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Working Paper n.04.2003 – marzo

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Pubblicazione depositata presso gli Uffici Stampa della Procura della Repubblica e della Prefettura di Milano

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Abstract

This paper highlights development of Ethiopian banking from the beginning of XX century to 1936. In fact, the history of banking in Ethiopia dates back to the turn of the century, when, in 1905, the Bank of Abyssinia was established in Addis Ababa, under the reign of Menelek II. This event marked the introduction of banking in the country. National Bank of Egypt having been entrusted of the project, the new institution was chartered in Cairo and its shares were subscribed in a number of countries besides Ethiopia The Bank of Abyssinia was given a 50-years concession and was engaged in issuing notes, collecting deposits and granting loans, but its clients were mostly foreign businessmen and wealthy Ethiopians. A few years later, disappointed by the behaviour of this bank, mainly devoted to profit-making rather than promoting economic development, the Emperor supported the establishment of a wholly Ethiopian bank, the Société Nationale d'Ethiopie pour le Dévéloppement de l'Agriculture et du Commerce. Haile Sellassie, after acceding to the throne in 1930, could not accept that the country's issuing bank was foreign-owned and, in agreement with National Bank of Egypt, decided liquidation of the Bank of Abyssinia. A new bank, the Bank of Ethiopia, under Government control, was established in 1931 and retained management, staff, premises and clients of the old bank. Italian occupation in 1936 brought the liquidation of the Bank.

Keywords:
History of Banking in Ethiopia, Bank of Abyssinia, Bank of Ethiopia

1. Introduction

The fundamental role of monetary and financial institutions for economic development is widely recognised by economic literature. Basic conditions, although quite rudimentary, in financial field conducive to economic advancement were made available in Ethiopia at the beginning of the XX century. Banking history of this African country starts just in those years.

There are five principal events, which may conveniently be taken as dividing Ethiopian banking history into periods. The first event was establishment in 1906 of the Bank of Abyssinia, marking the advent of banking into the country. The second event was Italian occupation in 1936, when, following liquidation of the Bank of Ethiopia, a broad colonial banking network, extended to encompass all Italian possessions in the Horn of Africa (Eritrea, Ethiopia and Somalia) and closely linked with the metropolitan financial system, was set up in the country.[1]

The third event was, in 1943, establishment of the State Bank of Ethiopia,[2] marking the rebirth of the Ethiopian independent banking. This occurred during World War II after liberation of the country. The fourth event was the revolution of 1974, which wiped out the monarchy, nationalised companies and shaped a "socialist banking" two-tier model "suited" to Ethiopia, the whole credit system being based on the central bank and three state-owned financial institutions, each of them enjoying monopoly in its respective market.[3] The fifth event was the collapse of socialist regime followed by a financial sector reform and liberalization according to Monetary and Banking Proclamation of 1994.

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[1] See Mauri 1967, De Rosa 1982, Tuccimei 1998.

[2] The State Bank of Ethiopia started operations in April 1943 as a commercial bank following Proclamation n°. 21 issued on August 26th, 1942, but one year later, in addition to its commercial banking functions, the Bank was entrusted with three basic duties of a central bank: controlling the issue of currency, holding the foreign reserves of the country and acting as the fiscal agent of the government (Deguefe 1973).

[3] The Ethiopian model of "socialist banking", unlike Soviet model applied to East European countries, was based on a two-tier system. First tier: National Bank of Ethiopia. Second tier: Commercial Bank of Ethiopia, Housing and Savings Bank, Agricultural and Industrial Development Bank.

This study concentrates on the first period of banking history of Ethiopia (1905 – 1936), i.e. early banking. The remainder of the paper is organised into five sections. The next two sections, 2 and 3, consider preliminary steps to the establishment of Bank of Abyssinia, the first bank in Ethiopia, strongly wanted by the emperor Menelek II, and reviews operations of the Bank in a backward context. Section 4 focuses on entering of other financial institutions into the Ethiopian financial market and on the French interests in Ethiopia. Section 5 describes the liquidation of Bank of Abyssinia, a decision taken by Emperor Haile Sellassie just after his coronation. Finally section 6 reports on the establishment of Bank of Ethiopia and evaluates the results achieved by this institution during its short life.

2. The Project of Menelek II: Preliminary Steps

Ethiopia, after Egypt, is the country in Africa, which can boast the longest history as an organized state.[4] Because of the mountainous nature of the territory and the indomitable spirit of its inhabitants, that have constituted an impenetrable bastion against invaders, this inland country, unlike other African countries, enjoyed ages of political independence, interrupted only by a short period of Italian colonial rule. Ethiopia, in fact, has been able to preserve, more than any other country in the continent, its own national identity and cultural heritage.[5] 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 sphere, where, given the backward conditions of the country at the beginning of XX century, it was necessary to have large recourse to foreign assistance and co-operation in setting up institutions and markets.

The history of banking in Ethiopia goes back in fact to the reign of the Emperor Menelek Il. The Emperor, as a second step after the institution of a national monetary system,[6] wanted to establish a bank in the country, at that time called Abyssinia. For

[4] The term Ethiopia has a Greek origin, although of uncertain etymology. In ancient time this term was given as designation to a district south of Egypt. Modern Ethiopia corresponds, instead, to the ancient Axumite Kingdom. This country has long been known to the outside world by the name of Abyssinia (Zewde 1991).
[5] Ethiopia, heir of the ancient kingdom of Axum, is one of the longest surviving states in the whole world.
[6] 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.

understandable motives of national pride he gave preference to an institution at least formally independent rather than to a much easier solution represented by opening 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 Richard 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 important task of establishing a national bank in Abyssinia was entrusted only to that country.[7]

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, pp. 19-25). While political and financial aspects of the project were being discussed in France, in Italy and in other European continental countries, the prompt British answer reached Addis Ababa. London was ready to provide assistance in this venture and felt it was best to entrust the task to the National Bank of Egypt, a private bank, under British control registered in Egypt as a limited company. During negotiations, in 1905, in exchange for granting to the entering institution a banking and note issuing monopoly in Abyssinia lasting fifty years, Menelek put forward three conditions:

(a)internationalisation of the institution on three tiers 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) 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 emerged conflicting positions of representatives

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In addition to the thaler, the system included six fractional coins: three of silver and three of copper (Pankhurst 1965).

[7] " The first scheme for the institution of an Ethiopian bank seems to have made by a Frenchman, M. Delharbe, who visited Ethiopia at the turn of the century in the hope of setting up a State Bank which would issue paper money...but the project came to naught, … because Menilek was worried at French ambitions against Ethiopia as manifested in the dispute over the Jibuti railway. The idea of creating a banking system took a step forward …when Menilek, turning away from France, requested the British envoy Harrington to use his good offices to enlist his Government's support" (Pankhurst 1963, p. 92).

of European countries within the Board of Directors. Drawing from the lesson of the railway project Djibouti-Addis Ababa (the concession granted by the Emperor to the French in 1894), according to Bahru Zewdie (1991), a conscious effort was made, at that time, to internationalise the banking venture.

3. The Bank of Abyssinia

Negotiations got off well and eventually, on March 11th of the same year, a convention for establishing the bank was signed in Addis Ababa by the two parties (the Emperor of Ethiopia and the National Bank of Egypt). 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[8] and listed the following eight privileges guaranteed to this institution by the Ethiopian Government for 50 years:

(1) banking monopoly,

(2) the sole right to issue bank notes which were to be legal tender in the country,

(3) the sole right to mint coins,

(4) to be the sole financial agent of the Government,

(5) preference for all issues of Government loans,

(6) permission to build bonded warehouses,

[8] Article I of the Charter specified on this matter: "the Company (the Bank of Abyssinia) shall have a capital of £500,000, of which at least £100,000, shall be subscribed and paid up when the Company is constituted. The capital may be increased as the necessity arises for doing so. The shares of the Bank of Abyssinia shall be offered for public subscription in London, Paris, New York, Berlin, Rome, Vienna, Cairo and Addis Ababa, with the permission of the respective Governments concerned. The Head Office of this Bank will be at Addis Ababa, but the Bank may establish, both in Abyssinia and abroad, such agencies as it may consider advisable in the interests of the Bank. The duration of the Company shall be for 50 years from the day on which it is founded".

(7) free grant of all the land needed for the Bank's premises,

(8) transport of its specie by rail in the country at Government rates.

The third article of the convention had a clause which Menelek felt very strongly about, requiring a 10 per cent of profit be placed in the reserve, to be distributed to shareholders a 7 per cent (presumably of paid-up capital) dividend, and 20 per cent of the remainder to be assigned to the Emperor in compensation for the privileges granted to the Bank. The final article (Article IV) laid down that the concession granted by the Emperor would be null and void in the case of the Bank not properly constituted before the first of July 1906 (Mauri 1967, pp. 25-28).

The Governments of Paris and Rome, being informed that something was hatching in Addis Ababa, approached the Foreign Office in London requesting clarification and claiming their right to participate in setting up the Abyssinian bank. The British answer pointed out that, since the establishment of the first bank in Ethiopia 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 all the banks concerned and these talks should take place in Cairo at the head office of National Bank of Egypt.

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 all the clauses contained in the Convention of Addis Ababa.[9] The share capital of Bank of Abyssinia was set at 500,000 sterling pounds, divided into 5-pound shares. Of this authorized capital a 25 per cent 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 Directors' and Shareholders' meetings.

The statute called for the adoption of the pound sterling as the unit of account of the Bank of Abyssinia, even though most bank transactions would be carried out, as usual in Ethiopia, in Maria Theresa thalers; this feature was not to have unimportant consequences for

[9] Article 39 of the Statute, following Article III of the Addis Ababa Convention, specifies: “Les produits nets, déduction faite de toutes les charges, constituent les bénéfices et se répartissent comme suit: (1) il est prélevé 10% pour former le fonds de réserve ordinaire; (2) il est prélevé ensuite la somme nécessaire pour servit 7% aux actionnaires à titre d’intérêt sur le montant de leurs versements; (3) après ces prélèvements, les bénéfices restant seront réparties de la manière suivante : 20% seront versés à la National Bank of Egypt pour en opérer le paiement conformément à l’acte de concession, 80% aux actionnaires.

the Bank management, since the money of account was on gold standard, while the specie normally used in Ethiopia was based on silver standard. The Governor of National Bank of Egypt was to be the Board's ex-officio Chairman; he was to be a voting member as were the Governor of Bank of Abyssinia (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 members, Europeans and Ethiopians.

On the British side, the promise to involve other countries in the project was renewed. In fact a meeting was set up between the National Bank of Egypt 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 governance of the Bank and, particularly, the British position of predominance. The 100,000 shares of Bank of Abyssinia were assigned as follows:[10]

- 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 National Bank of Egypt, 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 Credit Industriel et

[10] See Article 1 of the Syndication agreement.

Commercial, was formed, in which British banking group held 50 per cent and French and Italian groups 25 per cent 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 Bank of Abyssinia 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 (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).[11]

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. 5 s. 0 d., since the Syndicate reserved for itself a premium of 2 pounds per share. The Bank of Abyssinia 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: National Bank of Egypt in London, Cairo and Alexandria, Société Générale de Credit Industriel et Commercial in Paris, Banca d'ltalia and Banco di Roma in Rome, Credito Italiano in Genoa, Banca Commerciale Italiana and Società Bancaria Italiana in Milan, Bank fur Handel und Industrie in Berlin, Credit Anstalt fur Handel und Gewerke in Vienna, Baring Magoun & Company in New York. Subscriptions were also collected in Ethiopia (Addis Ababa).

Placing of Bank of Abyssinia shares, 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 shares to French subscribers, 7,000 shares to Italian subscribers, 10,820 shares to German, Austrian and American subscribers, 6,180 shares to Ethiopian subscribers. Final holdings of the 95,000 Bank of Abyssinia 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%.

[11] See Article IV of the Syndication agreement.

In the first Board of Directors of Bank of Abyssinia,[12] besides the Chairman, the Governor of National Bank of Egypt, three seats were assigned to directors of the Anglo-Egyptian bank, 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[13] of Bank of Abyssinia 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 Bank of Abyssinia ran into its first problems and obstacles; on the one side the Ethiopian Emperor, who perhaps too late had become fully 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 II, first of all, found it difficult to accept that the most important administrative decisions of the Abyssinian bank were taken at the Board of Directors meetings held abroad, 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 chiefly with the governance of the Bank (Mauri, 1967).

Perhaps the most important request of the Emperor concerned the formation of an Executive Committee in Addis Ababa, to be invested with wide-ranging delegation of powers from the Board of Directors in Cairo. The Executive Committee should be composed of three members: the Governor of the Bank of Abyssinia and 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

[12] The seats in the Board of Directors of the Bank of Abyssinia, following the Syndacate Agreement of Paris, were assigned as follows: *Chairman* Sir Elwin Palmer, Governor of the National Bank of Egypt, *Vice Chairman*, D. Mac Gillivray, Governor of the Bank of Abyssinia , *Members:* Boghos Pasha Nubar, Director of National Bank of Egypt, Raffaele Suares, Director of National Bank of Egypt, J. de Menasce, Director of National Bank of Egypt, F. Monvoisin, Director of the Société Générale de Crédit Industriel et Commercial, Francesco Varvaro Pojero, Director of the Bank of Italy, Wilhelm Pelizaeus, German citizen living in Cairo, Ras Makonnen, Governor of Harar and Ras Walda Giyorgis, Governor of Kaffa. The last two directors were Ethiopian citizens appointed by the Emperor Menelek (Mauri 1967). During the first year of life of the Bank the Chairman Sir Elwin Palmer and Ras Makonnen died and the new directors appointed were Mr. F.T. Rowlatt and Ras Tasamma.

[13] Provisionally the head office of the Bank of Abyssinia was situated in the Palace of Ras Makonnen. The headquarters was later moved on January 1910 to a building which had been designed by the architect Castagna and built by Vaudetto (Pankhurst 1965).

same time at making Bank of Abyssinia, in the guise of a true State bank, dependent on the Ethiopian Government. In addition, the Emperor demanded that the Ethiopian authorities be given the right to take monetary decisions, such as fixing backing ratios for issuing notes, and banking regulation and supervision, such as the power to send at any time inspectors to the Bank.[14] Menelek, while awaiting a reply from Cairo, adopted a non-cooperative attitude. In other words he did not make fully use of his authority to ensure that all pledges made in the Addis Ababa Convention were respected. Specifically point four of Article II, which appointed Bank of Abyssinia exclusive financial agent of the Government was almost ignored by Ethiopian authorities. Furthermore Ethiopian Customs and Addis Ababa Post Office officials often refused payments made in notes issued by the Abyssinian bank (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 (Mauri 1967).

From the beginning of its activity Bank of Abyssinia made conscious efforts to build up 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 Diredawa, 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 sub-offices in Gambela and, temporarily, in Dembidollo, all caravan centres, in Illubabor and Wallaga provinces, relevant for trade with Sudan. After an interval of about eight years embracing the entire World War I era, the Bank underwent a further network expansion: this was marked by the opening of a branch at Dessye (Wallo) on the caravan route linking Shewa to Eritrea and a foreign office in Djibouti.

The management of Bank of Abyssinia from the very start of the Bank's operations continued Menelek's cause of spreading the use of national currency throughout the country. Efforts were made to establish confidence on the exchangeability of the notes issued by the Bank.[15] The widening of the monetary area of the Ethiopian economy was in fact an chief objective strongly pursued, although with differing ends, both by the Government and the

[14] Mauri 1967, p. 48.
[15] Bank of Abyssinia began issuing its notes in 1916, as shown by Table 1.

Bank of Abyssinia: the former aimed at the country's progress, the latter at gaining the confidence of the public for the expansion of its business.

Table 1 shows, for the whole life of Bank of Abyssinia, some selected items taken from its Annual Reports. Figures of Total Assets, Deposits and Dividends decided by shareholder’s meetings of the institution are expressed in pounds whilst Outstanding Notes are in Ethiopian thalers. The peak of Total Assets as well as for Deposits was reached in 1919. The circulation of Bank of Abyssinia notes in Ethiopian thalers registered, instead, a sharp growth during the last three years of the Bank’s life (1928-1930).

Table 1

BANK OF ABYSSINIA

End of Year	*Total Assets **	*Deposits **	*Dividends **	*Outstanding Notes ***
1907	184,848	16,951	-	-
1908	195,408	19,894	-	-
1909	209,851	27,461	-	-
1910	274,037	*n.a.*	-	-
1911	358,474	56.593	-	-
1912	435,651	*n.a.*	-	-
1913	391,396	81,393	-	-
1914	370,837	*n.a.*	-	-
1915	*n.a.*	*n.a.*	-	-
1916	416,673	*n.a.*	-	214,765
1917	590,228	*n.a.*	-	214,765
1918	747,744	*n.a.*	0.1.0	214,765
1919	1,005,540	480,699	0.1.3	214,765
1920	733,991	*n.a.*	0.0.9	214,765
1921	595,855	*n.a.*	-	214,765
1922	498,237	*n.a.*	-	214,765
1923	478,204	226,730	-	214,765
1924	502,562	228,317	0.1.0	214,765
1925	669,543	434,678	0.1.0	300,000
1926	541,283	305,344	0.1.3	300,000
1927	699,951	347,417	0.1.3	750,000
1928	684,466	338,202	0.1.3	1,324,000
1929	778,168	456,619	0.1.3	1,524,000
1930	539,710	252,139	0.1.3	1,740,000

* figures in pounds

** figures in Ethiopian thalers

Source: Bank of Abyssinia, *Annual Reports.*

The content of the Addis Ababa Convention may lead one to think that the Bank could have 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, in most instances, beyond the major urban centres. At the same time, the Maria Theresa silver thaler,[16] a full value commodity money, 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 Maria Theresa 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 Bank of Abyssinia, it has to be underlined that these notes had to be fully covered by silver coins. Lastly, there were no reserve requirements on deposits, but disappointedly for the Bank, they held only a marginal position among the kinds of money used for payments in the country. Bank notes and bank deposits, in fact, are to be regarded as interchangeable forms of bank liability for payments, but their use depends on public's choices.

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 Bank of Abyssinia 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 per cent. In general an advance equalled 70 per cent 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, a medium of

[16] The Maria Theresa thaler was a silver coin minted since 1780 in Austria. Minting of these coins for export continued after suspension of legal tender status. Thaler is an abbreviation of "Joachimsthater", Johakimsthal being a Bohemian county whose counts in 1517 minted the silver coin which gained high reputation (Nussbaum 1957).

exchange evidenced only by figures in books, which entailed creation of money. In fact, as mentioned before, 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. In particular, the Bank was involved on the one hand in financing the collection and export of the primary commodities and on the other in financing distribution of imports of consumer goods. Its function was, of course, that of bridging the gap between the purchases of coffee, for example, from the farmers, to the time at which it was sold on international markets. 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 per cent. The higher rate on these transactions was due 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 Bank of Abyssinia 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 income, the early stage of monetary development of the country (very low monetisation ratio of the economy), the lack of confidence on the part of the public and the unattractive interest rate offered to depositors, 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 and to the use of drawing cheques.

The Bank of Abyssinia also drew in considerable proceeds from exchange operations and imported huge quantities of Maria Theresa 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

per cent commission was charged for the service. International transfers however were even more profitable for the Bank.

A glance at Bank of Abyssinia series of Profit and loss statements and an investigation of performance determinants reveals considerable variability of results due both to business climate changes (connected chiefly with Ethiopian exports) and fluctuations in the price of silver[17] and, consequently, in the exchange rate Ethiopian thaler / pound sterling. 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 (see Table 1) in order to recover preceding losses registered in the take-off stage and because of uncertainties during the war period. For two years after dividends to shareholders were paid until a three-year slump of the Ethiopian economy (1921-1923). Payment of dividends recommenced in 1924 and continued without interruptions until 1930, when the Bank of Abyssinia went into liquidation.

At the end of 1930 the total amount of notes in circulation was 1,740,000 thalers (evaluated £. 88,549 12 s. 4.d in the Balance Sheet of Bank of Abyssinia) fully covered in the assets side by an equivalent amount of silver coins.[18] Cash on hand in specie was almost £. 164 thousand and overall deposits more than £. 250 thousand.

4. The Entry of Other Financial Institutions

The Addis Ababa Convention of 1905 had guaranteed to the Bank of Abyssinia the country's banking monopoly for fifty years, but this pledge was not long maintained by Menelek II. After just a few years, in fact, the Société Nationale d'Ethiopie pour le Developpement de I' Agriculture et du Commerce (henceforth referred as SNEDAC) was founded. Unlike Bank of Abyssinia, 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.

[17] From the first *Annual Report* of Bank of Abyssinia: "Nous soumettons aujourd'hui le premier Bilan de la Banque pour l'exercice compris entre le mois de Novembre et le 31 Décembre 1907 et nous regrettons vivement de constater que le compte de Profits & Pertes se solde par un deficit de £5,560. En examinant ce compte, vous constaterez que la perte sur le change s'élève à elle seule a £4,661… entre le commencement de l'année et sa fin , la valeur de l'argent a baissé de 20% ».

[18] From the Bank of Abyssinia *Annual Report for 1926*: " Notre emission de banknotes continue à progresser d'une façon suivie, ayant passé de $ 300,000 à la fin de 1925 à $ 500,000à la fin de 1926. Nous continuons à la tenir couverte par de thalers d'argent, tant comme mesure de prudence qu'en raison de la difficulté que nous avons à trover des placements satisfaisants dans cette monnaie ».

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 Bank of Abyssinia; second, what might have motivated the lack of opposition by the Bank of Abyssinia to this new venture openly violating past agreements (Addis Ababa Convention of 1905).

As far as the first query is concerned, it must be recalled that the Emperor had watched disappointedly as Bank of Abyssinia fell under British control through shareholding by National Bank of Egypt and did not approve in particular the lending policy followed by the Bank. The Bank was blamed to be unable to find local employment for its funds. In fact this institution, as a result of the European background of its managers, followed certain standards of credit-worthiness and imposed certain conditions as to a security of loans to be disbursed. The credit policy of the Abyssinian bank, 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, and householders on the other appeared to be inappropriate. A policy of severe credit rationing was mainly implemented through non-price mechanisms of transaction costs allocation to the borrowers, i.e. practices of manipulating non-interest terms in lending operations. As a result, the Bank of Abyssinia loan portfolio was highly concentrated in favour of large non-rationed wealthy borrowers. Unsatisfied borrowers were forced to seek credit on informal financial market at much higher interest rates.

Menelek wanted therefore to establish a second bank in the country to fill the gaps of Bank of Abyssinia lending and by this way combating the scourge of usury. The SNEDAC’s loans were granted at the annual rate of 10 per cent and generally backed by personal guarantees. SNEDAC's lending was concentrated in a segment of the market for loans on purpose neglected by Bank of Abyssinia and therefore the newly created financial institution was not felt as a competitor by the latter. In this way 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, an historical digression must be made. The two major rival powers in Africa, the British and the French, had found a competition-ground also in Ethiopia. France, winner in the railway affair (Concession of 1894 for Djibouti-Addis Ababa railway), but looser – as well as Italy - in the banking affair (Concession of 1905 for the Bank of Abyssinia), did not renounce its aims of penetration into the Ethiopian financial market. The French strategy was however much more subtle and articulate than the Italian one, which was simply and exclusively focused on the governance of the Abyssinian bank. 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 Bank of Abyssinia, so to clear the way for the establishment of French financial institutions in Ethiopia. As hopes of increasing power within Bank of Abyssinia faded, French efforts shifted gradually towards the second option.

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'lndochine 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, main conduit of Ethiopia's foreign trade. Furthermore Djibouti office of Banque de l'Indochine had been successfully operating for some time with Ethiopian and expatriate merchants, mostly from Harar, offering better terms and conditions than those practiced by Bank of Abyssinia (Ahooja, 1965). The Bank's forceful opposition however torpedoed a 1908 attempt of the French bank to open a branch in Diredawa, temporary terminus of the railway.

The Bank of Abyssinia different attitude towards other banks' attempt to enter the Ethiopian credit market is quite understandable. SNEDAC did not represent a real danger to the interests of the Abyssinian bank and did not pose a political threat to the British prominent position in the country. Instead, the acceptance of Banque de l'Indochine application for opening branches in the country by the Ethiopian authorities would have been dangerous from both an economic and a political point of view: Banque de l'Indochine would have been a strong competitor and its entry would have reinforced the French position in Ethiopia.

After repeated attempts to open up Ethiopia to French banks had been made in vain, in the late 20s, when it was clear that Addis Ababa Government had in mind to cancel the concession of Bank of Abyssinia, Paris' attention focused on SNEDAC. A French financial group made the necessary contacts with Ethiopian authorities to hand over the control of this company.

As a result, SNEDAC became the Société Nationale d'Ethiopie on August 1st, 1928; its capital was increased to one million thalers, of which 60 per cent was subscribed by the Société Financière de France (Ouannou, 1961). Société Nationale d'Ethiopie 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 of 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 Banque de l'Indochine succeeded in opening a branch office in Addis Ababa. In the same years the Compagnie de l'Afrique Orientale obtained authorisation for opening an agency in the city (Pankhurst 1963).

After the Italian invasion of Ethiopia and the constitution in 1936 of the empire of Italian East Africa,[19] French bankers and traders chose to withdraw from the country. Consequently the Banque de l'Indochine branch office in Addis Ababa was closed as well as the agency of the Compagnie de l'Afrique Orientale and the shares of Société Nationale d'Ethiopie were sold to an Italian financial group. The last mentioned institution however continued operation under the new name of Società Nazionale d'Etiopia (Mauri, 1967).

5. The Bank of Abyssinia Goes into Liquidation

After Lij Yasu's overthrow, in 1916, Zawditu, whose sole qualification, according to Bahru Zewde (1991), was her birth, as the daughter of Menelek II, was proclamed Empress and Tafari Makonnen was designated simultaneously regent of the empire and heir to the throne. Ras Makonnen had an impressive lineage[20] and an extraordinary talent. He was open

[19] In Italian rendering Impero dell'Africa Orientale Italiana or simply A.O.I.

[20] Tafari Makonnen, born in 1991 in Harar, was son of Ras Makonnen, Menelek's nephew and Director in the first Board of the Bank of Abyssinia (1906).

to foreign culture and very ambitious: since the beginning it was clear his climb to the throne. This goal was attained only after the death of Empress Zawditu, in 1930. The coronation of Ras Tafari Makonnen, under the style of Haile Sellassie, brought, once again after Menelek II, an outstanding personality to rule Ethiopia.

The new Emperor continued the Menelek's policy aiming at independence, modernization and progress of the country. Haile Sellassie, who had once been a member of the Board of Directors of Bank of Abyssinia, following this line, gave priority to the reform of the Ethiopian monetary and banking system. Managers of the Bank were blamed by public opinion to have preconceptions about the conduct of banking business, which were the result of their cultural background. These criticisms were not groundless, but it should be underlined that these foreign bankers brought in banking business good standards of integrity and incorruptibility. The people's criticisms did not influence, nevertheless, the Emperor's decisions on this matter and the managers of the Bank were not dismissed. In conclusion we can state today the opinion that Bank of Abyssinia had been of undeniable utility to the Ethiopian economy, but in 30's times and views had changed and the Emperor thought that it was no longer possible for Ethiopian government to accept the fact that the only issuing bank operating in the country was owned and controlled by foreigners.

Haile Sellassie made promptly his decision known to the National Bank of Egypt and, since the Egyptian bank was not particularly reluctant to withdraw from Ethiopia, provided an adequate compensation, negotiations began in Cairo for Bank of Abyssinia 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 the existing Bank of Abyssinia. It would have been sufficient to cancel the Abyssinian bank'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 Bank of Abyssinia. On the one hand National Bank of Egypt was not so much interested to remain in the Horn of Africa and continue doing business under the less favourable conditions brought about by the change in the political setting and, on the other hand, the Ethiopian Government strongly wanted to make use of the existing organization (assets, liabilities, personnel and premises) of Bank of Abyssinia in order to speed up implementation of the project for a State bank. This solution of liquidation, in fact, would make possible to establish the new bank without delay.

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

a) revocation of concession and privileges granted to the Bank of Abyssinia in the 1905 convention;

b) the winding up of the Egyptian joint-stock company "Bank of Abyssinia";

c) liquidation of Bank of Abyssinia through conveyance en bloc of its assets and its liabilities to the Ethiopian Government;

d) payment by the Ethiopian Government of a sum of 40,000 pounds to Bank of Abyssinia 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 to shareholders a total of £ 203,807. 7 s. 6 d. in instalments until July 1931. This amount was calculated by summing up the adjusted book value of Bank of Abyssinia, the above mentioned compensation of 40,000 pounds for terminating in advance the concession and the interest (at a rate of 6% per annum) 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 notes issued by Bank of Abyssinia. The liquidators transferred to the new Ethiopian bank the specie reserves in Maria Theresa silver thalers, which covered issues of notes by the Abyssinian bank depositing them in a specific account entitled “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 notes) and to make, as a guarantee, a deposit in South Australia 5% bonds with an overall face value of 5,000 pounds with National Bank of Egypt. The guarantee deposit was to be freed gradually as Bank of Abyssinia notes were redeemed by the new Ethiopian bank and destroyed under the control of the Egyptian consulate in Addis Ababa.

6. The Bank of Ethiopia

The Imperial Decree issued on August 29th, 1931 chartered the new bank as Bank of Ethiopia 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 industry was established and this provision was justified by attributing the qualification of public interest to banking operations.

Bank of Ethiopia 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 the Bank of Ethiopia, 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 (i.e. Government) to appoint six members of the Board and holders of class B shares to appoint the remaining four 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, however, 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 Bank of Abyssinia stock subscription. The Ethiopian Government held 18,003 shares, nearly 95.4 per cent of the company capital, and another 874 shares were in the hands of the public. The paid-up capital of Bank of Ethiopia turned out to be £ 235,692 10 s. 0 d. instead of the expected £ 375,000. The sum paid by the Government included the purchase price paid to the shareholders of Bank of Abyssinia because of its contribution in kind by conferring the assets and liabilities of the liquidated bank.

According to the Imperial Decree, Bank of Ethiopia 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. The Bank of Ethiopia was made the depository of public funds and was to provide other normal banking services, as fiscal agent, to the Government.

The Bank began operations in November 1931 with the same Governor (C.S. Collier), appointed chief executive, and taking over management, staff and premises of the ceased Bank of Abyssinia (Deguefe 1973).[21] 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 county's emancipation (Pankhurst, 1963). Bank of Ethiopia however came into being with a more favourable position than Bank of Abyssinia. Relations with Ethiopian authorities were in fact much smoother than they had been for the former bank since Bank of Ethiopia 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 Bank of Abyssinia.[22] Eventually Bank of Ethiopia 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 Société Nationale d'Ethiopie. Therefore

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[21] Ehiopian citizen were the majority in the Board of Directors of Bank of Ethiopia, the other were foreign experts. The Chairman was Blatengeta Walda-Maryam, the Vice-Chairman C.S. Collier, former Governor of the Bank of Abyssinia. Other Directors were 5 Ethiopian citizen: Blatangeta Heruy Walda Sellassie, Blatengeta Sahle Sadalu, Bajerond Feqra Sellassie Katama, Fitawari Taffasa Habta Mikael. The 3 foreigners were: A.E. Colson, American citizen, financial adviser to the Emperor on monetary matter, Alfred Abel, Austrian citizen, former employee of Credit Anstatlt of Vienna, living in Ethiopia since 1914, former General Manager of the Société Nationale d'Ethiopie, adviser in the Ministry of Commerce and Industry and Matig Kevorkoff, an Armenian businessman.

[22] Reserves backing notes in circulation were: (1) money and ingots of gold, foreign currency and accounts with foreign banks, (2) bills of exchange or drafts payable in gold or money based on gold, (3) Government bonds payable in gold or money on the gold standard and with a maturity of at least one year, such bonds however never to exceed ten per cent of the total monetary reserve, (4) drafts or other bills guaranteed by negotiable securities or merchandise deposited with the Bank, (5) commercial bills of exchange bearing at least two signatures of traders of known solvency and redeemable within not more than 3 months , such bills however never to exceed 30% of the monetary reserve, (6) Ethiopian money redeemable in gold (Zervos 1936; Pankhurst 1965).

Bank of Ethiopia may be placed undoubtedly among the first Indigenous central banks established in Africa (Ahooja, 1965).

Bank of Ethiopia 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 Bank of Abyssinia, 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 with customers the use of Maria Theresa thalers prevailed by far. The branch network was extended with the opening of an office in Gojam, at Debra Tabor.[23]

Efforts to spread the use of national currency throughout the country[24] 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.

The Ethiopian Government decided to replace the silver standard of Bank of Abyssinia (full coverage of notes circulation in silver coins) with a gold exchange standard system, based on British pound sterling, even though only silver coins were circulating in the country. Frequent and sharp fluctuations in the value of silver (high volatility of prices in the past experience) 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.

A little less than a month after the Imperial decree was promulgated, an international crisis of the gold standard occurred. Bank of Ethiopia had to adapt to the new situation while its notes were covered by minted silver (Maria Theresa thalers) and foreign currency. Maria Theresa 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 balance's 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 on September 21st, 1931.[25] The dual reserve system of Bank of Ethiopia, due to the desire to link simultaneously the

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[23] Bank branches were in Addis Ababa, Dabra Tabor, Dessie, Diredawa, Gambela, Gore, Harar.

[24] At this point it should be mentioned that the Bank of Ethiopia, although unwilling to undertake any obligation to indemnify all owners who claimed that their notes had been destroyed, promised to make restitution in special cases where unquestionable proof of such destruction was presented and provided the approval from the Ministry of Finance (Zervos 1936, Pankhurst 1965).

[25] After a run on sterling in July 1931.

Ethiopian monetary unit to pound sterling and to silver, while silver prices underwent considerable fluctuations, was a cause of serious problems for the Bank. In facing these disturbances the Ethiopian bank tried to stabilize the silver thaler / pound sterling exchange rate. ln other words efforts of Bank of Ethiopia 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, Bank of Ethiopia pursued the objective of increasing the use of national currency in the country and to enlarge its sphere of influence on the economy. Another objective of the Bank's monetary policy was to avoid disturbances due to seasonal movements.

Attempts were made in the first place to safeguard what little progress had been achieved by Bank of Abyssinia. The new bank notes therefore had format, languages 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 Eth. thalers[26]. In June 1933 notes in 2 Eth. thalers denomination were also issued (Zervos 1936). As the new notes were issued the Bank of Abyssinia old notes were withdrawn from circulation. At the end of 1933 nearly 94% of the outstanding circulation of Bank of Abyssinia notes had been redeemed. While the note substitution went on smoothly, it proved much harder job to expand the circulation of paper money to other segments of domestic economy. Curiously enough, in some instances Bank of Ethiopia notes seem to have been accepted only at discounted value (Farago, 1935). Table 2 shows the circulation of notes issued by Bank of Ethiopia, figures refer to the end of month. The table indicates that he overall circulation of Bank of Abyssinia 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.[27] 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.

[26] Each value carried a picture: a gazelle on the 5 thaler note, a leopard on the 10 thaler note, a lion on the 50 thaler note, an elephant accompanied by a lion on the 100 thaler note and the Lion of Judah and a warrior on the 500 thaler note (Pankhurst 1965).

[27] Five thaler notes represented approximately 3.5% of the whole note circulation on value, ten thaler notes 5%, fifty thaler notes 18%, one hundred thaler notes 33.5%, five hundred thaler notes 40% (Zervos 1936).

Table 2

Outstanding Notes of Bank of Ethiopia

End-of-Month Circulation (*unit: Eth. thalers*)

Month	*Year*			
	1932	*1933*	*1934*	*1935*
January	-	2,282,680	2,336,531	2, 989,977
February	-	2,459,305	2,541,601	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	2,859,505	1,925,300
October	1,858,500	2,209,479	2,591,692	1,658,243
November	1,839,305	2,288,418	2,791,465	1,741,746
December	2,065,135	2,121,632	2,890,620	1,804,322

Source: Bank of Ethiopia, *Annual Reports.*

In order to evaluate correctly the results achieved by Bank of Ethiopia 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 Maria Theresa thalers in the Bank's vaults.

The official stock of money within the country was, at that time, slightly less than 6.4 million thalers made up approximately as follows: bank notes 44 per cent, token coins 11 per cent, bank checking deposits 45 per cent. Alongside this official money supply circulated theoretically a mass of full value commodity money (Maria Theresa thalers) estimated at 40 - 50 million pieces.

The Bank of Ethiopia co-existed with other financial institutions (see Section 4), each catering to the needs of different types of customers and with little overlap of functions. The Bank was engaged in collecting deposits in domestic currency as well as in a number of foreign currencies. There were no provisions for reserve requirements in respect to this liability similarly as it was with the Bank of Abyssinia.

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 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 rnentioned South Australia 5% bonds were deposited as security for notes redemption with National Bank of Egypt. 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 Bank of Ethiopia 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 lending by the Ethiopian bank 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 Bank of Ethiopia 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 (class A registered shares being transferred from the Ethiopian Government to the Italian Government), name, management and, partially, staff. This line of action, which had already been successfully followed dealing with Société Nationale d'Ethiopie, 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 as well as other Italian possessions in East Africa into the Italian monetary and banking system necessarily implied the liquidation of Bank of Ethiopia. The second alternative, mainly based on political issues of the Fascist regime, finally prevailed.

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