred to the new Ethiopian bank the specie reserves in MT thalers which covered issues of notes depositing them in the account "Trustee for Redemption of Bank of Abyssinia in voluntary liquidation notes". The new bank agreed to provide the conversion service for these notes free of charge (possibly by means of replacement with its own) and to make, as a guarantee, a deposit in South Australia 5% bonds with an overall face value of 5,000 pounds with NBET. The guarantee deposit was to be freed gradually as BA notes were redeemed by the new bank and destroyed under the control of the Egyptian consulate in Addis Ababa.

## 5. The Bank of Ethiopia

The Imperial Decree issued on August 29th, 1931 chartered the new bank as Bank of Ethiopia (BE) and also represented the first banking law ever passed in the country (Pellegrineschi, 1936). With this decree, in fact, a regime of ex-ante authorization for banking was established and this provision was justified by attributing the qualification of public interest to banking operations.

The BE was set up as a joint-stock company, with an authorised capital of £. 750,000 divided into 30,000 shares of 25 pounds each. Private citizens were supposed to become shareholders since two different needs had to be met. On the one hand, given the important functions assigned to BE, the Government was to have full control over the Bank's management. On the other hand private contribution to the share capital could have made Government contribution less burdensome. The two objectives were not irreconcilable and it was deemed that the best solution would be to differentiate shares into two classes. Class A shares, 18,000 in number, would have been meant for the Government, while class B shares, 12,000 in number, would have been placed by public subscription. The two above mentioned classes would have enjoyed equal rights, the only relevant difference lying in the appointment of the bank's directors. The holders of the two classes of shares would have met separately: holders of class A shares to appoint 6 members of the Board and holders of class B shares to appoint the remaining 4 members. This formula would have ensured the Government's control over the Bank even with a minority stake in the equity capital. At the time of constitution, only half of the share capital was paid up. At the closing of subscriptions, a total of 18,877 shares of the 30,000 offered had been subscribed. The results did not come up to expectations as the public showed no interest in the operation. In particular, the subscription failed to attract foreign capital that had greatly contributed to the success of the BA stock subscription. The Ethiopian Government held 18,003 shares, nearly 95.4 % of the

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company capital, and another 874 shares were in the hands of the public. The paid-up capital of BE turned out to be £.235,692.10s.0d, instead of the expected £.375,000. The sum paid by the Government included the purchase price paid to the shareholders of BA because of its contribution in kind by conferring the assets and liabilities of the liquidated bank.

According to the Imperial Decree, BE notes were to be fully covered by reserves including: minted and ingot gold, foreign currencies (provided they were payable in gold), bank bills and acceptances in gold currency, Ethiopian and foreign short-dated government bonds and other assets of a similar nature. The various assets backing notes were not however perfectly fungible and ceilings had been established for some types of reserve-assets. BE was made the depository of public funds and was to provide other normal banking services to the Government.

The Bank began operations in November 1931 with the same Governor and taking over management, staff and premises of the ceased BA. Since only the name of the institution had changed, most of the public were unaware of the event, which nevertheless represented a very important step on the way toward the country's emancipation (Pankhurst, 1963). BE however came into being with a more favourable position than BA. Relations with Ethiopian authorities were in fact much smoother than they had been for the former bank since BE Board members were appointed by the Government itself. The Board of Directors' powers were wide-ranging, encompassing also the main aspects of monetary management in the country. The Board was entrusted with fixing borrowing and lending rates applied by the Bank. Bank notes coverage in specie was only partial and not full as for BA. Eventually BE could have been considered a central bank, since, besides enjoying the sole right of note issue and acting as financial agent of the Government, it was providing refinancing facilities to SNE. Therefore BE may be placed undoubtedly among the first indigenous central banks established in Africa (Ahooja, 1965).

The BE in its ability to influence the quantity of money and credit could foster the economic development of the country. The Bank however was run conservatively because the management, taken over from BA, preferred to keep on with the customary cautious policy of the previous bank. The pound sterling was maintained as unit of account even though in transactions the use of MT thalers prevailed by far. The branch network was extended with the opening of an office in Gojam, at Debra Tabor.

Efforts to spread the use of national currency throughout the country were eventually unsuccessful, but it should be mentioned that the main causes, which prevented the achievement of this ambitious goal were external and out of control of the Bank.

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The Ethiopian Government decided to replace the silver standard of BA (full coverage of notes circulation in silver coins) with a gold exchange standard based on British sterling, even though only silver coins were circulating in the country. Frequent and sharp fluctuations in the value of silver had suggested to abandon the silver standard and to adopt a monetary system based on gold; therefore minted silver was to be allowed to continue circulating, but only as token money. There was no circulation of minted gold and the new Ethiopian golden thaler was in fact to be only a virtual monetary unit<sup>3</sup>.

A little less than a month after the Imperial decree was promulgated, an international crisis of the gold standard occurred. The BE had to adapt to the new situation while its notes were covered by minted silver (MT thalers) and foreign currency. MT thalers served to maintain internal convertibility and thus to permit continued contacts with a domestic economy dominated by the Austrian silver coins as well as the settlement of trade balances with a number of neighbouring countries. Conditioned by its political and economic international ties, Ethiopia sought to remain linked to British sterling even after this currency interrupted convertibility into gold in September 1931. The dual reserve system of BE, due to the desire to link simultaneously the Ethiopian monetary unit to sterling and to silver, while silver prices underwent considerable fluctuations, was a cause of serious problems for the Bank. In facing this disturbances BE tried to stabilize the thaler-sterling exchange rate. In other words BE's efforts were directed to neutralize effects on the domestic market of fluctuations of silver prices on the London market. This policy caused a growth of smuggling on the borders of the country, mainly during periods marked by maximum divergence between the market price of silver and the Bank's official price (Bertone, 1936).

Despite the difficulties, BE pursued the objective of increasing the use of national currency in the country. Attempts were made in the first place to safeguard what little progress had been achieved by BA. The new bank-notes therefore had format, language and appearance similar to that of the previous ones. Issue of notes, under the new legislation, began in May 1932 in the following denominations: 5, 10, 50, 100 and 500 thalers. In June 1933 notes in 2 thalers denomination were also issued (Zervos, 1936). As the new notes were issued the BA notes were withdrawn from circulation. At the end of 1933 nearly 94 % of the outstanding circulation of BA notes had been redeemed. While the note substitution went on smoothly, it proved much harder to expand the circulation of paper money to other segments of domestic economy. Curiously enough in some

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3. In 1931 gold thalers were minted, but these were a commemorative issue not intended for use as tender.

instances BE notes seem to have been accepted only at discounted value (Farago, 1935). Table 1 indicates that the overall circulation of BA notes had been surpassed in October 1932, but reveals a standstill the following year. The peak was reached in February 1935 and from the following month began to shrink owing to impending war. The table enlightens another interesting phenomenon still visible in Ethiopia today: the seasonal fluctuations of money supply due to exports which usually make an inflow of foreign currency during the first quarter of the year creating monetary base.

**Table 1:** Bank of Ethiopia Notes End-of Month Circulation (unit: thalers)

Months	Years			
	1932	1933	1934	1935
January	—	2,282,680	2,336,531	2,989,977
February	—	2,459,305	2,451,601	3,143,080
March	—	2,519,270	2,530,424	2,374,173
April	—	2,358,320	2,625,174	2,709,780
May	123,905	2,148,920	2,708,029	2,401,797
June	976,580	2,127,145	2,728,366	2,306,276
July	1,287,395	2,108,520	2,800,274	2,439,442
August	1,327,155	2,194,560	2,785,261	2,001,235
September	1,616,425	2,155,630	2,859,565	1,925,300
October	1,858,500	2,209,479	2,591,692	1,658,243
November	1,839,395	2,288,418	2,791,465	1,741,746
December	2,005,135	2,121,632	2,890,620	1,804,322

In order to evaluate correctly the results achieved by BE in developing bank notes circulation in the country it is necessary to take into consideration the circulation of foreign-minted silver coins during the same period of time. At this point it should be added that monetary reform also involved token coins by establishing a decimal based fractional currency system of nickel and bronze coins, fully backed by MT thalers in BE's vaults. The official stock of money was at that time slightly less than 6.4 million thalers made up approximately as follows: bank notes 44 %, token coins 11 %, bank deposits 45 %. Alongside this official money supply circulated theoretically a mass of full-bodied money (MT thalers) estimated at 40 - 50 million pieces.

The Bank was engaged in collecting deposits in domestic currency as well as in a number of foreign currencies. There were no reserve requirements on this liability. Demand deposits, chiefly made up with public funds, were not interest-bearing and savings deposits accounted for one fifth of total deposits. Savings passbooks earned a modest rate, which did not reflect market conditions. This fact, together with a lack of



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a savings promotion campaigns, explains the unsatisfactory growth rate of deposit balances.

Earning assets were limited by the need to keep high idle cash balances in branch offices. Investment portfolio held Ethiopian and foreign Government bonds and bills. In addition the above mentioned South Australia 5 % bonds were deposited as security for notes redemption with the NBEt. In lending operations a very important role had discounting of international and national bills and promissory notes. Advances on securities and merchandise, whose term almost never exceeded six months, were also granted. Merchandise was stored in the Bank's warehouses while precious metals were held in the Bank's vaults. An interest rate of 8 - 10 % was applied to these transactions. In addition BE continued to grant loans to Ethiopian individuals covered by personal guarantees. Mortgage loans developed at a very modest rate. In conclusion it is undeniable that BE's lending during the first years of operations was excessively prudent and that this institution did not take full advantage of its leading position to implement a lending policy conducive to speeding up economic development. However the judgement should not be too severe because of the short life of this institution. In fact the Italian invasion of Ethiopia interrupted the take off of this bank.

The Italian authorities, after the fall of Addis Ababa on May 5th, 1936, initially allowed normal activities of BE to be continued because some time was needed to make decisions on the Bank's future. They were faced in fact with two alternatives equally viable, but each tied to different views on the target structure of the banking system of the Horn of Africa. On the one hand there was the opportunity of keeping the Bank alive, changing its ownership, name, management and, partially, staff. This line of action, which had already been followed dealing with SNE, nonetheless entailed the adoption of an autonomous stance in the monetary and credit field which had not been taken in the past in the former colonies of Eritrea and Somalia, but which did not lack prominent supporters among Italian economists. On the other hand the view calling for a complete integration of Ethiopia into the Italian monetary and banking system necessarily implied the liquidation of BE. The second alternative, mainly based on political issues, finally prevailed.

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## Abstract

*This paper highlights the development of Ethiopian banking from the beginning of the century to 1936. The first bank to be established in Ethiopia during the reign of Emperor Menelek was the Bank of Abyssinia. The National Bank of Egypt having been entrusted with the project, the institution was chartered in Cairo on May 1905 and opened its head office in Addis Ababa almost one year later. Its shares were subscribed in a number of countries besides Ethiopia. The Bank of Abyssinia (BA) was engaged in issuing notes, collecting deposits and granting loans, but its clients were mainly foreign businessmen and wealthy Ethiopians. A few years later, disappointed by the lending behaviour of this bank, Menelek supported the establishment of a wholly Ethiopian bank, the Société Nationale d'Ethiopie pour le Développement de l'Agriculture et du Commerce. The second bank was not a competitor of BA, because of much smaller size and of the different target market segment, i.e. small businesses and households. Haile Selassie, after acceding to the throne in 1930, could not accept that the country's issuing bank was foreign-owned and decided the liquidation of BA. A new bank, the Bank of Ethiopia (BE), under the control of the Government, was established in 1931. BE took over the management, staff, premises and clients of BA and followed a prudent policy to promote the monetization and development of the economy. Italian occupation in 1936 brought to the liquidation of the bank.*



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## L'AUBE DE LA BANQUE EN ETHIOPIE

### Résumé

*L'article retrace le développement du système bancaire éthiopien du début du siècle à 1936. La première banque, la Bank of Abyssinia (BA), fut établie en Ethiopie sous l'empereur Menelik. Le projet fut assigné à National Bank of Egypt et la nouvelle banque instituée comme société anonyme au Caire en mai 1905 ouvrit son siège central à Addis Ababa environ une année plus tard. Les actions avaient été souscrites dans plusieurs pays. La BA opérait comme banque d'émission, mais aussi comme banque de dépôt et de prêt pour une clientèle composée surtout d'hommes d'affaires étrangers et de riches éthiopiens. Après quelques années, Menelik déçu par la politique de crédit de la banque, appuya l'établissement d'une banque entièrement éthiopienne, la Société Nationale d'Ethiopie pour le Développement de l'Agriculture et du Commerce. Cette deuxième banque n'était pas en concurrence avec la BA à cause de sa dimension beaucoup plus petite et de son segment de marché, à savoir les ménages et les petites entreprises. Haile Selassie, devenu empereur en 1930, ne put pas tolérer que la banque d'émission du pays appartint aux étrangers et décida de liquider la BA. Une nouvelle banque, la Banque d'Ethiopie (BE), sous le contrôle du Gouvernement, fut établie en 1931. La BE reprit le personnel dirigeant, les employés, les immeubles et la clientèle de la BA et adopta une politique prudentielle de promotion de la monétisation et du développement de l'économie. L'occupation italienne de 1936 entraîna par la suite la liquidation de la banque.*