Financialisation and Development. A Case Study of Ethiopia

Abstract

This paper sheds light on financial development in Ethiopia and its implications for overall economic development. It does so with particular focus on development understood as industrial development and with special attention drawn on inequality and debt levels as well as the real estate market in Ethiopia. Two research questions are focused on in particular, where the first serves as prerequisite for the assessment of the second: What kind of financial development took place in Ethiopia in the past quarter of a century? Furthermore: Are processes of financialisation visible in Ethiopia, and if so, to what effect? It is found that despite higher levels of financial inclusion and deepening, industrialisation is on a decline. What is more, inequality and debt levels increase and the recent growth spurts seem to be rooted in the construction sector with prices in the real estate market surging. In can be concluded that despite a flourishing financial sector, the Ethiopian economy is faced with the peril of crises associated with an inflated real estate market, inequality, debt burdens and impeded industrialisation.

Keywords: Ethiopia, development and finance, financialisation, industrialisation, inequality, real estate

1 Introduction

[F]inancial activities remote from the production of
goods and services […] generate high private rewards
disproportionate to their social productivity.'
James Tobin (1984: 14)

It is uncontested that economic development as defined by structural change needs investment. Investment generates employment, increases income levels and consequently improves human welfare. The higher income levels improve a country's tax basis hence the potential for welfare provision and thus social cohesion. However, the role the financial sector herein plays is a debated field. The so-called Finance and Growth Consensus claims that development of the financial sector facilitates economic growth (Upadhyaya 2015: 176). On the other hand, there are also theorists purporting that economic development precedes financial development (e.g. Robinson 1952: 86) or that the heightened importance of financial markets can have detrimental effects on the economic development (e.g. Hein/van Treeck 2010: 277-92). This paper takes a look at one theoretical strand in particular, namely financialisation in respect to development. It here conducts an explorative country case study of Ethiopia.

The paper tries to assess some of the arguments formulated by a relatively new theoretical strand called financialisation. Financialisation has been mainly considered in the context of OECD-countries particularly Anglo-Saxon countries. However, within the theoretical framework of financialisation, emerging and developing countries have increasingly been focused on in the past couple of years. Karwowski and Stockhammer (2016) conducted a comparison between 17 emerging markets (including South-Africa) and Anglo-Saxon countries in respect to their experience with processes of financialisation (Karwowski/Stockhammer 2016). So far, South-Africa is the only African country to which the theory of financialisation has been applied (Karwowski/Stockhammer 2016). This research therefore conducts 'greenfield research' when taking a look at potentially existing processes of financialisation and its implications for development in Ethiopia. It tries to answer two central research questions: What kind of financial development took place in Ethiopia in the years after the overthrow of the Dergue regime 25 years ago? And: Do theories of financialisation hold in Ethiopia in respect to faltered industrialisation, increased inequality, rentier income, debt levels and an inflated housing market? As the financial sector is a prerequisite of financialisation, the first question can be understood as a preparation for the latter. The paper is structured as follows. Firstly, the theoretical part treats interactions of development, financial inclusion and financialisation. The methodological section then focuses on the available data basis and used indicators. In the third section a country case study of Ethiopia is conducted, where its financial development, industrialisation levels, income distribution and the real estate market are taken into consideration. The last section then provides a critical assessment of the preceding findings as well as a prospective look at potential future research.

2 Theoretical considerations

2.1 Development

In this paper – following the development economist Alexander Gerschenkron – economic development is understood as structural change via industrialisation (see e.g. Gerschenkron 1962: 6-11), which can be defined by the degree of mechanisation or technological efficiency of the production process, the degree of division of labour, the kind of dominant employment by modern industries, firm size and urbanisation etc. (Hagedorn et al. 1971: 177). Industrial development implies greater growth and transformational potentials (referring to Michael Kaldor, Dasgupta/Singh 2006: 1). It fosters forward- and backward-linkages in an economy, yields high productivity, economies of scale, and induces technological change as well as knowledge generation and transfer (Cantore et al. 2014: 8-9). What is more, it often comes along formalised mass employment, increased income and a more competitive export position as could be seen in the case of industrialised countries in the first and second wave of industrialisation of the 18th and 19th century and the industrialisation of latecomers best represented by the South-East Asian Tigers (see e.g. Kniivilä 2007: 306; Ogbimi 2007: 541). Different to the service sector, the manufacturing sector is well-suited to employ unskilled labour, which might particularly prove important in underdeveloped countries (Atkinson 1996: 33). Likewise, manufactured goods are exportable, their sales are therefore not restricted by domestic demand, which has the potential to expand and generate foreign exchange urgently needed for structural change towards new industries in developing countries such as Ethiopia (Lelissa 2015: 87). Even in industrialised countries with a small share of manufacturing, it largely contributes to overall exports (Dasgupta/Singh 2006: 4). With prices for manufacturing being more stable and higher in comparison to the prices for raw materials, the export of manufactured goods is a more reliable source for foreign exchange than that of commodities (Prebish-Singer-Hypothesis; Harvey et al. 2010: 367).[1] Hence, manufacturing can be regarded as crucial in sustained pro-poor development.[2]

2.2 Development and finance

The role finance plays in economic development and growth has been cause for controversy (Levine 2005: 867). The diagnosis that financial repression leads to underdevelopment can be subsumed under the umbrella term *Finance and Growth Consensus* (Upadhyaya 2015: 176). Financial liberalisation is here assumed to reduce credit restrictions imposed by the state and assures a more efficient allocation of formal credit, where the financial sector reduces information and transaction costs for firms when acquiring finance for investment – as elaborated by Josef Stiglitz (ibid.: 177-79; Green et al. 2005: 4). What is more, financial inclusion is said to help the poor as purported by the World Bank as it offers opportunities to save, to take out loans and that it provides risk management products which facilitate pro-poor growth (Demirgüç-Kunt/Klapper 2012: 1). Therefore financial liberalisation was one of the policy prescriptions of the Washington Consensus (Green et al. 2005: 4). Others see the causality reversed: Financial development follows growth (e.g. Robinson 1952: 86; for a case study of China and India: Shahbaz et al. 2015: 13-14). Here the notion is prevalent that it is the demand for loans for investment and the existence of profitable investment opportunities that drives financial development, which consequently

[1] The Prebisch-Singer-Hypothesis describes the long-run divergence of prices for processed goods in comparison to commodities. Its validity can be seen in the course of time only briefly interrupted by the commodity price hike prior to the outbreak of the international crisis (Harvey et al. 2010: 367).

[2] However, there are also exceptions like India, which achieved great pro-poor growth using the service sector as springboard (Kniivilä 2007: 303; Szirmai 2009: 35). But India's success is rooted in its service sector producing tradable services which is only possible in a small niche of the service sector connected to knowledge-based IT and telecommunication (Gordon/Gupta 2003: 2). What is more, also in India manufacturing is a crucial growth engine (Dasgupta/Singh 2006: 13).

depends on growth. The latter therefore precedes the financial sector (ibid.).[3] A third strand – e.g. represented by the Lewis growth model – purports that financial and economic development are interdependent and hence take place at the same time (Green et al. 2005: 3). But as Gerschenkron (1962: 14) emphasises, the role the financial sector plays in development varies: Whilst England largely industrialised without the involvement of the banking sector, German banks played a decisive role (ibid.). As the relevance of the financial sector is inconclusive in economic theory, the assessment of financial development with regard to economic development in Ethiopia is especially intriguing.

Whilst in most developing countries advances in financial development have been achieved, there are qualitative differences. Perkins et al. (2006) distinguish between deep and shallow financial development. In the former case, the share of short- and medium-term financial assets (represented by M2, i.e. cash and near-money) relative to GDP grows. This is read as the improved ability of the banking system to increase lending to investments in productive assets. Liberalisation is said to lead financial deepening as it goes along positive real interest rates, which in turn encourage new banks to enter the market, enhance competition in the financial sector and the propensity of savers to invest in financial assets.[4] Furthermore, it is purported that this curbs inflation as savers are incentivised not to invest in unproductive assets such as gold, durable goods, foreign currencies, land and securities. Financial deepening opens up opportunities for riskier investments which improves growth potentials. Though commercial banks are good in providing short-term capital, sustained growth needs long-term capital and therefore institutions that have a longer temporal horizon such as insurance companies, investment banks and primary securities markets such as stock and bonds markets, which in turn depend on a sane banking system. In contrast, in shallow financial development the M2-GDP-ratio is either stalled or declines. Here real negative interest rates are prevalent. Further characteristics of shallow finance are high reserve requirements and rationing of credits. Policies of shallow finance are e.g. high entrant restrictions, stifling competition, and interest rate ceilings aiming to encourage investment, which, however, result in lower deposit rates as banks are forced to cover their operation costs (ibid.: 497). Herein, the risk premium of interest rate cannot work and crowds out riskier investment with higher productivity yields. As a result, shallow financial development leads to credits being only accessible to those with best collaterals and those with social and political affiliations (ibid.: 495-501).

2.3 Financialisation

Though some authors mingle the analytical instruments of financial deepening and financialisation (e.g. PWC 2014), financialisation is not about the mere scope of the financial sector but the financial sector's changing nature. This change regards the increasing role financial institutions and markets play (Epstein 2005: 3), the increasing profitability of the financial sector vis-à-vis trade and production (Krippner 2005: 174) and its

[3] In this context, the debate whether there is a savings constraint on development is also interesting, i.e. whether savings are a prerequisite for the emission of loans for investment necessary for development or independent from them. Kalecki dismissed such constraints as investment generates profits in the future which pay the initial investment off and because money can be endogenously created (Toporowski 2015: 78; Chick 1986: 196-75).

[4] As elaborated in the previous footnote, this is not necessarily the case. Perkins et al. (2006) also call this relation into question and perceive income, the density of bank branches, economic and demographic structure to be more important in the determination of saving rates. Whilst in industrialised countries they assume a proportional increase of the demand of financial assets when income grows, in developing countries the demand for liquid assets probably exceeds income increases given relatively low inflation rates, because of the paucity of other opportunities to hold savings (ibid.: 492-93).

penetration of the non-financial sphere i.e. households and non-financial firms (e.g. Mitchell 2016: 357). With liberalisation of the financial sector and financial markets as prerequisite, financialisation processes are said to have occurred in the past three decades and were among others empirically shown for a selection of OECD countries by Epstein and Jayadev (2005: 46-76).

The indicators and effects of financialisation are often hard to keep apart. Financialisation is marked by a shift from bank-based to market-based corporate finance (Krippner 2005: 181) – though van Treeck (2008: 22-24) also found processes of financialisation in bank-based systems. Market-based systems are marked by high equity market capitalisation as share of GDP and a high degree of holding of financial assets by households, insurance, pension funds and mutual funds (Allen/Gale 2001: 47-8). What is more, the share of domestic and foreign bonds and equity, loans, mortgages and real estate is higher in market-based systems (ibid.: 50). This shift is connected to the penetration of the financial sphere into households: When big corporations started to prefer finance acquired from corporate bonds markets instead of banks, banks discovered household debt e.g. in the form of mortgage credits as a potential source of profit (Stockhammer 2010: 2). This, in combination with stagnant wages, led to a continuous trend for private debt to rise since the 1970ies in OECD countries (ibid.). As market-based finance became more important and shareholders more influential (*shareholder revolution*; Stockhammer 2004: 719) – managers increasingly complied with shareholders' wishes. Since the latter's primary interest is high dividend reception, the manager strategy of many non-financial corporations also became more focused on short-term profit maximisation for higher dividend payment instead of longer-term growth perspectives, with wage-cuts, downsizing, outsourcing, faltered investment and consequently deindustrialisation as results (Hein/van Treeck 2010: 277-92.; Palley 2010: 301; van Treeck 2008: 21).[5] Being more dependent on external market-finance and with dividend payments and share buy-backs representing high costs, debt-to-capital-ratios among companies also rose (Riccetti et al. 2016: 162).

Whilst on the one hand financialisation is said to result in high indebtedness of firms and households, on the other hand financialisation was also highly advantageous for some. As the profits in financial markets and institutions surged as well as the returns on shares and financial assets since the 1980ies (as was shown for the USA and France by Crotty 2005: 77-110), high levels of so-called *rentier income* (i.e. income generated by the financial sector and by holding financial assets) benefiting the wealthier income groups were generated. With losers and winners of financialisation, it is said to contribute to the increasing levels of economic inequality[6] of the past decades, a shortage in demand of mass consumer goods and heightened instabilities (Dünhaupt 2013: 1; Riccetti et al. 2016: 167; van Treek 2009: 13). What is more, the loan expansion towards private households – particularly

[5] Shareholders are here assumed to have little long-term association with the firm whose share they hold. They demand high dividend pay-outs and incentivise managers to pursue a more profit-oriented short-term management strategy via remuneration schemes pegged to financial market results through the payment of bonuses in the form of shares (Hein/van Treek 2010: 278 and 280). That short-term profit orientation has detrimental impacts on growth potentials of a firm is modelled by Hein and van Treeck (2010). On a microeconomic level, new investment can either be financed by retained earnings or external finance (they here ignore the possibility of leasing). Retaining previously generated profits for future investment, however, means less of the current profit can get distributed to shareholders in the form of dividend payments. This also applies when the new investment is financed by the emission of new shares as this would increase stock prices and decrease dividend payments (ibid.: 278-80). Consequently a 'downsize and distribute' with low investment rates instead of a 'retain and reinvest' company strategy is pursued (Riccetti et al. 2016: 171).

[6] Economic inequality is expressed in a skewed distribution of income which includes wages but also income from financial assets (such as stocks and bonds) or life insurances and mutual funds savings (Peet/Hartwick 2009: 8).

for the purchase of homes inflated prices for real estate causing bubbles but also an increase in the volatility of asset prices (Karwowski/Stockhammer 2016: 40; van Treeck 2008: 10).

2.4 Financialisation and development

In classical growth theories implications of dimensions of financialisation such as debt have been largely left out (Setterfield 2010: 4). But if financialisation theories hold true, financialisation can have serious implications for a sustainable growth path as (premature de-)industrialisation, debt, inequality and real estate bubbles might impact development. As hinted in the preceding section, some authors highlight the danger that the heightened importance of market-based finance leads to deindustrialisation imperiling employment (Riccetti et al. 2016: 167). On a macroeconomic level, the attempt of firms to maximise short-term profits via downsizing leads to the overall shrinking of profits (Hein/van Treek 2010: 280). According to Michał Kalecki there is a positive relationship between the aggregate accumulation of capital and aggregate profits. He models the latter as the sum of investments and consumption out of profits less savings out of wages. Hence, decreased levels of investment lead ceteris paribus to an overall lower level of aggregate profits, unless this is compensated by consumption out of profits (ibid.). As a result, in developing countries overall growth and development towards an industrialised economy can be endangered if investment in manufacturing and other industries is discouraged on the firm level impeding structural change, which ultimately depends on the long-run up-sizing of industries (see e.g Morrison 1997: 110). What is more, the lack of investment can have detrimental effects on the generation of employment much needed in developing economies where surplus labour needs to be absorbed by the new industries (see e.g. the Lewis model; see Kirkpatrick/Barrientos 2004: 682).

High levels of household debt can have similar effects. Private debt can at first go along higher growth rates as consumption is stimulated: When borrowed money is invested in e.g. real estate, newly created wealth increases the pool of collaterals, which allows for more credits – like a Ponzi scheme – and more consumption. However this in turn leads to a downfall of creditworthiness and higher debt service burden, which then has a detrimental effect on consumption impeding growth (Hein/van Treek 2010: 287; Palley 2010: 293). That overall debt levels can lead to economic downturn and crisis once the debt-bubble bursts was famously stated by Irving Fisher (1933) in his debt-deflation theory. To what extent economic crises include adverse impacts on human welfare and the destruction of wealth and consumption potentials in emerging markets could be seen during the East Asian financial crises, but also the current international crisis (see e.g. Green et al. 2005: 13).

Higher debt levels together with growing levels of rentier income result, according to authors of financialisation, in higher inequality levels: Though financialisation does not necessarily have a negative effect on growth prospects at first, it does have long-term distributional effect benefiting rentiers at the expense of labour as debt-to-income-ratios increase (Hein/van Treek 2010: 288). The reading of inequality for development and growth prospects is conversely discussed. Some would for instance insinuate that growth is only possible under a certain accumulation regime that favours savers. The so-called trickle-down effect ensures that the profits generated by the rich also benefit the poor (Nafziger 2012: 203-4).[7] But inequality levels can also have negative implications for

[7] Joan Robinson upholds the notion that even if capital accumulation spurs growth, there are more humanly means to achieve growth via government policies that help to reduce inequality and incentivise capital formation (Nafziger 2012: 204).

economic development as well as welfare aspects (Atkinson/Bourgignon 2000: 43). If income levels drift too much apart, they endanger social cohesion, with political unrest as result which also negatively impacts foreign investment (Nafziger 2012: 206). On the one hand, some would argue that if lower income groups – which have a high propensity to consume – lose out on income, there might be a lack of demand of consumption goods implying the risk of crisis (Riccetti et al. 2016: 171). Higher income inequality on the other hand can also drive up demand for imported luxury goods by wealthier income groups deteriorating trade deficits in net-importing countries and reducing foreign currency stocks (Dovring 1991: 93; for the Kenyan case: Fontaine 1992: 183). Additionally to the potential of crisis implied in a downfall of demand, according to Irving Fisher, high income inequality is also said to contribute to the risk of crisis (Fisher 1919: 11). Both prior to the current international financial crisis as well the Great Depression of 1929 inequality surged (Peet/Hartwick 2009: 9).

What is more, the rise of the very wealthy income groups – at the absence of more profitable investments – can lead to exaggerated investment in the real estate market leading to housing bubbles, which have destabilising impacts on an economy as well as human welfare when rents follow the price boom (Ahir et al. 2014: 8) – let alone when the burst of the bubble leads to an economic crisis (Kindleberger/Aliber 2005: 1). High incomes also lead to a growing demand for high-end housing and increased living space – though the strength of this correlation is country-specific – further exasperating the gap between supply and demand for housing (Follain/Jimenez 1985: 428). An inflated real estate market is normally concentrated in urban centres, which cannot only impede urbanisation – a prerequisite for industrialisation –, as housing in urban centres becomes too expensive but also increases production costs of producers situated in urban centres, which can adversely impact investment decisions and the profitability of firms (Ahir et al. 2014: 6). If producers are forced to move to rural areas, surging real estate prices in urban centres might also exasperate costs imposed by the lack of infrastructure and impede the full use of economics of scope especially prevalent in the manufacturing sector (Luger et al. 2013: 17).

2.5 Alternative explanations for impeded industrialisation, inequality and real estate bubbles

But impeded industrialisation, higher inequality and real estate prices might also have different causes than put forward by theorists of financialisation. In respect to faltered manufacturing, it is argued that developing countries find it hard to enter international markets for manufactured goods as these are more cost-efficiently produced by Asian manufacturers dominating the stepping stones of industrialisation such as apparel industries (Keane/te Velde 2008: 1). What is more, overvaluation of the local currency can have detrimental effects on competitiveness, which might have negative impacts on the export position of manufacturers (see Mundell-Fleming model; Abeysinghe/Yeok 1998: 52). However, the impact of overvaluation on industrial development depends on the nature of imports. If they are raw material that serve as input factor for the exporting manufacturing sector, overvaluation might even have positive effects (ibid.: 51). Additionally to that and with implications for global industrialisation levels measured by employment, it is purported that the technological advances make manufacturing increasingly less dependent on labour reducing the employment potential of unskilled labour in manufacturing (Dovring 1991: 96).

Furthermore, some would even argue that inequality is the inevitable result of development itself. Simon Kuznets stated in 1955 that industrialisation leads to an inversely U-shaped distribution of income (the Kuznets Curve), where the initial stages of development are accompanied by increasing degrees of inequality, which starts to fall after a certain point in development (Nafziger 2012: 180).[8] The initial increase in inequality is explained by the shift from traditional sectors to modern sectors, where the latter yields higher incomes and productivity (ibid.: 181). Empirically, the Kuznets Curve seems to hold for European early industrialisers, however the findings on Least Developed Countries are ambiguous (ibid.: 182). What is more, currently increasing levels of inequality in OECD-states also seem to prove Kuznets' claim wrong (OECD 2016).

Real estate price booms are furthermore attributed to fundamentals as the shortage of housing, partially rooted in the natural scarcity of land on which houses can be built (Mutl/Kirchhain 2016: 13). In emerging markets with high rates of urbanisation, the pressure on the real estate market to absorb this high influx of population in urban centres might be especially high (Burrell 2015: 1). However, theories on the building-up of bubbles purport that an initial divergence of supply and demand can trigger bubbles as it can lead to the investment then overshooting initial levels of supply shortages (Posner 2009: 10).

3 Methodology and data

Data availability and quality poses serious problems in Ethiopia (see Jervon 2015: 103-11). Therefore, additionally to quantitative data provided by World Bank, IMF, the Central Statistical Agency (CSA)[9] of Ethiopia and National Bank of Ethiopia (NBE) as well as Ethiopian commercial banks, quantitative and qualitative data was collected by the author during a three months research stay in Addis Abeba in 2016. Primary data consisted of a written survey containing mostly closed questions and semi-structured expert interviews. The latter were then analysed using Mayring's contend analysis facilitated by the software MaxQDA (Mayring 2000; Kuckartz 2004: 18). Because representative or random sampling was not possible due to financial and time restrictions, quota sampling was conducted, i.e. a non-probabilistic sample method where the respondents are chosen by the researcher according to some chosen characteristics – notwithstanding that this sort of sampling yields the disadvantage of being less generalisable (Bortz/Döring 2008: 402). The method of triangulation was chosen in order to 'improve, test or validate the accuracy of the observation […] from two or more different vantage points' (Mason 2006: 8). Triangulation aims at the enhancement of the rigorousness and representability of research findings and to broaden the understanding of the research matter, which is of particular importance in explorative studies. However, using mixed research methods implies the danger of unfocused research and the generation of non-congruent research results (ibid.: 3-4; Ritchie 2003: 44).

The first research question on the nature of financial development touches on liberalisation, financial inclusion and deepening. The degree of liberalisation of the financial sector was assessed by considering policy changes

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[8] The World Bank states that the initial distribution of assets determines to what extend growth leads to inequality as the better-offs profit from their assets in the course of development, which leads it to the policy recommendations of pre-growth policies of education, land reforms, etc. (Nafziger 2012: 195-6). In stark contrast to theories of financialisation, it was also argued that the reliance on self-financing in an underdeveloped financial system leads to growing inequality as only the wealthier families are capable of investing in new lucrative investments (Perkins et al. 2006: 496).

[9] Here sometimes the Ethiopian calendar is used with seven years difference to the Julian calendar. 2016 in the Julian calendar is for instance 2009 Ethiopian Calendar. Another particularity one has to take into account is that the fiscal year in Ethiopia lasts from July, 8th, to June, 7th (IMF 2016: 212).

as well as the Normalised Financial Reform Index as provided by the International Monetary Fund (IMF; see Abiad et al. 2008). At the absence of other data which would allow the calculation of more telling indicators, inter-banking lending was used as proxy for the integration of the financial sector. Inter-banking lending was put in relation to overall lending to control for the overall extension of lending activities. This was only done for domestic banks, as taking loans from foreign banks is forbidden in Ethiopia. To estimate financial inclusion, the Findex[10] was used and supplemented with data collected in the survey and other data on the financial infrastructure. For the characterisation of the financial development in Ethiopia in respect to shallow vs. deep financial development, indicators as suggested by Perkins et al. (2006: 495) and Upadhyaya (2015: 176) were applied, namely M2-to-GDP- and private-credit-to-GDP-ratios as well as interest rate spreads between lending and deposit rates. Here data provided by the World Bank and the NBE were used.

Concerning the second research question, the characterisation of the financial system as either bank- or market-based as indicator of processes of financialisation was hard to undertake. With public equity markets being absent and since there is no conclusive unequivocal indicator signifying the distinction between a market- and bank-based system, an approximation of the scope of equity market capitalisation is carried out by taking a look at the number of share emitting firms as share of all firms as well as the nature corporate finance using miscellaneous data sources. The holding of bonds and shares by private households is estimated with the aid of the survey data, whilst mortgages and loans are estimated considering commercial banks' balance sheets.

To measure the move towards industrialisation, the degree of manufacturing adding value to the total value added followed by the share of the export of manufactured goods in total export was used to measure the overall importance of manufacturing in the Ethiopian economy. Since industrialisation not only encompasses the quantity of produced manufactured goods, but also the degree of technology involved in the production process, the composition of manufactured goods and the Economic Complexity Index as calculated by Hausmann et al. (2011) were considered. Furthermore, because industrialisation is said to come along an increase in firm size, the average size of medium- and large-scale manufacturing firms as measured by the number of employees published in the Quarterly Manufacturing Industry Surveys (CSA 2017c) as well as the contribution of small-scale manufacturing in comparison to medium- and large-scale manufacturing firms to total manufacturing is used to estimate whether manufacturing companies are getting bigger in Ethiopia.

Following Epstein and Jayadev (2005: 20), the level of rentier income is approximated by adding profits generated by financial institutions to saving deposit income. Ideally those profits should be put in relation to profits generated in production and trade to control for overall profit generation potentials, however due to data caveats, GDP is used as reference measure. Since annual reports by financial intermediaries are only published on an irregular basis or not published at all, the three banks' profits which disclose company data most consistently are taken as representatives for profits generated by the entire financial sector in the past couple of years and complemented with other data where available.

[10] Findex is a conglomeration of indicators measuring financial inclusion collected every three years and only available for the years 2011 and 2014 (WB 2014; Demirgüç-Kunt/Klapper 2012: 1). Findex is the only indicator which is calculated for Ethiopia.

Due to lack of data debt-to-income levels cannot be calculated. However, loans and advances to private households are taken from annual reports published by the NBE as proxy for debt levels of private households as well as data obtained from the survey. To control for overall credit expansion and economic growth, the loans and advances to private households are calculated as share of all loans and advances. To estimate the indebtedness of firms, World Bank Enterprise Survey data is used, which however only provides two data points.

Given the data problems with regard to income levels, inequality measures in Ethiopia pose serious problems. The two concentration measure of relative poverty are used here: the GINI-coefficient, which is sensitive to changes of the income distribution in the middle and insensitive to changes in the tail of distribution, and the Palma ratio, which in turn is sensitive to changes in the tails (Cobham et al. 2015: 1). Here data is provided by the World Bank (2016). Given bad quality of data on real income levels,[11] the results are supplemented with the survey data collected by the author, though here only subjectively perceived inequality levels are covered.

The assessment of whether there is a real estate bubble building up in Ethiopia poses the most serious problem in respect to the availability of suitable indicators. For this purpose growth rates of inflation as provided by the CSA in their Consumer Prices Indices (CPI) are calculated. The underlying idea is that if a housing bubble was building up, the CPI for housing etc. should exceed that of general non-food inflation. Here the overall inflation is not used because the overall inflation rate is sensitive to food inflation, which has different underlying causes than non-food inflation such as production conditions, transportation costs etc. The effects of fuel prices and that of the expansion of the construction activities on the CPI for housing, construction material, fuel etc. were controlled for by taking retail prices for fuel and the share of construction in GDP into account. Data from the questionnaire which contains a question on overall expenditure on housing in relation to other items was additionally used to estimate whether surging real estate prices impact rent. What is more, the provision of loans for the construction or purchase of a house is obtainable from the NBE's annual reports and can be taken as proxy for the propensity to invest in the real estate market. The income-to-price and income-to-mortgage ratios can provide insights to what extent prices grow faster than income levels. These are informally provided by the website Numbeo, where users can contribute to the provision of information on the housing market (Numbeo 2016, 2017a and 2017b).

4 Analysis

4.1 Course and depth of financial development in Ethiopian

To get an idea of the changing role of the financial sector in Ethiopia, the change in financial inclusion is first looked at. The African Development Bank defines financial inclusion as the degree of availability, accessibility and affordability of financial services to all, e.g. through improved financial infrastructure (ADB 2013: 25). To what extent the financial infrastructure and with it the availability and accessibility of financial services has improved in Ethiopia can be evaluated by taking a look at the history of the financial sector in the past 25 years.

The liberalisation of the financial sector was one of the first policies implemented by the transitional government after the downfall of the Dergue regime in 1991. The state monopole on banking got eradicated and the banking

[11] Robust data on income levels is scarce and unreliable. This problem is particularly prevalent in developing economies, where income of subsistence farmers is underestimated, similarly to that of the wealthier population which is incentivised to understate for tax evasion purposes. Apart from monetary income other aspects of economic inequality also have to be taken into consideration such as non-wage income and local purchasing power (Nafziger 2012: 161-3).

sector opened up for the private sector (Dagnaw 2009: 31). During the subsequent years applicants were granted banking business licenses, given that they were able to raise the minimum paid-up capital of at first ten million birr, which was the minimum requirement till the end of 1994 (Harvey 1998: 53), then raised to 75 million birr in 1999 (NBE 1999) and 500 million birr from 2011 onwards (NBE 2011). As a consequence of these liberalisation policies the Normalised Financial Reform Index as calculated by the IMF rose from 0.05 in 1991 to 0.38 in 2005 (Abiad et al. 2008). However, ownership of private commercial banks was – and is – restricted to Ethiopian citizens only (NBE 1994). What is more, the Commercial Bank of Ethiopia (CBE) – still the largest bank (see Annex 1) – remained in public hand (Harvey 1998: 45 and 47) and minimum reserve requirements were introduced (NBE 1996).[12]

From mid-1990ies onwards, induced by the move towards liberalisation, a great improvement of the banking infrastructure took place. As T-bills – which started to get emitted in 1995 – stood at 3% and the commercial banks' lending rates were between 11% and 16%, the newly established private banking sector found favourable conditions to flourish (Harvey 1998: 52-3). The first private owned bank was Awash International Bank founded in 1994 and 15 others followed (Deribie 2012: 82; see Annex 1). As a consequence, a massive expansion of the financial infrastructure took place. Table 1 shows the growth of the banking sector as measured by the number of branches in the course of time:

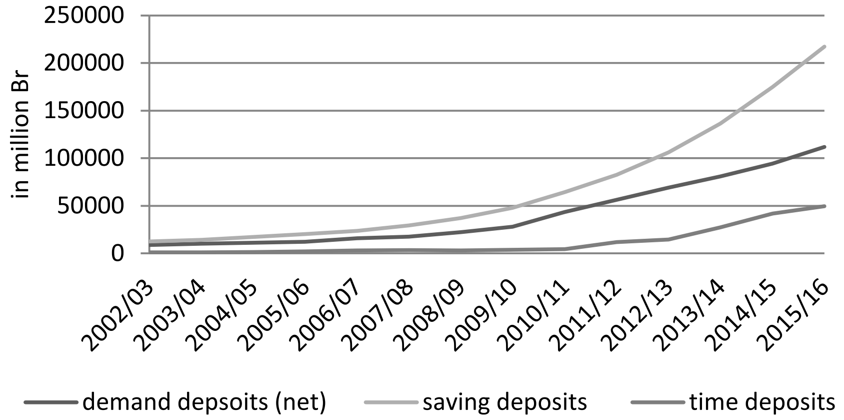
Table 1: *Number of bank branches run by state-owned and private commercial banks in Ethiopia for different years. Source: Harvey (1998: 44), Dagnaw (2009: 32) and NBE (2016a: 53).*

Year	1975	1994	2006/07	2015/16
Number of Bank Branches	83	154	487	3,187

Of the 3187 currently existing branches, 2090 are outside of Addis (NBE 2016b: 53). Since the fiscal year 2015/2016, a NBE directory requires banks to increase their number of branches by 25% annually (EBR 2016a: 23). Taking into account that still a vast number of account holders do not have a debit or credit card (of the 68 included in the survey, 41 responded that they have a bank account, of which however only three had a debit or credit card; see Annex 2), the number of bank branches seems to be of major importance for the financial infrastructure. In fact, in Ethiopia, 83% of account holders use tellers to make withdrawals (Demirgüç-Kunt/Klapper 2012: 19). Hence, the physical presence of a bank still seems to be crucially determining access to bank accounts and facilitates financial inclusion, particularly in rural areas, where internet infrastructure is weak and therefore e-banking being less of an option. However, the increasing spread of mobile-money in Ethiopia as in the rest of SSA, possibly implies a decreasing role for bank branch expansion for financial inclusion in the future (Demirgüç-Kunt/Klapper 2012: 3).

[12] Minimum reserve requirements stood at 10% of annual net profits at first (NBE 1994). In 2008, the minimum reserve requirement was then increased to 15% as response to inflationary pressure, only to get lowered to 10% in 2012 and 5% in 2013 (NBE 2013 and NBE 2008).

The effects of the expansion of the financial infrastructure after the regime change can be seen in Graph 1: Deposit mobilisation improved considerably since the onset of the noughties, but also before. From the fiscal year 1992/93 to 1997/98 the annual growth rates of total deposits stood at an average of 23% (Deribie 2012: 82).



Graph 1: *Demand, saving and time deposits (in million Br) held with commercial banks in Ethiopia 2000-2016. Source: Own representation of data provided by NBE (2017a).*

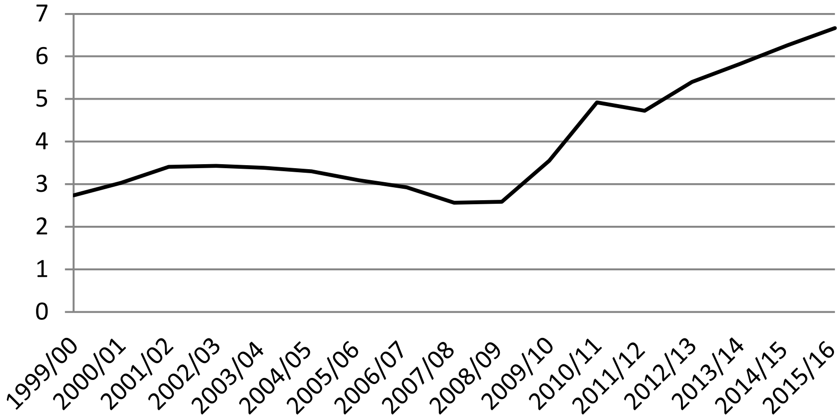
However, the improvement of financial inclusion seems to be skewed among different income groups, with higher income groups having a higher likelihood of account ownership (International Findex Data on account ownership, formal saving and borrowing by different income groups as provided by World Bank 2014). Internationally the stated reason for not having a formal bank account was that unbanked respondents did not have enough money to deposit, which might also hold true in Ethiopia (Demirgüç-Kunt/Klapper 2012: 3).

But new private banks are not the only financial intermediaries who entered the stage of the financial sector in the past two decades. The insurance sector also grew considerably: 15 insurances companies were founded between 1994 and 2013 (NBE 2017c) and one reinsurance company with a paid-up capital of 500 million birr since February 2016 (EBR 2016b: 7; AddisFortune 2016). In March 2016, the only state-owned Ethiopian Insurance Company (EIC) launched a crop insurance based on a Normalised Difference Vegetation Index targeting to provide insurance for small-scale farmers (NDVI[13]; EBR 2016b: 25). Additionally to commercial banks and insurance companies as financial intermediaries, micro finance institutions (MFI) and lease companies got established and grew in number and size. There are at least 35 MFI all except one founded after 1996 (NBE 2016b). Since 2015, the NBE also allows lease finance for micro and small enterprises, which has grown enormously within this brief time period (EBR 2016b: 37). There are five major lease companies which accumulate a capital of 160 million Birr in the fiscal year 2015/16 compared to 47 million Birr in 2014/15 (NBE 2016b: 3). Though there is no data on pension funds in Ethiopia, in most of the banks' annual reports, pension fund payments are indicated.

The increased availability and accessibility of financial service, i.e. increased financial inclusion, is visible in the massive expansion of deposits (see Graph 1). To evaluate whether this expansion can be read as deep or

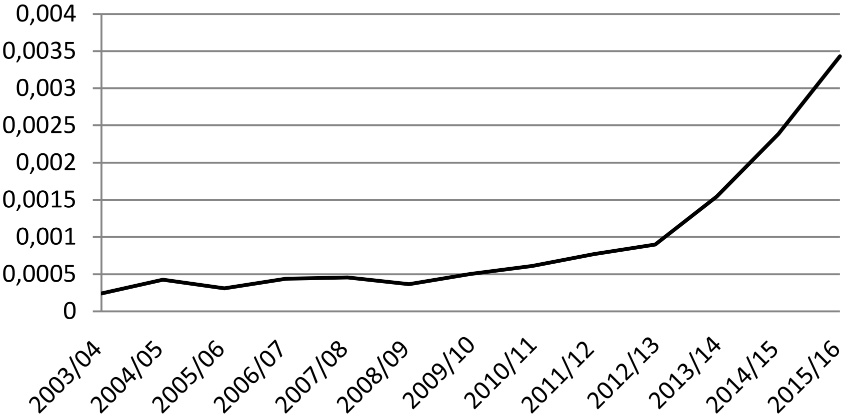
[13] The NDVI uses meteorological data to estimate damage caused by natural catastrophes. The EIC is hoping to sell 1,3 million of such NDVI-based insurances until 2019/20 covering about 15 million small-scale farmers (EBR 2016b: 27).

shallow financial development, the M2-GDP-ratio is used as indicator as suggested by Perkins et al. (2006: 495-7) and Upadhyaya (2015: 176).



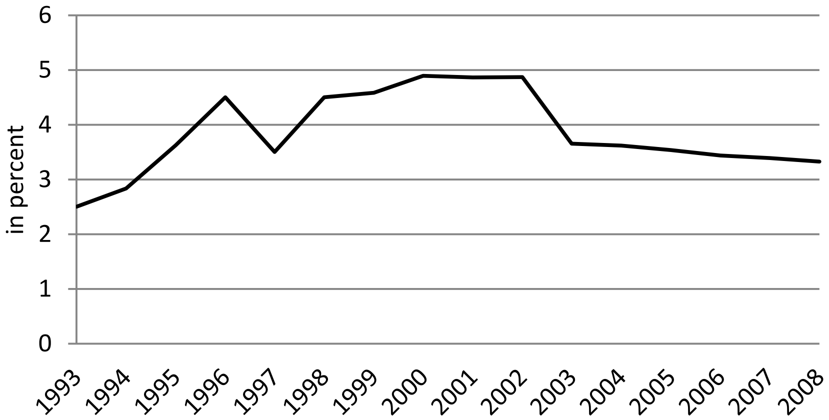
Graph 2: *M2 as share of nominal GDP in Ethiopia 2000-2016. Source: Own representation of data provided by NBE (2016b: 17).*

Graph 2 demonstrates that financial deepening seems to take place particularly after 2008, following a phase of financial shallow development between 2001/02 and 2008/09. The observed deepening can be partially attributed to the increase of private credit – another indicator of financial depth (Upadhyaya 2015: 176) – that can particularly be seen since the fiscal year 2008/2009 (see Graph 3).



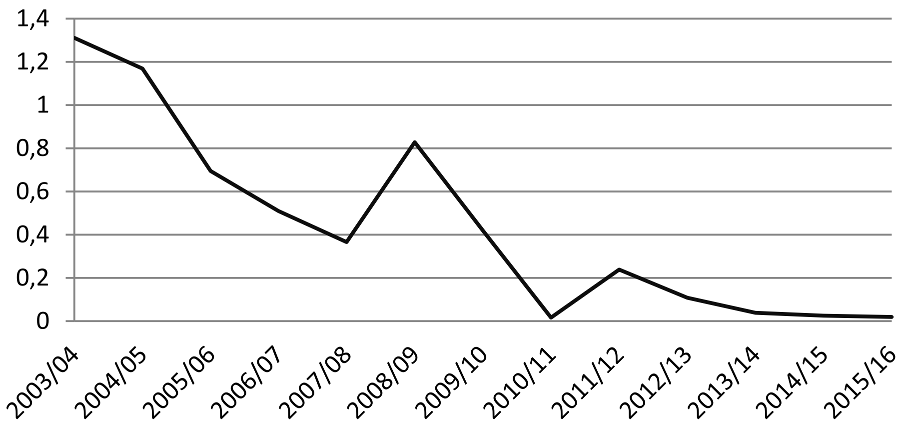
Graph 3: *Outstanding loans and advances for personal purposes as share of nominal GDP in Ethiopia 2003-2016. Source: Own representation of data provided in NBE (2017a).*

For the third indicator there is only consistent data available until 2008. The interest rate spread hints that there was a steady deepening taking place since the noughties, as interest paid on lending and deposit rates converge after a period of fluctuation in the 1990ies (see Graph 4).



Graph 4: *Interest rate spread between lending and deposit rates in Ethiopia 1993-2008. Source: Own representation of data provided by World Bank (2016).*

Despite the mentioned liberalisation policies, Ethiopian banks are only marginally integrated in the international and domestic banking sector. As they are forbidden to take out loans from foreign banks, their on-balance activities with foreign banks are restricted to facilitating business in trade by providing accounts through which transactions are liquidated (Annex 3). The inter-banking sector in Ethiopia also seems to be relatively small and even on the decline, when put in relation to the overall expansion of lending activities, indicating a deterioration of trust among private banks (Graph 5). Here one has to bear in mind that the inter-banking lending does not include off-balance integration, i.e. via derivative trading, credit commitments and guarantees – hence the degree of integration with the domestic and international banking sector might as well be higher (Cerutti 2013: 4). What is more, it is hard to judge how far the entire financial sector is integrated in international and domestic financial markets due to paucity of data on the equity and bonds market in Ethiopia.

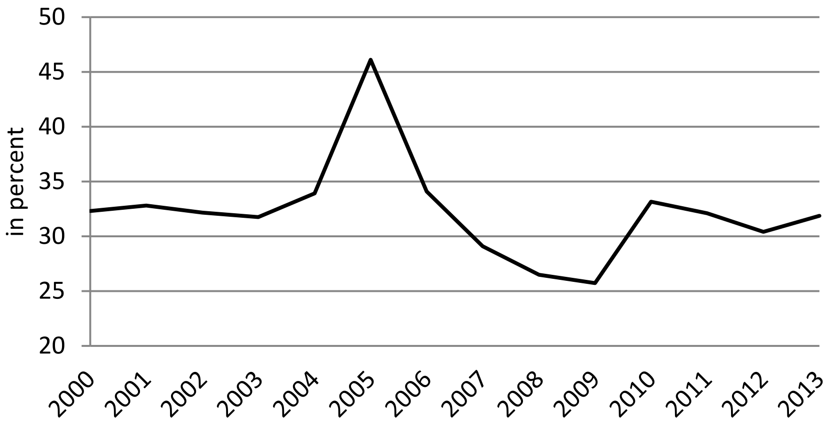


Graph 5: *Outstanding loans and advances in the inter-banking sector as share of total outstanding loans and advances (in million Br) in Ethiopia 2003-2016. Source: Own representation of calculations based on data provided by NBE (2017a).*

4.2 Indicators and effects of financialisation
4.2.1 Bank- or market-based

There is neither consistent data available on the kind of corporate finance prevalent in Ethiopia, nor a single indicator which can conclusively determine whether an economy is bank- or market-based. Though currently there is still no public stock or bond market, this is envisaged by the ECX in the future (Sanchez 2015). Even at the absence of stock markets, shares can still be traded over-the-counter (OTC). Considering the absence of publicly available data on stock and bond trading, looking at the legal form of firms and the form of finance used – where available – can serve as a proxy for the extent of shares emitted and possibly traded in Ethiopia.

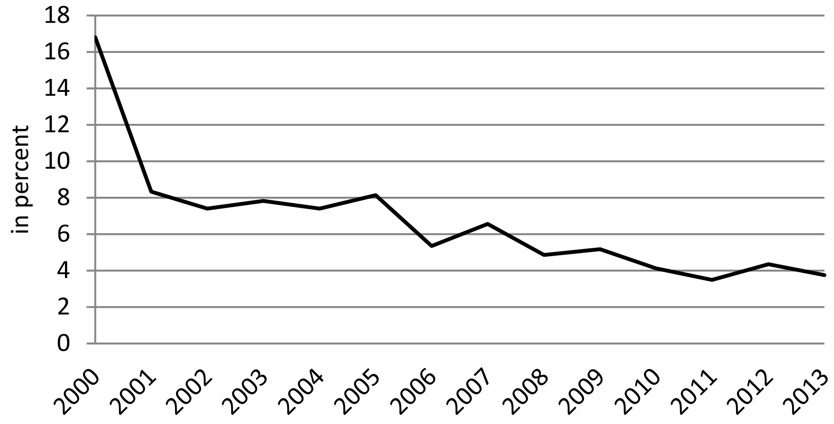
Taking the legal form of companies into consideration can be telling in shedding light on whether finance is done by emitting shares (indicative of a market-based system), or by taking out a bank loan as prevalent in bank-based systems. In the survey conducted in 2011, the World Bank provides data on the number of share-companies operating in Ethiopia. 1.1% of the surveyed companies were open shareholding companies, i.e. with shares publicly traded, whilst 3.9% were closed shareholding companies, whose shares are traded privately or not traded at all. Whilst open share-holding companies were particularly prevalent among medium-sized companies, closed ones could mainly be found among large companies (WB 2012: 13). Detailed data on shareholding companies was not contained in the survey conducted in 2014. But the percentage of limited partnerships seems on the rise: In 2011, 10.6% of all firms were limited partnerships, whilst in 2014 this share rose to 19.2% (WB 2012: 13 and 2015: 12). Data provided by IMIS indicates that the number of shareholding companies and private limited companies as percentage share of all medium and large manufacturing companies have sharply peaked in 2005, however remain within the scope of 25-46% from 2000 to 2013 (see Graph 6).



Graph 6: *Share of Share Companies and Private Limited Companies as share of all registered companies in Ethiopia 2000-2013. Source: Own representation of data provided by IMIS (2017).*

The kind of finance used for investments was contained in both World Bank enterprise surveys. Whilst in 2011, 4.8% of investments were financed via the emission of stocks this kind of finance was only used in 0.8% of all investments (WB 2012: 13 and 2015: 12) – indicating a shift towards a bank-based system. However, bank-based finance seems on the decline, too: In 2011, 8.2% of investments were done using loans from banks compared to 7.8% in 2014 (ibid.). Similar findings can be concluded when taking a look at IMIS data on large and medium-scale manufacturing firms. Here a steady decline of bank-finance is starkly pronounced (see Graph 7).

What is more, there also seems a deterioration of the provision of finance for companies. As contained in the World Bank Enterprise Reports in 2011, 33% of surveyed firms declared that access to finance is the biggest business obstacle, whilst three years later, this proportion rose to 40% (WB 2012: 13 and 2015: 12).



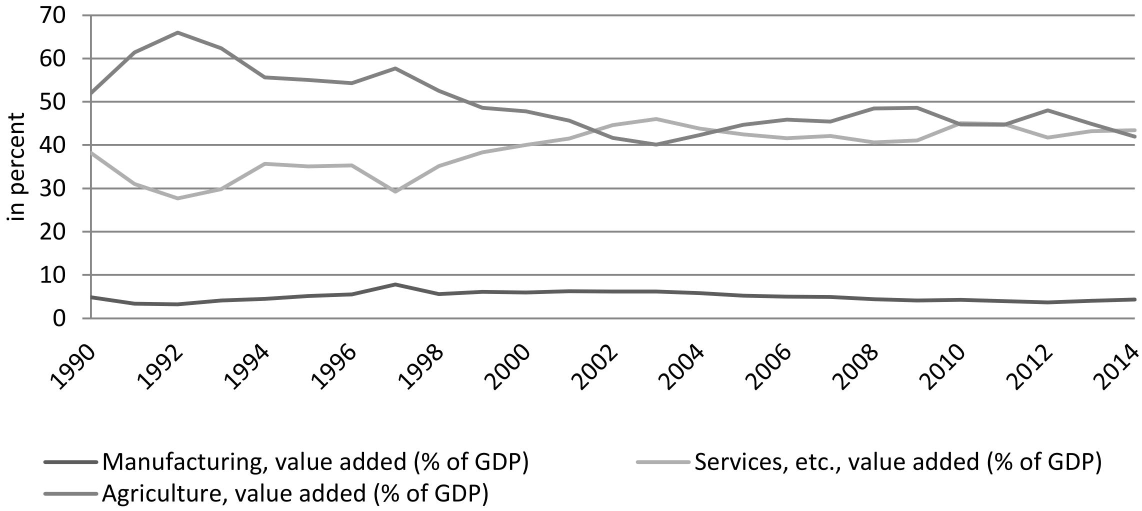
Graph 7: *Share of investments of large- and medium-sized firms financed by bank loans (in percent) as share of all sources of finance. Source: Own representation of data provided by IMIS (2017).*

That equity finance is on the rise is also indicated by the mere scope of equity emitted by the founding of the insurance companies and banks, all of which are shareholding companies, together with their holdings of shares as reported in their annual reports and the raise of minimum paid-up capital requirements mentioned above. What is more, since 2008 eleven Private Equity Firms are operating in Ethiopia. These companies provide capital for companies by buying shares, which they sell again after five to ten years (EBR 2016d: 13-16). That equity market capitalisation is on the rise can therefore be suspected taking the above mentioned findings into consideration.

The survey data contained in Annex 2 provides insight in to what extent share and bond ownership is common among private urban households. Of the 65 respondents to this question, 18 answered that they own bonds or shares, which represents about 28%, though here bonds emitted by the government are also included (Annex 2).

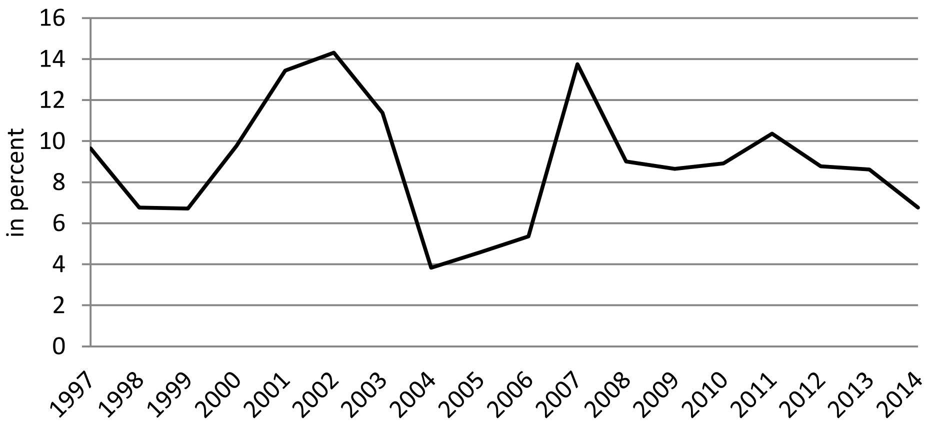
4.2.2 Industrialisation

World Bank data shows that initially there was an increase in manufacturing value added as share of GDP at the beginning of the 1990ies, which however then declined after 1997 (see Graph 8).



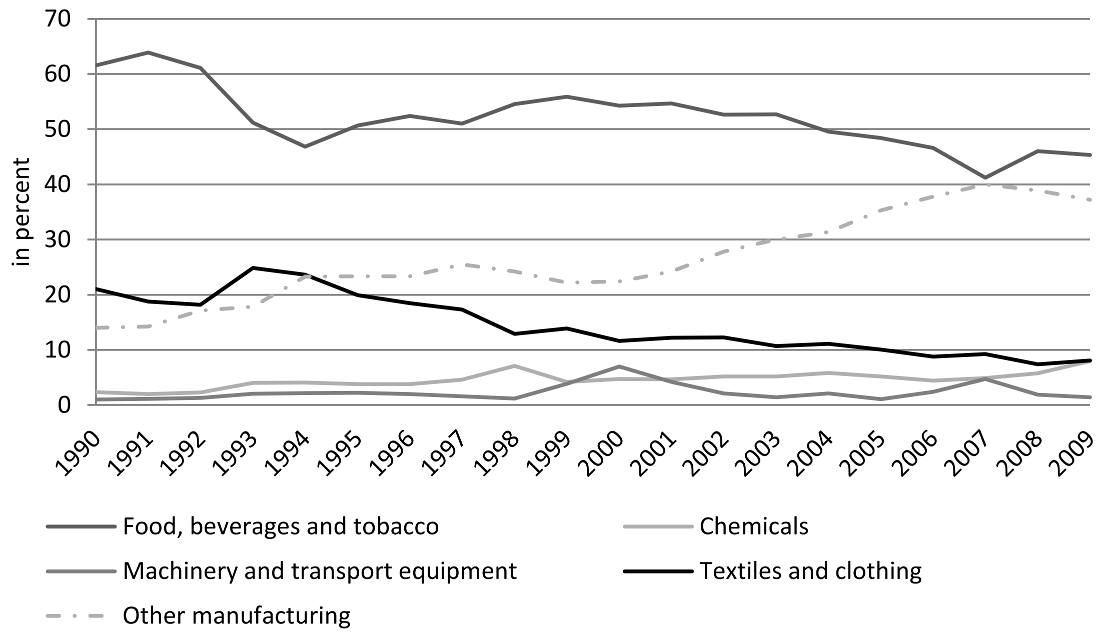
Graph 8: *Value added to GDP by economic sector in Ethiopia (until 1993: including Eritrea) 1990-2014. Source: Own representation of data provided by World Bank (2016).*

It is striking that for Ethiopia (including Eritrea), it was estimated that in 1965, the share of manufacturing contributing to GDP stood at 6.7%, dropped to 4.3% in 1985 and then rose to its peak of 7.8% in 1997, whilst in 2014 manufacturing again only contributed 4.3% to GDP (WB 2016; Szirmai 2009: 37). In Graph 8 it is depicted, that the declining contribution of agriculture to GDP can be attributed to an increasingly important role of the service sector signifying structural change. However, the manufacturing sector's importance remains on a fairly low level. In the years after 1997, the service sector gained considerably, whilst the share of the manufacturing sector of total value added continuously declined until 2012 and slightly recovered after, with 4.54% in the fiscal year 2014/15 and 5% in 2015/16 (own calculation based on data provided by NBE 2016b: 2).



Graph 9: *Exported manufactured goods as share of all merchandise exports in Ethiopia 1997-2014. Source: Own representation of data provided by World Bank (2016).*

Another indicator of industrialisation is represented in Graph 9. It shows the contribution of export of manufactured goods – mainly leather and apparel (NBE 2016b: 8) – to all exports. After a slump in 2004, the share seems to have recovered, but seems to be on the decline since 2012 again. However, Graph 9 only shows exports as expressed in their money value as share of all exports. Here the international commodity price spike prior to 2008 becomes visible: The declining share of manufacturing between 2004 and 2006 can probably be attributed to higher prices for Ethiopia's commodity exports. Hence this representation is inconclusive when assessing development towards industrialisation.



Graph 10: *Industry composition of total manufacturing (as percent of workforce employed in manufacturing) in Ethiopia (until 1993: including Eritrea) 1990-2009. Source: Own representation of data provided by World Bank (2016).*

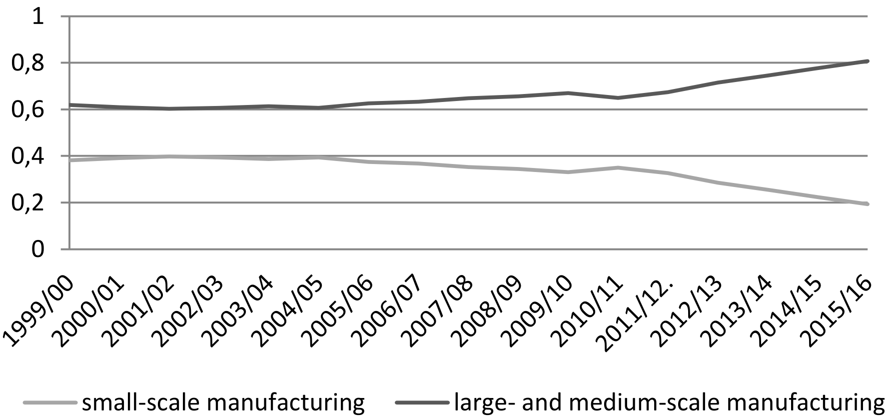
As elaborated in the second section, not only the extent of industrial production plays a great role in determining development towards industrialisation, but also the degree of complexity of the manufactured goods. In Graph 10 the composition of manufacturing in terms of produced goods is represented. It is visible that the production of food stuff and tobacco is on the decline since the 1990ies relative to all manufactures, whilst 'other manufacturing' seems to have profited from this. Industries involving a higher degree of technology – namely chemical and the production of machinery and transport equipment (Hausmann et al. 2011: 25) – still seem to contribute only a very small share to manufacturing in Ethiopia and the significance of the apparel sector is on the decline.

Partially supporting the above stated findings, for Ethiopia it is calculated that in 1964 the Economic Complexity Index was -0.88, whilst in 2008 it stood at -0.89 indicating a slight deterioration since the 1960ies. Indicating an even sharper worsening of the degree of complexity of the produced goods and hence a regress in respect to advances achieved in the development towards industrialisation Economic Complexity Index of 2014 was -1.34 (Hausmann et al. 2011: 83; see Table 2).

Table 2: *Economic Complexity Indices for Ethiopia. Source: Own representation of data provided by Hausmann et al. (2011: 83) and The Atlas of Economic Complexity (2017).*

Year	**1964**	**1968**	**1978**	**1988**	**1998**	**2008**	**2014**
Economic Complexity Index	-0.88	-0.92	-0.6	-0.77	-1.06	-0.89	-1.34

Another aspect of industrialisation is the firm size, which is supposed to grow with growing industrialisation levels. However a growth of the average medium- and large-scale manufacturing firm as measured by the number of employees does not seem to take place and varies between 60 up to 120 between 2007 and 2016 (CSA 2017c). In contrast and covering a longer time horizon, Graph 11 indicates that there is a continuous change taking place, with medium- and large-scale firms contributing a greater share to overall manufacturing as measured by the value generated. Though indicating a growing importance of medium- and large-sized firms, this finding might also be attributable to efficiency gains (instead of an increase in the average size of manufacturing firms) or an increase of the price of the goods manufactured by medium- and large-scale firms compared to those produced by small-scale manufacturers. Whilst the former can be taken as sign of industrialisation, the latter cannot.

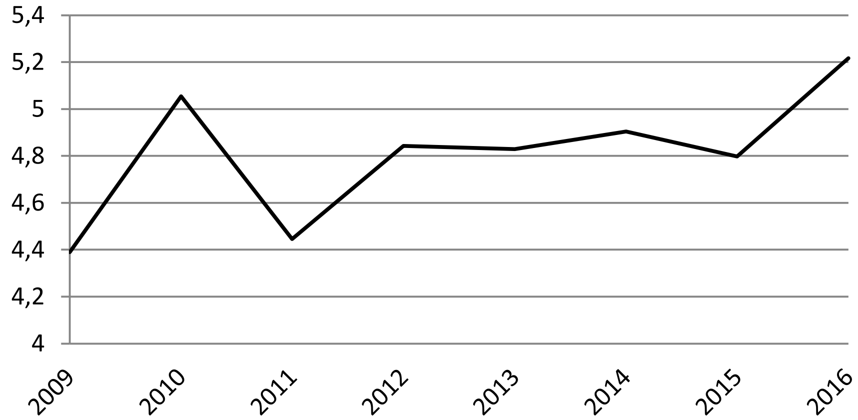


Graph 11: *Share of small-scale manufacturing firms and medium- and large-scale manufacturing firms in total manufacturing measured by value added to overall manufacturing production in Ethiopia 1999-2016. Source: Own representation of calculations based on data provided NBE (2016b).*

4.2.3 Rising rentier income, debt levels and inequality

Whether rentier income, i.e. the income generated by the financial sector and by holding financial assets, is on the rise is elaborated below. Annex 1 provides an insight in the annual growth rates of profits of private commercial banks for the most recently available data. Though there are two banks with negative growth rates of profits, i.e. a decrease in profits vis-à-vis the previous year, the vast majority of commercial banks including the CBE have two-digit annual growth rates (see Annex 1). Those successes have to be viewed in the light of growing competition in the sector and despite the NBE's directory to oblige banks to back 27% of their given out loans with NBE-bills (see Annex 3).

To estimate profits generated by the banking sector in the course of time, three banks whose annual reports have been published consistently for the longest time span are taken as representatives for the baking sector as a whole (see Annex 1): Awash Bank, Dashen Bank and Zemen Bank.



Graph 12: *Net profits and interest payments on saving deposits of Awash, Dashen and Zemen Bank as share of nominal per capita GDP (in Br) in Ethiopia 2009-2016. Source: Own representation of data calculated on the basis of data provided in annual reports of Awash Bank (2016), Dashen Bank (2016), Zemen Bank (2016) and NBE (2016b: 2).*

Graph 12 shows a sharp spike in 2010 and a subsequent slump in the profits generated by Awash, Dashen and Zemen Bank and the interest income of their depositors put in relation to nominal per capita GDP seem to rise since 2011. Faltered increases in profits and deposit incomes of these banks can probably be attributed to the growth of competing banks claiming bigger shares of profits and the costumer basis. As a result, rentier income generated by the banking sector can be assumed to be much higher than Graph 12 indicates.

That the banking sector was also highly profitable prior to 2009 can be seen by looking at the high average Earnings per Share (EPS), as represented in Table 3.

Table 3: *Average Earnings per Share (EPS; in Br) and Dividends per Share (DPS; in Br) paid by Ethiopian private commercial banks 1999-2008. Source: Own representation of data in Dagnaw (2009: 40).*

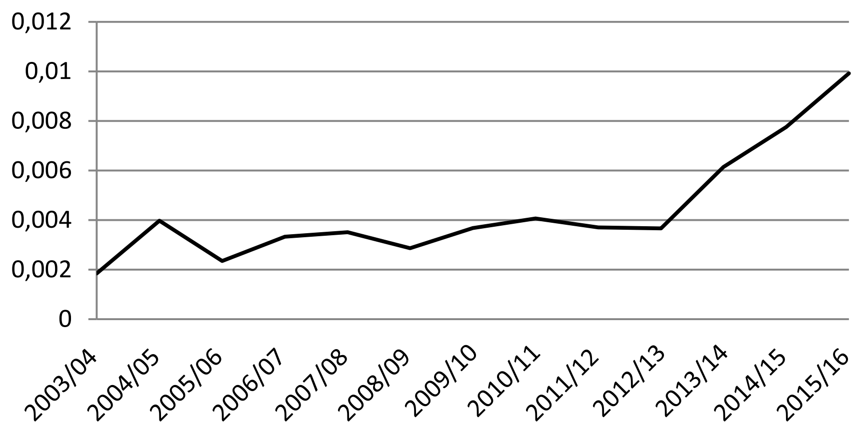
Fiscal year	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
EPS (in percent)	168	211	177	145	301	423	497	505	416
DPS (in Br)	67	59	139	96	134	210	266	321	282

Additionally to the profits generated by banks, those collected by insurers and microfinance institutions should be considered. Unfortunately, due to paucity of data, this cannot get carried out within the scope of this thesis. However, it is reported that the insurance sector is highly profitable with similarly high growth rates as the banking sector (AddisBiz 2017). In total the insurance sector's profits grew by one quarter in 2015/16 compared to the fiscal year 2014/15, of which three quarters went to private insurers (NBE 2016b: 52).

What is more, though portfolio income of account holders (such as private households and companies) is partially included in the form of income generated from saving accounts in Graph 12, the income earned through dividend payments is not possible to include due to lack of data. The aggregated portfolio income can be assumed to be on the rise as the mere number of shares emitted increased drastically due to a drastic rise in minimum paid-up capital requirements demanded from commercial banks as well as other financial intermediaries such as insurances, whilst DPS were nevertheless on the rise only falling slightly in 2007/08 (Table 3). Hence, the increase of rentier income as share of GDP is highly probably much more pronounced than can be calculated here. That the holding of financial assets such as bonds and shares is prevalent among private households and not only restricted to other financial companies can be assumed when considering that of the 65 survey respondents, 18 held bonds and/or shares, though here also bonds emitted by the government are included (Annex 2).

Another part of rentier income as defined by Epstein and Jayadev (2005: 49) is the income received by directors. Though, again, there are data caveats, it has recently been reported that due to human capital shortage in the financial sector, the move of the Bank of Abyssinia to raise the monthly remuneration of its president from 50.000 to 100.000 Br puts pressure on other banks to pay similar salaries (EBR 2016a: 21-27).[14]

The vast expansion of the financial sector was also accompanied by an increased lending to the private sector as already became clear in the previous section (see Graph 3). That not only lending for personal purposes rose in relation to overall economic growth, but commercial banks in fact discovered private debt as an important source for revenues since 2012/13 is represented in Graph 13. Here outstanding loans and advances to private households as share of total lending by the Ethiopian banking sector are represented, which can be read as debt of private households held by commercial banks.



Graph 13: *Outstanding loans and advances to private households as share of total loans and advances in the Ethiopian banking sector 2003-2016. Source: Own representation of calculations on the basis of data published in NBE (2017a).*

Graph 13 demonstrates that the credit expansion to private households outstrips total credit expansion. Here only debt held by formal institutions namely banks is depicted, but the total debt level of private households including traditional loans such as Iquib and other informal forms of borrowing are possibly much higher. 57% of the surveyed individuals do have some sort of debt (Annex 2).

[14] Other salaries also were increased considerably at the behest of the consultancy firm Deloitte. Junior clerks at the front desk were rewarded a pay rise of 100%, now receiving between 7000 and 10.000 Br monthly. Principal managers of departments have monthly incomes of 26.000 to 37.000 Br, directors of departments 37.000 to 42.000 Br and the vice presidents 60.000 Br after the increase of payment (Fortune 2016: 10). The pressure to offer similarly high salaries on other banks is caused by a pressing shortage of human capital in the sector (EBR 2016a: 33-35). Those incomes paid by the Bank of Abyssinia are maybe emblematic for remuneration of staff employed by the financial sector and stand in stark contrast to the average income of other occupations. In the survey conducted, the median class of incomes was 3.000 to 5.999 Br per month (see Annex 2).

Not only household indebtedness has increased particularly since 2012/13 but also firms' indebtedness seems on the rise. The World Bank's Enterprise Surveys uncovered that in 2011, 15.8% of all firms had bank loan and/or a line of credit (3.1% of small firms, 23% of medium firms and 41.7% of large firms; WB 2012: 13). By 2014 this proportion was already as high as 32.8% (30.4% of small firms, 27.9% of medium and 68.1% of large firms; WB 2015: 12). Considering the total debt level of the Ethiopian economy, outstanding credit given out by Ethiopian banks increased by one fifth in 2015/16 vis-à-vis the fiscal year 2014/15, hinting that altogether, the debt level of the Ethiopian economy seems on a dramatic rise (NBE 2016a).

Additionally to higher debt levels, inequality seems on the rise in the time span under consideration. As laid down before, the GINI coefficient as calculated by the World Bank, the Palma ratio calculated based on World Bank data on income levels as well as data collected in the conducted survey are here used to estimate inequality levels.

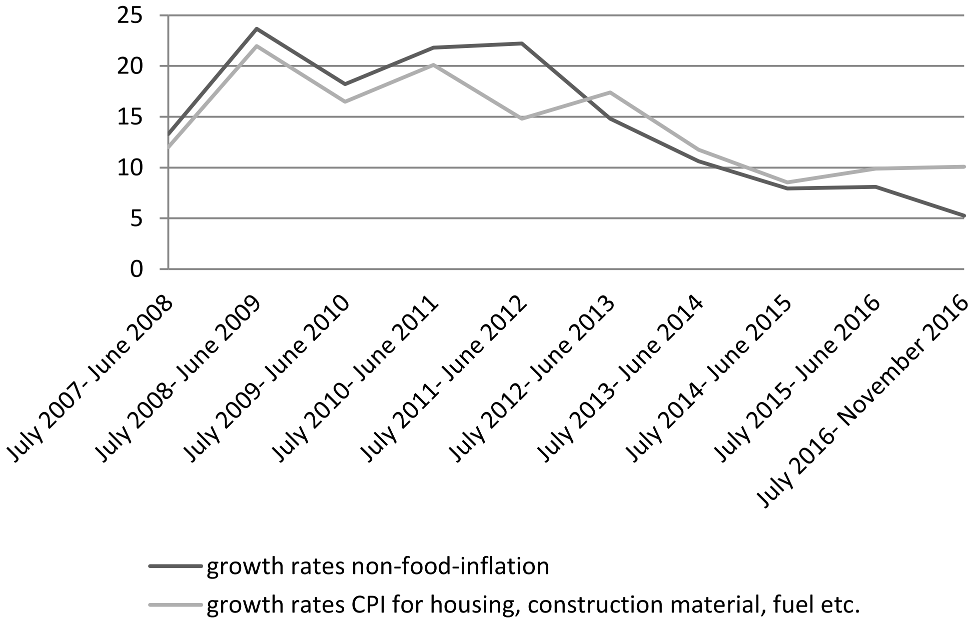
Table 4: *GINI coefficients and Palma ratios for income distribution of the Ethiopian population (before 1993 including Eritrea). Source: Own representation of data and calculations based on data provided by the World Bank and published in World Bank (2016).*

Year	1981	1995	1999	2004	2010	2013
GINI coefficient	32.42	44.56	29.98	29.81	33.17	33.6
Palma ratio	1.3	2.34	1.14	114	1.33	1.4

As Table 4 demonstrates, economic inequality levels seem to be highest in 1995, then dropped and rose between 2004 and 2013 as indicated by higher values of the GINI coefficient and the Palma ratio. That inequality has risen significantly in the course of the past ten years is also supported by the survey results (see Annex 2) and the expert interviews (see e.g. Annex 3).

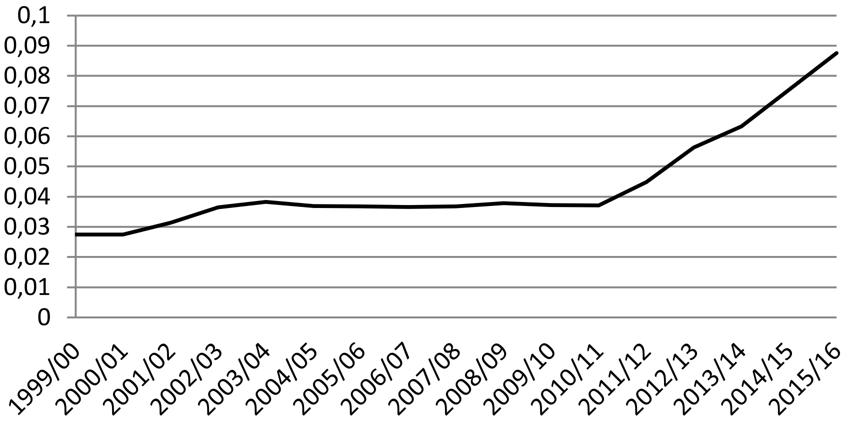
4.2.4 Housing bubble

This sector assesses the question, whether there is a housing bubble building up in Ethiopia, particularly in the capital. That house prices are on the rise was a finding of the analysis of the expert interviews (see Annex 3). That rents followed this trend with higher expenditures on housing as result is supported by the survey result where more than two thirds of the surveyed individuals (43 out of 63) have reported that rent expenses have risen in relation to other expenses (see Annex 2). This is also supported by quantitative data on inflation rates. When taking a look at growth rates of CPIs for Ethiopia, the annual growth rates of non-food inflation initially co-move with the growth rates of the CPI of housing, construction material, fuel etc. then exceed it in the fiscal year 2011/12. However, from 2012/13 onwards the growth rates of the CPI calculated for housing, construction material, fuel etc. grows faster than non-food inflation particularly since 2014/15 (see Graph 14).



Graph 14: *Growth rates for non-food inflation and CPI for housing, construction material and fuel etc. for all Ethiopia from July 2007 to November 2016. Source: Own representation of calculations based on data published by CSA (2017b) and NBE (2017a).*

Taking a look at the available quantitative data as published by the CSA, one can see that despite continuously falling retail prices for petroleum and fuel since 2013/14, the CPI for housing, construction material, fuel etc. is on the rise (see Graph 14), which can be attributed to rising expenses for housing but also for construction material.



Graph 15: *Contribution of the construction sector to GDP in Ethiopia 1999-2016. Source: Own representation of calculations based on data provided by NBE (2016a).*

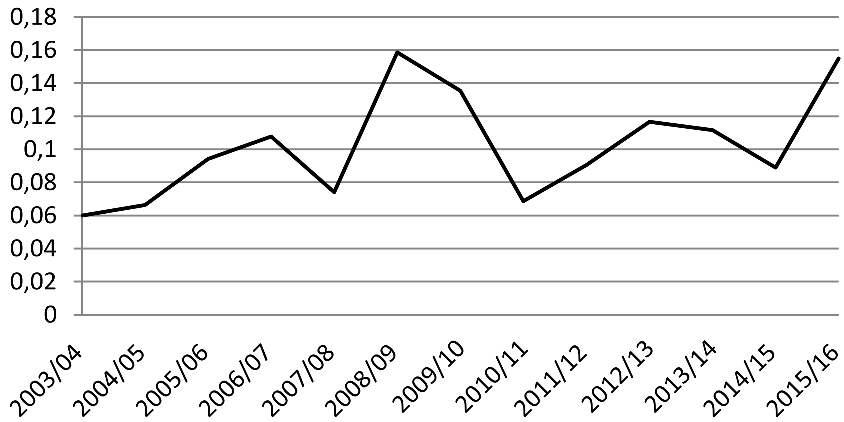
The sharp increase in the CPI for housing etc. is probably not only caused by increases in the prices for construction material due to increased demand: As Graph 15 shows, the construction sector as share of GDP started to boom from 2010/11 onwards[15] – at a time when growth rates of CPI for housing, construction material,

[15] The enormous growth in the share of GDP of the construction sector can be explained by the massive infrastructural investments of the past couple of years. The train connecting the port of Djibouti and Addis Abeba, the Grand Renaissance Dam as well as extensive investment in the road network might explain this recent surge. The governmental low-cost

fuel etc. were still lower than growth rates of overall non-food inflation though here time lags can be a possible reason for that. Nor can it be explained by fuel prices. In contrast, prices for fuel oil and regular gasoline are on a steady decline since 2013/14 probably a result of internationally low prices for petroleum (NBE 2017a). However, as the shortage of foreign currency is an increasingly pressing issue as Ethiopia's trade balance worsens, the imports of construction material is probably impeded with adverse effects on prices of imported goods (AddisFortune 2015).

What is more, the notion that the high increases in prices for real estate can merely be explained by fundamentals, i.e. a shortage of supply of housing due to high urbanisation growth rates as was purported by an interviewees (see Annex 3), can partially be called into question: Since 2008, urbanisation growth rates continue to decline (WB 2016). At the same time additional 200,000 housing units for around 1 million habitants were built within the governmental Integrated Housing Development Program for low income groups (IHDP; Keffa 2014: 1). Nevertheless, housing back-log still persists, however has been an issue for a long time (ibid.: 3).

That the credit expansion to housing and construction might have something to do with the sharp recent increases is hinted by Graph 16, where the disbursement of loans and advances for housing and construction is represented: Though volatile since, there is a clear upward trend recognizable.



Graph 16: *Disbursement of loans and advances to housing and construction as share of all disbursed loans and advances in Ethiopia 2003-2016. Source: Own representation of calculations based on data provided in NBE (2017a).*

That the infrastructural projects launched by the government have something to do with this upward trend in the loans and advances disbursed to the housing and construction sector can be dismissed as government finance is separately recorded and much of the finance comes from abroad (see for example NBE 2016a: 62). The upward trend depicted in Graph 16 probably reflects an increased allocation of credit to business buildings and private homes, which – together with the price hikes in the real estate market – might indicate a credit-financed bubble. This preliminary hypothesis goes along the line of what one interviewee said, namely that the increases in the real estate market in Addis Abeba seem 'somehow artificial' (Annex 3).

That a bubble is cause for this extreme surge in real estate prices can also be assumed when considering the extreme speed at which prices rise. Within a couple of months, the Price to Income ratio and Mortgages as

housing programme mainly concentrated in Addis Abeba probably also has its share, however it was already launched in 2006 (Keffa 2014: 1).

Percentage of Income rose sharply as provided by Numbeo, a platform where private contributors provide information on price developments in the real estate: Whilst on the 20th of October 2016 a Price to Income Ratio of 19.79 was reported, it rose to 21.51 by the 10th of January 2017 and 24.67 the 13th of October 2017 (Numbeo 2016, 2017a and 2017b). Mortgages as Percentage of Income was first 248.56%, whilst it stood at 270.25% three months later (ibid.). However, these numbers have to be treated cautiously as contributions are not controlled for validity and the number of contributors is small.

5 Assessment

It was shown that substantial progress was achieved after the move towards liberalisation of the financial sector in the 1990ies notwithstanding the still existent dominance of the state-owned CBE. 16 private commercial banks entered the scene within 16 years additionally to numerous other financial intermediaries. The prospect of the ECX to engage in the trading of futures indicates that the financial sector will develop towards a fully liberalised market. The analysis supports the IMF's finding that Ethiopia is following the development path similar to that of India, China and Korea as state-led development strategies are combined with step-by-step liberalisation of the financial sector (IMF 2015: 35).

Taking a look at the nature of the development of the financial sector, the indicators of M2 and private credit expansion in relation to overall economic growth show that deepening takes place particularly since 2008/09 (Graph 2 and 3). The vast growth of mobilised deposits since the noughties – despite negative real interest rates at times – led to a growing capitalisation of Ethiopian banks and increased lending. The former supports the view that in developing countries the demand for liquid assets exceeds income increases, because of the paucity of other opportunities to hold savings, whilst in industrialised countries income and demand for financial assets are assumed to increase at the same pace (Perkins/Radelet/Lindauer 2006: 493).

The development of the financial sector seemingly goes along a growth of private equity markets. The relatively high proportion of share emitting companies, the mere number of shares emitted by financial institutions as minimum paid-up capital requirements for financial institutions were raised, decreasing bank-based finance of firms and the emergence of private equity firms indicate a growing equity market capitalisation – in other words a shift from a bank-based towards a market-based system of the Ethiopian economy. This and the emergence of new financial institutions are viewed as prerequisites as well as symptoms of processes of financialisation by some authors quoted above.

However, the manufacturing sector does not seem to profit from the substantial growth spurts in the financial sector. Industrialisation seems to be stalled as visible in the Economic Complexity Index calculated for Ethiopia. The share of manufacturing in GDP remains very small and manufacturing firms do not seem to grow.[16] This is a worrying development since the manufacturing sector is identified as particularly important for development. It not only absorbs unskilled labour but also yields high economies of scale and facilitates knowledge transfer. What is more, since manufactured goods are tradable – in contrast to most services – the manufacturing sector is essential in improving the current account and the generation of foreign currency desperately needed in Ethiopia

[16] However, this is not only a problem arising solely in Ethiopia, but rather in most African countries as well as OECD countries (The Economist 2015; Saeger 1997: 579).

for the imports of raw materials for production and productivity enhancing technology. Herein, the vicious circle of the lack of foreign currency that impedes the manufacturing sector, which therefore cannot contribute to the generation of foreign currency, becomes clear. Other problems of the manufacturing sector like the small degree of competiveness vis-à-vis Asian producers are also pressing (Annex 3). Whether the overvaluation of the Ethiopian Birr represents a hindrance to the manufacturing sector cannot be answered conclusively (Capital 2016). The negative impacts on competiveness of the productive industry due to the overvaluation of the Birr might be countered with positive effects if input factors for manufacturing are largely imported. Then manufacturing might in fact profit from the overvaluation as it makes imports cheaper (Abeysinghe/Yeok 1998: 52). Hence, purported claims on lower investment levels due to the preference of short-term profits induced by the pressure to satisfy shareholders, might be – if at all – only be part of the story of the Ethiopian manufacturing sector being in crisis.

With respect to growing inequality levels, the findings seem to tentatively indicate the validity of theories of financialisation. Inequality levels seem to be on a dramatic rise in the past ten years as was found consulting the GINI coefficient, Palma ratio and the survey results. Additionally to the impeded manufacturing sector, which does not absorb surplus labour and hence cannot provide low-income groups with income, growing inequality as read by financialisation theorists can also be explained by growing rentier incomes: The banking sector and insurance sector seems to yield high growth rates in profits, income generated from holding saving deposits is also on the rise and EPS and DPS – at least in the financial sector – seem exceptionally big. That this growth in rentier income outpaces overall growth can be assumed when considering Graph 12 – even though here rentier income is probably underreported as only three banks are considered, whose profits can be assumed to be diminished by additional competitors entering the banking sector. It can be hypothesised that whilst the better-offs have the opportunity to invest in the very profitable financial sector and real estate market, the poor are excluded from such investment opportunities due to the lack of income and suffer from risen expenses for housing.

However, others would claim that higher inequality levels are a normal side-effect of development, where income shares move from the traditional to modern sectors. But this finding somewhat constitutes no contradiction to theories of financialisation. Whilst in the classical reading of the Kuznets Curve, the distribution is assumed to go from agriculture to manufacturing, one can under the current prerequisites also purport that the distribution goes from the productive to the financial sector.

Hence, growing inequality can partially be rooted in the move towards a financialised society – or the lack thereof as the poor are excluded from opportunities arising from a newly emerging financial sector. Contradicting authors of financialisation, others would attribute rising inequality levels to the bad quality of financial development. If the expansion of the financial sector is limited to higher income groups then it can contribute to higher income inequality as the poor do not profit from the positive effects of financial inclusion and deepening. The Findex data calculated by the World Bank found that the richest quintile is thrice as likely to have access to a formal bank account as the poorest (World Bank 2014). This might as well be true for the ownership of bonds and shares and other financial assets. However, cause and effect between financial development and inequality remain inconclusive.

Regardless of what those higher income inequality levels are caused by, they put social cohesion at peril as can possibly be seen in the recent emergence of conflict in Ethiopia (Aljazeera 2016). At the presence of dysfunctional markets, as in Ethiopia the case, the impacts on inequality are more severe. For instance it was reported that hoarding of consumer goods, drives up prices of essential goods such as cooking oil (EBR 2016e: 14-17) – exasperating the skewed distribution between the haves and the have-nots. But higher inequality levels can also have negative impacts economically, as the lack of a middle class can have negative impacts on effective demand for locally produced goods negatively feeding back into the economy. This might be valid in Ethiopia as for instance becomes clear when looking at how many companies declare that the reason for not working at full capacity lies in the lack of demand (CSA 2017c). What is more, the emergence of a few super-rich can lead to higher levels of imported conspicuous consumption for which foreign exchange is needed – then possibly lacking for the import of machinery necessary for industrial production – additionally to the detrimental impact on the trade balance.

With implications for debt levels, one can also highlight that though high income groups have a higher propensity to save, borrowing rates also increase with income with possible implications for debt-levels. In fact, the notion that with higher income, the propensity to invest grows is not supported by historical evidence (Dovring 1991: 87). This might be aggravated by a large share of debt going into consumption. It was found that though the share of adults taking out a loan is very similar comparing developing and developed countries, a study carried out in East Africa found that half of the loans were for non-business purposes (Demirgüç-Kunt/Klapper 2012: 2 and 5). As demonstrated in the previous section, the debt level among the survey sample is very high and debt levels among firms are on the rise, whilst at the same time, the ability of firms to access new loans decreases. This can serve as indicator that in Ethiopia, recent growth spurts have been debt-financed, hence that growth is in fact debt-led. If this hypothesis holds true, this might have serious implications for the stability of the financial sector and the Ethiopian economy as a whole. This can maybe be read as reason for the decline in inter-banking lending which can be indicative for a decreasing level of trust among banks. Inter-banking lending is supposed to increase inter-banking monitoring and therefore decrease risk (Dinger/van Hagen 2007: 7). On the other hand, others regard a lower financial integration as decline of contagion risk from one institution to another (Liu et al. 2016: 1). From this view point, the small degree of financial integration can be supposed to indicate low risk.

Concerning the real estate market, investing in houses in Addis Abeba – particularly business buildings, hotels and high-end housing – is considered to be a viable profitable investment of the private sector, with surging house prices as trigger but possibly also as result (three of the four interviewees were currently constructing a building; see Annex 3). Dramatic inflation in the real estate market in Addis Abeba can be suspected to be faster than the rate of urbanisation would justify – signifying the building-up of a real estate bubble in Addis Abeba. If this holds true, this might have tremendous impacts on the Ethiopian economy. Not only do the costs for investments in the relatively safe environment of the capital rise, discouraging industrial investments other than in construction. But living expenses in the capital also rise, which combined with low income and employment levels might result in higher debt levels and growing inequality in the capital. What is more, the bursting of this tentatively suspected bubble might have fatal impacts on the Ethiopian financial sector and the economy as a whole. Houses are the primary collateral for credits (Annex 3), and their devaluation would not only depreciate banks' assets, but also destroy households' and companies' wealth. Here again, the direction of cause and effect can be read in either way. Whilst theorists of financialisation would purport that the increased opportunity to take out mortgages by private households as well as the increased investment of emerging profiteers of the financial sector in the real estate sector is cause for such a real estate bubble, others would claim that this is the result of the absence of more profitable investment opportunities in financial assets, i.e. financial underdevelopment.

6 Conclusion

Considering the new developments in the financial sector one can conclude that the hypothesis of existing processes of financialisation seems to be valid in Ethiopia. Not only do financial institutions play a greater role, but a shift towards market-based finance can be supposed. Though there are great potentials for the fostering of development in Ethiopia by the financial sector, this development also comes at certain risks. If the credit expansion towards private households is mainly used for consumption credits or for investments in the real estate market, this might lead to unsustainable debt levels and a real estate bubble – more often than not a precursor of economic crises. What is more, if the financial sector does not provide finance for employment generating industries, for manufacturing in particular, then it will not facilitate pro-poor growth and further inequality.

Whether the financial development as it takes place in Ethiopia is the reason for stalled industrialisation, higher inequality and rising real estate prices cannot unequivocally be concluded given the bad data quality and the complexity of the processes at work. However, interestingly these issues diagnosed by theorists of financialisation all seem to be observable in Ethiopia and coincide with a flourishing financial sector. On the other hand, one could also highlight that the financial sector is far from being fully developed as state-control is still very high and competition impeded by entry restrictions, which might result in inefficiencies that hinder sustainable development with adverse effects on the real economy as result. Other reasons for impediments for sustainable development such as foreign exchange shortages and low competitiveness probably also have their share.

Though their causes cannot conclusively be determined, the thesis showed that the development path taken in Ethiopia results in high inequality levels, inflated real estate prices and impeded development of the manufacturing sector. As a consequence, the high growth rates of the past years might be sustained, which is already hinted in the developments of the past two years. The IMF estimated a growth of real GDP of 6.5% for 2016 – a massive decline from the two-digit growth rate of 10.2 % in 2015 (IMF 2016: 47). Whether a projected recovery of 7.5% in 2017 will realise remains to be seen (ibid.). Taking the case of Ethiopia as example confirms the thesis purported by Gerschenkron (1962: 353) that late developers ultimately take a different developmental path than early developers. For future research the comparison between the development path of Ethiopia to those taken by the South-East Asian tigers and emerging markets in Latin America and their experience with the financial sector might prove to be fruitful. It is hoped for that the dramatic history of financial crisis seen there will not be repeated in Ethiopia.

Annex

Annex 1

Table 5: *Overview over the Ethiopian banking sector in respect to the branch network, capital and annual growth rates of profits.*
Source: Own representation of data obtained from annual reports of NBE (2017b) and private commercial banks.

Bank name	**Year of founding**	**Legal form**	**Years for which annual reports are available**	**Total number of branches (of which ... are outside of Addis Abeba)**	**Capital in 2015/16 (in million Birr)**	**Net profits (generated in the year for which most recent data is available; in million Birr)**	**Net profits (generated in the year previous to the year for which most recent data is available; in million Birr)**	**Annual growth rate of profits comparing both years (in %)**
Commercial Bank of Ethiopia	1963	State-owned	2005/06-2006/07; 2009/10-2013/14	1,150 (888)	13557.5	6.9	5.9	17
Construction and Business Bank	1975 (merged with the CBE in 2016)	State-owned						
Development Bank of Ethiopia	1901	State-owned		110 (106)	7500.8			
sum of state-owned banks				**1,260 (994)**	**21058.3**			
Abay Bank	2010	Private	2012/13-2015/16	116 (89)	8145	146.5	125.45	17
Addis International Bank	2011	Private	2011/12-2015/16	43 (17)	5698	85.4	58.66	46
Awash International Bank	1994	Private	2011/12-2015/16	245 (118)	3191.2	743	645.34	15
Bank of Abyssinia	1996	Private	2012/13-2015/16	176 (84)	1838.2	374.78	287.8	30
Berhan International Bank	2009	Private	2015/16	88 (43)	8059	260.19	104.55	149
Bunna International Bank	2009	Private	2013/14-2014/15	105 (56)	7747	134.5	79.95	68
Cooperative Bank of Oromia	2004	Private	2012/13	184 (139)	1182.7	189	101	87
Dashen Bank	1995	Private	2001/02-2015/16	118 (61)	2809.3	727	729	0
Debub Global Bank	2012	Private		28 (17)	2709			
Enat Bank	2012	Private	2013/14-2015/16	20 (7)	5886	19,74	53.11	-63
Lion International Bank	2006	Private	2012/13-2015/16	121 (75)	7872	196.16	150.57	30
Nib International Bank	1999	Private	2007/08; 2009/10; 2013/14-2014/15	155 (69)	2253.9	337.1	313.8	7
Oromia International Bank	2008	Private	2011/12-2015/16	210 (148)	1069.9	248.3	221.8	12
United Bank	1998	Private	2012/13-2015/16	144 (70)	1814.7	339.02	281.24	21
Wegagen Bank	1997	Private	2008/09; 2010/11-2014/15	161 (95)	2431.1	352.45	318.44	11
Zemen Bank	2008	Private	2009/10-2015/16	13 (8)	800	203	153	33
sum of private-owned banks				**1,927 (1,096)**	**22002.5**			
Total Sum				**3,187 (2,090)**	**43060.8**			

Annex 2:

Table 6: *Selected survey results. Source: Own representation of own data.*

Number of surveyed individual	Gender [0=female; 1=male]	Age	Job status [1=employed; 2=self-employed; 3=unemployed]	Monthly income [1=below 1.000; 2=from 1.000 to 2.999; 3=from 3.000 to 5.999; 4=from 6.000 to 10.000; above 10.000; in Br]	For a person in your current situation life is …. than 10 years ago. [easier= 1; the same=2; harder=3]	For you personally life is … than 10 years ago? [easier= 1; the same=2; harder=3]	Do you think Ethiopian society has grown … than 10 years ago? [more equal= 1; stayed the same=2; more unequal=3]
1	1	40	3	1	3	3	3
2	0	18	3	1	3	3	3
3	0	24	2	1	2	3	3
4	0	25	3	1	1	1	3
5	0		3	1	3	3	3
6	0	38	2	1	3	2	2
7	0	47	1	3	3	1	3
8	1	58	2	3	1	3	3
9	0	48	3	2	3	3	1
10	0	44	2	5	2	1	3
11	0	38	1	5	3	3	3
12	0	42	1	4	3	3	1
13	0	55	3	3	3	3	3
14	0	39	3	1	1	3	3
15	1	57	2	4	3	3	2
16	1		3	4	2	3	2
17	0	30	1	3	2	2	3
18	0	23	1	2	3	3	2
19	0	26	1	5	3	3	3
20	1	26	1	3	2	2	3
21	0	26	2	2	3	3	3
22	0	26	2	3	3	3	3
23	1		1	5	3	3	3
24	1		1	5	2	2	3
25					3	3	3
26	0	60	2	1	3	3	3
27	0	31	2	1	3	3	3
28	1		1	5	3	2	3
29	1		1	2	2	3	3
30	0		1	1		3	2
31	0		1	2	3	3	3
32	1	20	1	2	2	2	1
33	1		1	3	3	3	3
34	1		1	5	2	2	2
35	1	30	1 and 2	1 and 2	3	3	2 and 3
36	1	22	3	2	2	3	3
37	1		2	5	3	3	3
38	1	21	2	2	1	2	3
39	1		1	5	3	3	3
40	1		1	5	3	3	3
41	1		2	2	3	3	3
42	1		2	3	3	3	3
43	0		1	3	3	3	3
44	1	38	2	5	3	3	3
45	0		1	2	3	3	3
46	1		2	3	3	3	3
47				4	2	2	3
48	1	21	2	4	2	2	2
49	1	51	1	2	3	3	2
50	1	62	1	2	3	2	3
51	1	57	1	3	2	2	3
52	0	26	1	3			
53	1	25	1	4	3	3	3
54	0	56	3	3	1	1	1
55	0	22	3	1	2	2	2
56	1	27	1	2	3	3	3
57	0	50	1	1	3	3	3
58	1	24	1 and 2	3	3	1	3
59	1	30	1	5	2	3	3
60	1	32	1	5	3	3	3
61	1	23	2	5	3	2	1
62	1	24	2	1 and 2	3	2	3
63	1		2	3	2		3
64	1	32	2	5	3	3	3
65	0	38	1	1	3		3
66	0	45	1	1	3	3	3
67	0	35	1	1	3	3	3
68	1	24	3	1		3	3

Number of surveyed individual	Has the share you have to spend on rent risen compared to other expenses? [0=yes; 1=no]	Do you owe bonds or shares? [0=yes; 1=no]	Do you have a bank account? [0=yes; 1=no]	Do you have a credit or debit card? [0=yes; 1=no]	Have you taken out a loan before? [0=yes; 1=no]	Do you have debts? [0=yes; 1=no]	Have you encountered problems paying these debts back? [0=yes; 1=no]
1	0	1	1	1	0	0	0
2	0	1	1	1	1	0	0
3	0	1	0	1	1	1	0
4	0	1	1	1	1	1	1
5	0	1	1	1	1	1	1
6	0	1	1	1	1	0	0
7	0	1	1	1	1	1	1
8	0	0	0	1	0	1	0
9	0	1	0	1	1	0	0
10	1	0	0	1	0	1	1
11	0	1	0	1	0	1	1
12	0	1	0	1	1	1	1
13	0	0	0	1	1	1	1
14	0	1	1	1	0	1	1
15	1	0	0	1	0	0	0
16	0	0	0	1	0	0	1
17		0	0	1	1	1	1
18	0	1	0	1	1	1	1
19	1	0	0	1	1	1	0
20	1	1	0	1	0	1	0
21	1	0	0	1	1	1	
22	0	1	0	1	0	0	1
23	0	0	0	0	1	1	
24	0	0	0	0	0	0	1
25	0	1	0	1	0	0	1
26	0	1	0	1	0	0	0
27	0	1	0	1	0	0	0
28	0	1	0	1	0	0	0
29	0	1	0	1	1	0	0
30	0	1	0	1	1	1	1
31	0	0	0	1	0	0	0
32	1	1	0	1	1	1	1
33	0	1	0	1	1	1	
34	0	0	0	0	0	0	1
35	0		0		0	1	1
36	1	1	1	1	0	0	0
37	1	1	0	1	1	1	1
38	0	1	0	1	1	1	1
39	0	1	0	1	0	1	1
40	0	0	0	1	1	1	1
41	1	1	0	1	0	1	1
42	1	1	0	1	1	0	0
43	1	1	0	1	1	1	
44	0	1	0	1	0	0	0
45	1	1	1	1	1	1	
46	1	1	0	1	1	1	1
47	1	1	0	0	1		
48	1	1	1	1	0	0	0
49	0	1	0	1	0	0	0
50	0	0	0	1	1	0	0
51			0	1	0	0	1
52					0	1	1
53	1	1	0	1	0	0	1
54	1	0	0	1	0	0	1
55	0	1	0	1	0	1	1
56	0	1	1	1	1	1	0
57		1	0		0	0	0
58	0	1	0	1	0	0	0
59	0	1	0	1	0	0	0
60	0	1	0	1	0	0	0
61		0	0	1	0	1	1
62	1	0	0	0	0	1	0
63	1	1	1	1	0	1	1
64	0	1	0	1	0	1	1
65	0	1	0	1	1	1	1
66	0	1	0	1	1	1	1
67	0	0	0	1	1	1	1
68	1	1	0	1	0	0	0

During the data collection the quota sampling was carried out to ensure representability. Here census of 2007 conducted by CSA was used as basis (see CSA 2007). The table below compares the composition of the census and survey in respect to selected characteristics. Unfortunately, data on income was not part of the census and can therefornot be considered. Both samples are only collected among the population living in Addis Abeba.

Table 8: *Comparison between sample collected by the author and results of the census 2007. Source: Own calculations based on data contained in Table 7 and CSA (2007: 5).*

		Census	Survey
Sex (in percent)	Female	52.35	54.55
	Male	47.65	45.45
Age (in percent)	15-29 years	55.83	42.55
	30-59 years	33.06	53.19
	older than 60	6.7	4.26
Average age (in years)			35.25
Unemployment rate (in percent)		22.5	18.75

Annex 3

Dokument: **B.**
Code: **manufacturing\manufacturing and finance**
Interviewer: … For manufacturing, the government subsidises loans …
B.: … 75% of the collateral, the government takes over. So for this purpose, formal loans are normally taken.

Dokument: **B.**
Code: **formal banking\challenges**
B.: … In the urban areas, for such loans the creditors are maybe required to provide a collateral. …. Many of the people taking out a loan refuse to pay it back. They overvalue their collateral and want the bank to take the collateral. And buildings. Often they build the first stair and use this as collateral to build the rest.

Dokument: **B.**
Code: **formal banking**
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Interviewer: But since there is so much corruption going on in respect to overvaluing collaterals, how do banks survive?
B.: Most of the corruption is going on in the public banking sector …
Interviewer: … the Commercial Bank of Ethiopia?
B.: Yes, the Commercial Bank of Ethiopia. But even the private banks. By the way they are still highly profitable, despite all the corruption going on.
Interviewer: Where does the profit come from then?
B.: I do not really know, but one can see that in the annual reports. Despite the high default rate, the net gain on your shares is 20%. Maybe because a lot of people take the loan and pay interest on them.
Interviewer: Why has the transition from Iquib and Edir [traditional insurance] has taken place?
B.: Because of the introduction of privatisation policies at the beginning of the 1990ies and because Iquib is not sufficient to cover all demand. People want formalized loans. … Though there has been the potential to develop something unique in Ethiopia, Western style banking systems have just been copied.

Dokument: **B.**
Code: **formal banking\profits**
Interviewer: But since there is so much corruption going on in respect to overvaluing collaterals, how do banks survive?

B.: Most of the corruption is going on in the public banking sector …
Interviewer: … the Commercial Bank of Ethiopia?
B.: Yes, the Commercial Bank of Ethiopia. But even the private banks. By the way they are still highly profitable, despite all the corruption going on.
Interviewer: Where does the profit come from then?
B.: I do not really know, but one can see that in the annual reports. Despite the high default rate, the net gain on your shares is 20%. Maybe because a lot of people take the loan and pay interest on them.

Dokument: B.
Code: formal banking
Interviewer: In Ethiopia it is interesting that you have a hybrid with still government owned banks and the private banks. And it seems to work…
B.: Even the state-owned banks like the Commercial Bank of Ethiopia are highly profitable and successful. That requires a good regulatory system by the way. The profitability is not only because they are efficient, but because there is a huge market. And it is closed, it is not open for international competition. But recently one could see that the Commercial Bank of Ethiopia is suppressing the private banks, because it is taking most of the benefits. For instance, started to mobilise money for the integrated housing system, the condominiums. People safe money and the government supports you to buy a house. But private banks are out of this. It all goes through the Commercial Bank of Ethiopia. … Also, I receive my salary through the Commercial Bank of Ethiopia. … So in the past five years, the profits of private banks have been declining.

Dokument: B.
Code: formal banking\profits
B.: Even the state-owned banks like the Commercial Bank of Ethiopia are highly profitable and successful. That requires a good regulatory system by the way. The profitability is not only because they are efficient, but because there is a huge market. And it is closed, it is not open for international competition. But recently one could see that the Commercial Bank of Ethiopia is suppressing the private banks, because it is taking most of the benefits. For instance, started to mobilise money for the integrated housing system, the condominiums. People safe money and the government supports you to buy a house. But private banks are out of this. It all goes through the Commercial Bank of Ethiopia. … Also, I receive my salary through the Commercial Bank of Ethiopia. … So in the past five years, the profits of private banks have been declining.

Dokument: B.
Code: real estate sector
Interviewer: So you were talking about the real estate sector. When do think that the boom in investment has started?
B.: … the Integrated Housing sytem was launched around 2006. But there is also private investment in the real estate sector financed by the private sector. But those are exceptions. There are only few.
Interviewer: So how does the Integrated Housing System work?
B.: Depending on your salary you demand a two-room flat for example and pay on a monthly basis. Then when a house is finished, via lottery flats are contributed … The problem is, that there is a high demand, but the supply is insufficient. … The government finances 60% of the costs for the condominiums. Hence you are only expected to pay 40% of the costs.
Interviewer: And do people sometimes struggle to pay on a monthly basis?
B.: Obviously. Normally, they give it to other people. They transfer the ownership to others, who then continue to pay for it.
Interviewer: Have you seen a recent rise in the increase of prices in real estate in big cities like Awasa or Addis Abeba?
B.: There has been an extreme increase. Within one year, about 50%.
Interviewer: Where does the rise come from?
B.: The demand is extremely high.
Interviewer: But urbanisation has been going in on for the past 20 years, but the surge in housing prices has been a more recent phenomena. …
B.: I think sometimes, the rise is artificial. When I want to rent, I will have to pay 50 to 60% of my monthly salary. So I do not think it is due to the lack of housing. I think it is somehow artificial.
Interviewer: You think this is the result of some sort of speculation?
B.: Somehow … and mostly it is because of the Delallas, the brokers. They are running the market. They claim

that people renting out their houses should get rid of the tenant, because they could raise the rent. ... There is a market failure, because there is asymmetric information. …
Interviewer: Do you have information about other big cities?
B.: I would say that in other emergent cities the problem is the same. … I suppose that the house prices will rise until the government has provided a minimum of houses. …

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Dokument: B.
Code: manufacturing\deindustrialisation
Interviewer: Do you see a process of deinstrustrialisation happening?
B.: The numbers seem to show that. We were expecting this structural transformation. But when you see the numbers of employment, most employment goes to the service sector. Despite all the incentives and subsidies, the government gives to the manufacturing sector, people tend to invest there, but they do not last for long, because they are unsuccessful.
Interviewer: Why is that?
B.: I think it is because of the value chain. Because of the lack of input factors. The second reason is the market. There is a good domestic market with good contribution, but when you try to export you cannot keep up with competitors from China. And most of the investors are used to big profits. From manufacturing sector you get only limited profits for different reasons. They rather invest in the service sector.

Dokument: B.
Code: manufacturing\deindustrialisation
Interviewer: In Ethiopia you have the leather production which is quite successful. What else is there?
B.: Textile, which is not very successful I would say, but they are trying it. You see the spring water. Beer. It is light manufacturing. Construction! The buildings and the road. Is booming. And the construction materials. Easy money. And I think the labour is to be blamed for this. The labour is not highly productive and disciplined. This is one of the reasons what is discouraging them.
….
B.: And machines cannot be imported because of a lack of foreign exchange for which you have to wait for long. … The government has recently introduced an industrial special zone to attract foreign investors in Awasa and Labouf. …
Interviewer: And what kind of investors are coming?
B.: I think we are expecting big companies from the US, India, Turkey etc. The Turkish are already here in the

textile sector. We have also a lot of Chinese with glass factories, car assemblies and the assembly of mobile phone. …
Interviewer: And how is it ensured that the flying geese phenomena does not occur?
B.: Actually this has been discussed recently. In theory there has been an agreement that the companies have to stay here for a certain time, but this is in theory. … The reason why companies come here is that it is environmentally harmful. We have to choose those companies that help us to develop. … But, if something happens they leave. There has been an interesting report by the Chinese on productivity. They say that one Chinese is as productive as five Ethiopians. So why do they come here?
B.: I think this a terrible time to be a poor country. It is corruption that allows for this exploitative practice of allowing bad FDIs. … The government spends most of the money on infrastructure. Maybe it is better to invest in people. Maybe the government should be first giving to people – in health and education – and then infrastructure. Education would allow us to find our own solutions to our own problems.

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Dokument: **B.**
Code: **inequality**
Interviewer: Do you think in the recent years there has been a rising gap between the rich and the poor?
B.: The GINI-coefficient is around that of Sweden, but I think that it is a bad measure for inequality in Ethiopia. It only measures the inequality between the rich and the poor but not between the poor among themselves and the rich among themselves.
Interviewer: So you would say that inequality is actually higher than the numbers suggest?
B.: Very high, very high. When you look at the urban centres. When I take you to real estates in …, you would be surprised. Probably much better than the houses in Germany. So it would be a complete denial to say that inequality is falling.
Interviewer: So the superrich, where do they get their money from?
B.: I think that there are two groups: One through corruption and the merchants. … And third there is a lot of money made in the selling and buying of land. … The government often takes land auctions it. People in the government take part in those auctions and bid on the land and lease it for a lot of money to foreign investors. A lot of money comes from those auctions.

Dokument: B.
Code: policies
B.: Before they government bonds were traded on international markets, they were sold to the Ethiopian population, sometimes even by force. This money is used to finance its infrastructure. At first it was hoped that the IMF and World Bank give money, but because of the conflicts with Egypt they did not. … The Blue Nile Damn aims to generate electricity for export.

Dokument: M.
Code: real estate sector
M.: To buy the house from the owner, it costs 200.000 Dollars. To borrow from the bank you need a collateral. So I use the raised 25.000 Dollars and the rest I pay from my pocket.
M.: The government requires buildings to be at least eight stores high.
Interviewer: How much is that going to be?
M.: Currently around three million Dollars. …
Interviewer: So can you take the ground as collateral to take out a loan for the construction of the building?
M.: This is what I thought, but the collateral requirement is now 50-60%. So what I aim to do is to build my mother a home, which I can use as collateral.

Dokument: F.
Code: manufacturing
Interviewer: Right now, the numbers say that the service sector and the building and construction sector are booming, but manufacturing doesn't do as well as it might be expected to.
F.: Manufacturing's problem … to work manufacturing in this country: no incentive
Interviewer: No incentive?
F.: Because the government, most of the people who are living in this country, they are not very rich to manufacture to do the manufacturing, not heavy men you know, not like building …
Interviewer: But there are like incentives for manufacturing by the government for example to import things, they have priority to get foreign exchange for example
F.: Yeah I know. Not only for machine, for example, you have a duty-free machine and so on, but you must get money 30 percent for a manufacturing. For a manufacturing 30percent means, in our own price, in Ethiopian birr, 30 percent means at least 10 million birr. 10 million birr you must have in your pocket.
Interviewer: To get out a loan? To build a manufacturing [firm]?
F.: Ya! For manufacturing. First of all you need a place you build, second machinery and so very very great.
Interviewer: But to have this government saying, you only need 30 percent is generous isn't it. I mean in other countries you don't have those incentives.
F.: But in this country, 30 percent, they can't get that money, but if you have 5 million birr you can buy an empty place and after that if you have another two million birr you can build hall in this centre of Addis … by two years, three years you can get your output money. And you can be profitable and also this place is here in Addis, because of that, your property is secured. You understand? Secured! When you see most manufacturing places in this country outside this country. Otherwise, in Addis you can't build a manufacturing in Addis.
Interviewer: Because there is limited space?
F.: Limited and the money is very high. Even for square metre 20.000 Ethiopian birr. When you think manufacturing 20.000 square metres.
Interviewer: But when you like … when you look at the production of clothes for example. Some factories move from Bangladesh to Ethiopia for example, because here people are educated, its fairly stable and so on and so on. So wonder why banks for example don't give more money for the manufacturing sector.
F.: Money, but those 30 percent for our country and most of our country's businesnmen need fast-move-businesses, you understand? Fast-move-business, for example … me also when I block 2 million birr today, after six month, four month, two months, even one month, I can make a profits. But if you see manufacturing, it is so long time …
Interviewer: It's a longer horizon. Yeah it takes time to profit from this…
F.: … Profit is coming after a long time.
Interviewer: So what do you think is more profitable than manufacturing?
F.: Manufacturing is profitable, but it takes time. Because of that, when you finish that … one topic is that, the second – I told you that – all the manufatures in this country are outside this country. That means … as you for example … you see, in this badch, beforone week, eleven countries burnt.

Interviewer: Ah! I see.
F.: No guarantee. But in Addis you can't make a manufacturing …
Interviewer: Because it is very expensive?
F.: Very expensive and narrow place. As you know, manufacturing needs wide place, so because of that, most people in the capital, because secured.

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Interviewer: Like you have been doing business for 20 years now, right?
F.: Ya.

Dokument: **F.**
Code: **real estate sector**
Interviewer: So did you experience real estate prices rising in Addis?
F.: Real estate, ya.
Interviewer: Like in the past 10, 15 years? Or how long? Right now there is a construction boom, but still this doesn't resolve the housing crisis, why do you think is that?

Dokument: **F.**
Code: **real estate sector\bubble**
Interviewer: The house prices rise?
F.: Yeah, the house prices rise…
Interviewer: … and for ground. And the people coming from the countryside, what do they invest in?
F.: They invest mostly [in] building.
Interviewer: Mostly construction?
F.: Building, […]shops […]

Dokument: **F.**
Code: **manufacturing**
Interviewer: You as an exporter, no importer of manufacturing … manufactured goods, what do you think is your biggest problem when doing business ?
F.: Here in this country ? No problem!
Interviewer: No problem ? For import?
F.: There is a problem: currency.
Interviewer: Foreign currency?
F.: Currency. Foreign currency is a problem. Because of that you can […] for manaufacturing this is also a problem. You understand? Raw materials coming from outside it must be foreign currency imported. For example, I have a shop here, two, three workers here in the shop, no foreign currency, two month, three months, I can't pay for those three workers. Workers for three months free, no problem. But you have manufacturing, you have hundreds of workers, no raw material, the factory is stopped, because of that you also paying money for them. This is also the third problem. […] three reasons:
Interviewer: … so its unprofitable …
F.: Profitable, long
Interviewer: Long horizon. And you have a shortage of foreign currency. What was the third one?
F.: The third one …
Interviewer: The price was expensive…
F.: Ya, the price is expensive. And the other is: these Chinese. From Chinese country coming materials, cheap. Then when you are coming manufacturing from this country […] In this country, when they are made in this country: 80 birr. […] From China, the same like this …
Interviewer: Half the price …
F.: Zero.
Interviewer: So the manufacturing is crowded out by cheap imports?
F.: Yeah, that's also another problem.
Interviewer: And the government is trying to put incentive on by prioritising foreign currency for manufacturing …
F.: Not only for manufacturing, for medicine […], for vetenery … it has priority for that purpose.
Interviewer: And also food.
F.: Food, rice, wheat, because of that […]
Interviewer: So maybe it would be …. if Ethiopia was able to build its own factories producing input factors for the manufacturing…
F.: … raw materials …
Interviewer: Because Ethiopia is rich in resources.
F.: Yeah. But they took the country to the […]
Interviewer: So Ethiopia has to get more independent from the import of raw materials for manufacturing.
F.: China! From China. … Everything is coming China.
F.: All manufactured things are imported and that a lot of foreign currency is spent on consumer goods such as apparel and luxury items.

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Interviewer: And the building you are currently constructing, how do you finance that?
F.: Their bank. Exim bank give a credit. … Even this train, the train is also [financed] by Exim-Bank.
Interviewer: So, you take a loan from Exim-Bank to construct a house here.
F.: Ya, after that for example the express road.

Dokument: **F.**
Code: **manufacturing**
Interviewer: Do you think manufacturing was easier maybe 20, 30 years ago?
F.: There are two types of manufacturing: heavy and light. … Beforwe talked about heavy manufacturing. Though there are many small manufacturers, they cannot grow because of lack of money. But there is a lot of demand.
Interviewer: So why has the banking sector, which has grown a lot, does not supply …
F.: Ah, this is a problem. When there is going to be high manufacturing – as I told you – the Chinese products are coming. No foreign currency is coming, the workers are without work. So when any business man is coming and you tell him to go

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Code: **real estate sector**
Interviewer: So they are going to invest in construction and trade, because there is quick money to be made?

F.: Quick! … You can buy a truck by 3 million, and get a return of 100.000 per month. You pay 90.000 to the banks and the rest … easy! …. Manufacturing in the long term is bad for a business man now. Last year the government started to build big industry in Awasa for example. They can give you a free place and full infrastructure. Only the machines are needed additionally, for which you have to pay 30% only.

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Interviewer: Is that the Commercial Bank of Ethiopia providing these things?
F.: Yes, only that. And the machines come duty-free. So there are all those incentives, but nevertheless in the auction last year there was no Ethiopian company bidding. Only foreign companies, because there is no capital funds, but also because of the short-term orientation. … In the bank sector there is also a problem. That problem is collateral problem. … In Ethiopia – without collateral – there is no credit. This is the problem of all the banks here in Ethiopia. Because of that the production sector is dominated by foreign companies. Foreign banks should be allowed to work here to solve this problem, but the government forbids that. Foreign banks work by trust, but Ethiopian banks not.

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Dokument: F.
Code: formal banking
Interviewer: What collaterals are used?
F.: Homes. Only real estate. Not even cars. For most business men that is a problem, because they can't get money from the banks. And corruption also is a problem in the banking sector. Then you can get credit without a collateral. … The private banks don't give money for manufacturing, only the commercial bank of Ethiopia. The private banks give loans for other things like hotels, buildings, … when you can provide a collateral.
Interviewer: Do business people sometimes have trouble paying these credits back?
F.: Ya and most of the business people are afraid of this, that the banks take their private homes, which serves as collateral.

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Dokument: F.
Code: inequality
Interviewer: So, you have been in business and in Addis for so long. Do you think that inequality has grown?
F.: Yes, the gap between the rich and the poor is growing. 20% owe their own houses. And in this country, you only have to work for a couple of years and then the money works for you.
Interviewer: When do you think this growing gap has started?
F.: Since 10 years. Also this is caused by corruption.
Interviewer: And do you think that this growing inequality is a problem for the economy and society?
F.: Yeah, this is a problem for society. When the mass sees that luxury is growing whilst they even have problems finding shelter. …. The government has good policies, however on the executional level there is corruption as well as among the business men.

Dokument: F.
Code: real estate sector\bubble
Interviewer: I was shocked by how much housing prices have gone up in the past four years.
F.: But I think that after two or three years this will stop.

Dokument: F.
Code: formal banking
F.: Even foreigners can invest in Ethiopian companies in cooperation with Ethiopians. … The banking sector is very profitable. Because of that, many people invest in the banking sector.

Dokument: G.
Code: formal banking
G.: The liberalisation of the banking sector started with the democratisation processes in the 1990ies. The first initial capital requirement was 25 million Birr. At the beginning more than three quarter of Ethiopians were unbanked. Now, there is a big change. We now have 16 private banks, which is a lot when you compared it to other African countries. The big change now is that people start using banks. Now the minimum capital requirement to open a bank is 500 million Birr. Because of this huge amount, I do not think that you can open a bank now.
Interviewer: And how many shareholders do you need?
G.: Still 50. To collect 500 million Birr is very difficult at this time.
Interviewer: Is the minimum requirement the reason for private banks to have become shareholding companies?
G.: The government has to monitor and control the system, which requires resources because it is a very critical area. So it has to make everything gradual …. To check a bank is very difficult, you know.
Interviewer: Why is it such a crucial sector? Why is the government so keen on … I mean I know ….
G.: At the very beginning it is the financial sector. The second thing is that you have to prepare the population so that it can use the bank without any difficulties. Because the bank is where you put your money, your wealth ….
Interviewer: So is maybe one of the reasons that people might take out loans and then not being able to pay them back….
G.: Sure, because borrowing money from a bank is something new for the population, so you have to prepare them what the government is trying to do. I think there were some banks in the pipeline, because the minimum requirement was only 75 million, but once the private banks reached 16, the government decided to raise the minimum requirement – for the time being.

Interviewer: Why do you think the Commercial Bank of Ethiopia is still state-owned?
G.: The Commercial Bank of Ethiopia focuses on development issues like agriculture and infrastructure, whilst the private banks only focus on benefits … profits for the shareholders. The very aim of private banks is to give a huge amount of dividends to the shareholders. And when you come to the state-bank, the very aim is the development of the country. Could be giving loans to SME, small and medium enterprises, and even for those who are unbanked society. You have to teach them how to borrow, how to pay it back and monitor and everything. This is why the government still keeps those banks state-owned. I have been there by the way. After I graduated, I worked for the Commercial Bank of Ethiopia for three years. After that I joined another private bank. But I still like that state-owned bank, because of the very aim.
Interviewer: So the collaterals required by the Commerial Bank of Ethiopia are different to that required by Zemen Bank for example?
G.: Look, for example, the government wants to build some kind of dam. So there should be some kind of arrangement. If it is a private bank, the private bank aims for profits. It will raise the interest rate in order to get this profit. If the government wants to introduce banking to the population, it can reduce the interest rate or so.

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G.: The government has to monitor and control the system, which requires resources because it is a very critical area. So it has to make everything gradual …. To check a bank is very difficult, you know.
Interviewer: Why is it such a crucial sector? Why is the government so keen on … I mean I know ….
G.: At the very beginning it is the financial sector. The second thing is that you have to prepare the population so that it can use the bank without any difficulties. Because the bank is where you put your money, your wealth ….
Interviewer: So is maybe one of the reasons that people might take out loans and then not being able to pay them back….
G.: Sure, because borrowing money from a bank is something new for the population, so you have to prepare them what the government is trying to do. I think there were some banks in the pipeline, because the minimum requirement was only 75 million, but once the private banks reached 16, the government decided to raise the minimum requirement – for the time being.

Dokument: G.
Code: policies
Interviewer: Why do you think the Commercial Bank of Ethiopia is still state-owned?
G.: The Commercial Bank of Ethiopia focuses on development issues like agriculture and infrastructure, whilst the private banks only focus on benefits … profits for the shareholders. The very aim of private banks is to give a huge amount of dividends to the shareholders. And when you come to the state-bank, the very aim is the development of the country. Could be giving loans to SME, small and medium enterprises, and even for those who are unbanked society. You have to teach them how to borrow, how to pay it back and monitor and everything. This is why the government still keeps those banks state-owned. I have been there by the way. After I graduated, I worked for the Commercial Bank of Ethiopia for three years. After that I joined another private bank. But I still like that state-owned bank, because of the very aim.

Dokument: G.
Code: manufacturing
Interviewer: So the Commerical Bank of Ethiopia is also the bank giving loans to manufacturers for example? As the private banks consider it too risky, this is when the Commercial Bank might step in?
G.: Sure, first of all this is the reason. For example for housing development. Because the population does not have its own homes, the government invests in condominium houses, because the private banks would never do that.

Dokument: G.
Code: real estate sector
Interviewer: So the Commerical Bank of Ethiopia is also the bank giving loans to manufacturers for example? As the private banks consider it too risky, this is when the Commercial Bank might step in?
G.: Sure, first of all this is the reason. For example for housing development. Because the population does not have its own homes, the government invests in condominium houses, because the private banks would never do that.

Interviewer: But why? Recently real estate prices have gone up, so it would be profitable to invest in housing.
G.: Actually, yes. It is more beneficial to invest in housing, because of inflation. Instead of putting money in the banks it is better to invest in capital like a home or a fixed asset. If you do that after a year you can get a minimum of 15% to 20% of income from that. Because of that, many – including me – want to buy a home.
Interviewer: Why is it so profitable?
G.: Because, now the cost of buying a home or capital items are increasing. Since maybe one or two years. I don't know the reason for this. When you go to ask for the price of a house, its maybe 2 million, but when you go one or two weeks after, the price has increased. … Even though there is a lot of construction going on, especially here in Addis, the cost of buying a home is getting higher. … Urbanisation is the main reason for that.
Interviewer: But do you think that the rate of urbanisation is as high as inflation on real estate? Because you are saying that the rate of inflation on real estate is going up and up, but urbanisation has been going on for decades now. And housing price inflation, when did that start?
G.: For example, five years ago you could get a house for 500.000 to 600.000 which would now cost 3 million Birr.
Interviewer: So prices go up faster than urbanisation rate?
G.: Urbanisation is still very, very high.

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Code: real estate sector\bubble
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Interviewer: So prices go up faster than urbanisation rate?
G.: Urbanisation is still very, very high.

Dokument: G.
Code: formal banking
Interviewer: So were you also a founding member of Zemen bank? So are you also a shareholder? What kind of remuneration scheme do you have?
G.: Sure, in Zemen Bank we have a loan arrangement for example to buy a house or a car. This is exceptional when you compare it to other banks. For example with Zemen Bank the provident fund [proviend or profit fund?] you can buy a share of Zemen Bank. I have a share. Actually most of the employees do have shares.
Interviewer: And those who don't work for Zemen Bank, who are the shareholders?
G.: By the way, most shareholders are not employees. Only 0.001%. Most of them are investors, they are multimillionaires actually.
Interviewer: And they are only Ethiopians?
G.: In order to have a share in a financial institutions you must be an Ethiopian. Not only banks. Also insurance companies.

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Dokument: G.
Code: formal banking
Interviewer: Why do you think the banking sector is so profitable in Ethiopia?
G.: In Ethiopia we have 25 to 30% dividend per share per annum. It used to be 30, 35, 40% two years ago. In our annual report you can even see 45%, 38%. … The reason for the decrease of dividend payments are the operation costs. Five years ago some banks even payed 50%. That means after two years you already got your money back. Then the government introduced the NBE-bill. From then on you have to pay the government when you lent money. Whenever you give out a loan, 27% has to go to the National Bank in the form of any bill or bond. This is additional to the 5% minimum reserve requirement.

Dokument: G.
Code: formal banking\profits
Interviewer: Why do you think the banking sector is so profitable in Ethiopia?
G.: In Ethiopia we have 25 to 30% dividend per share per annum. It used to be 30, 35, 40% two years ago. In our annual report you can even see 45%, 38%. … The reason for the decrease of dividend payments are the operation costs. Five years ago some banks even payed 50%. That means after two years you already got your money back. Then the government introduced the NBE-bill. From then on you have to pay the government when you lent money. Whenever you give out a loan, 27% has to go to the National Bank in the form of any bill or bond. This is additional to the 5% minimum reserve requirement.

Dokument: G.
Code: policies
Interviewer: Why do you think the banking sector is so profitable in Ethiopia?
G.: In Ethiopia we have 25 to 30% dividend per share per annum. It used to be 30, 35, 40% two years ago. In our annual report you can even see 45%, 38%. … The reason for the decrease of dividend payments are the operation costs. Five years ago some banks even payed 50%. That means after two years you already got your money back. Then the government introduced the NBE-bill. From then on you have to pay the government when you lent money. Whenever you give out a loan, 27% has to go to the National Bank in the form of any bill or bond. This is additional to the 5% minimum reserve requirement.
Interviewer: Why does the government do that?
G.: In order to raise funds for development reasons. Hence banks pay lower dividend payments, because of liquidity reasons. The government bonds only pay three percent. … Whenever a bank is running out of liquidity the National Bank of Ethiopia provides liquidity, but at 14%, 15%, 16%.

Dokument: G.
Code: formal banking
G.: Zemen Bank has an account with Commerzbank and CityBank for import and export businesses, where local currency is deposited and through which the transactions for the trade are made.
Interviewer: Do also take loans from those banks?
G.: No it is forbidden. When there is excess liquidity, the bank can decide to give a loan to other Ethiopian banks with high interest (around 8-10%). … The National Bank of Ethiopia since two years is deploying a nation-wide settlement transfer system. … If there is a shortage or an excess of liquidity, a board meets to decide on what to do.
Interviewer: When you have excess liquidity, what do you invest in?
G.: At first we give out loans as primary objective.
Interviewer: What is the spread between interests paid on saving deposit and loans?
G.: Around eight percent on average.
Interviewer: What is the reason why the Ethiopian banking system was not affected by the international financial crisis?
G.: There is simply no interconnectedness with internal banks as foreign banks are not allowed in Ethiopia. Another reason is that the banking sector is still developing.

There is a great potential for the banking sector to expand because of the great proportion of unbanked households.
Interviewer: Who are the people taking out loans?
G.: Mainly business people. Mainly from small companies wanting to invest in working capital. Then we look whether these companies have been profitable for the past two or three years. Most of the time we give out the loan … The stream of loans is growing. One time, there has been a costumer taking out a loan of 1 million and the next year he took out a loan of two million …. We invest in all business sectors.
Interviewer: Do you also invest in start-up businesses?
G.: Today, I met a costumer who wants to construct a 3-plus building for a hotel. We know that in the short-run he won't be profitable. For this we need to give him a project loan. … Most loans go to construction, but all banks have their own portfolios. … There is a shortage of depositors and an excess of people wanting to take out a loan. … The National Bank of Ethiopia tries to keep inflation down by curbing the credit expansion. Last year most banks ran out of liquidity. All banks but two asked the National Bank of Ethiopia to lend them money. They accept the high interest rate of 15% demanded by the National Bank of Ethiopia to be liquid for daily operations. In December last year, many businesses asked banks for loans because of the season.

Dokument: G.
Code: formal banking\profits
There is a great potential for the banking sector to expand because of the great proportion of unbanked households.

Dokument: G.
Code: real estate sector
Interviewer: You personally built a home now. How do finance that?
G.: My home is currently under construction. I take a loan from Zemen bank. Many employees do that. Zemen Bank is particular in this respect. It pays well, pays bonuses, benefits and so on.

Dokument: G.
Code: formal banking
Interviewer: Zemen Bank seems to be exceptional in many aspects. You have Z-Club for example. Do you attract many particularly rich costumers?
G.: It seems so. … We do not simply copy what other banks do. We follow the blue ocean strategy, meaning we are very innovative in the industry – as opposed to red ocean strategy. In the eight years of our operation, we have been very successful. We could pay high dividends.
Interviewer: What do you accept as a collateral for a loan?
G.: This might be a vehicle or a building or a machine. But there are also clean loans for which you do not need a collateral. This depends on the kind of business they do, e.g. the export sector, and the history with the bank. Exporters such as the Dutch cut flowers producers receive a clean loan for the transaction as you can't foreign currency outside of banks.

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