



*A periodical with knowledge and insights from
our development initiatives and partnerships*

The Evolution of Money and Finance in Ethiopia

A Journey to the Stock Exchange



FIRST CONSULT

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Building Local Capacity

The Key to Sustainable Development

FIRST CONSULT

In a small corner of Addis Ababa, a local organization knows the community, the history, and the struggles of the population it serves intimately. This deep understanding is not just useful; it is essential. It is the reason behind lasting and sustainable change.

At FC, we have seen time and time again how local organizations rooted in the very fabric of their communities are the driving force behind successful development programs. They are not just involved in the design and implementation of initiatives; they are the heart and soul of those efforts. But why does understanding the local context play such a crucial role in creating sustainable solutions?

The Role of Local Organizations in Development

Local organizations are the backbone of effective development programs. They possess unique, in-depth knowledge of the community they serve, shaped by years of experience and a deep connection to the culture, norms, and history of the area. Their understanding of the challenges, dynamics, and root causes of issues provides them with an advantage when designing interventions. As the saying goes, "Knowing the problem is already half the solution."

Beyond expertise, local organizations provide cost-effective and context sensitive interventions. Their work is authentic, ensuring that programs are not just well-received but owned by the community. This sense of ownership significantly increases the likelihood of long-term success. Local organizations also excel at adapting programs to their specific environment, ensuring scalability and sustainability in ways that externally driven approaches often struggle to achieve.

Understanding the Local Context

The local context is more than geography; it includes the political, social, and cultural dynamics that define a community. Successful development initiatives are those that take these nuances into account. Understanding the history, values, and social structures at play is essential for ensuring a program's relevance and impact.

This means considering not only the present realities but also the deeper historical and political factors that influence them. A comprehensive understanding of local context means considering:

- Government policies and regulations
- Socioeconomic conditions
- Community dynamics and power structures
- Cultural norms and traditions
- Historical and political influences

Ignoring these elements can lead to program failure or, worse, unintended harm.

The Value of International Organizations

While local organizations are essential, international organizations also play a significant role in development. One of the main reasons for international collaboration is the transfer of skills, tools, and technologies. They bring global perspectives, technical expertise, and experience from working in diverse settings. However, the value of international organizations extends beyond just bringing tools and technologies; they can also learn a great deal from local organizations.

The combination of local knowledge and international expertise creates a powerful synergy. Local organizations provide a deep understanding of the context and community trust, while international organizations contribute the tools and frameworks to elevate local efforts. This partnership fosters innovation, strengthens institutions, and helps build capacity, leading to more effective and sustainable development outcomes.



Building Strong Local Organizations and Programs

For development programs to succeed, it is essential to understand the broader ecosystem in which it operates. This means going beyond project-specific activities to assess team capabilities, safeguarding measures, gender dynamics, and the role of the private sector actors. Recognizing these interconnections enables the design of programs with long-term sustainability in mind.

At FC, we believe that development is not a one-size-fits-all solution. Each community and population has unique challenges and opportunities. Our work is grounded in the principle that understanding the local context is not optional, it is fundamental. We prioritize working with local experts to create adaptable programs that respect and amplify local knowledge.

We firmly believe that investing in ecosystems and local institutions not only generates better outcomes but also delivers post-project results. Strengthening local institutions and ecosystems enhances efficiency, reduces dependency, and ensures long-term sustainability, leading to a superior return on investment (ROI).

FC's model amplifies results by leveraging partnerships, enabling systemic change, and creating self-sustaining market solutions that continue delivering impact beyond program timelines.

Our strategy targets institutional strengthening at three levels:

Macro-Level: Supporting government agencies to implement effective policies and regulatory frameworks.

Meso-Level: Enhancing the role of NGOs, universities, TVETs, business associations, and financial institutions in supporting enterprise growth.

Micro-Level: Empowering businesses to drive employment and economic expansion and work as key development actors.

Let us commit to development that transforms communities from within. In a world where development often comes from the top down, the most effective and lasting change begins at the grassroots level. Together, we can build sustainable programs that respect the uniqueness of each community and foster resilience for future generations.

Leveraging Capital Markets Potential to Bridge the MSME Financing Gap in Ethiopia



This research and knowledge piece, conducted in 2023, is particularly timely as Ethiopia embarks on significant financial reforms in 2025. While the implementation of capital markets as a solution for MSME financing challenges is still a long way off, the insights and analysis provided aim to spark important conversations among policymakers, financial institutions, investors, and business owners. These conversations can help explore how capital markets can eventually bridge the MSME financing gap and transforming Ethiopia's financial ecosystem.

Have you ever stopped to think about what truly drives a nation's economy? In Ethiopia, the driving force is the Micro, Small, and Medium Enterprises (MSMEs). These businesses, ranging from small startups to expanding enterprises, form a crucial part of the country's economic fabric. In fact, 74% of Ethiopian businesses are micro enterprises, 18% are small, 6% are medium, and only 2% are large. Together, they play a vital role in driving employment, fostering innovation, and stimulating local growth.

Ethiopia is home to over two million MSMEs, yet more than 70% of them lack access to formal finance. Current financial institutions meet only one-third of the total MSME credit demand, leaving a financing gap of USD 6–10 billion. These businesses receive less than 10% of the total credit distributed by financial institutions.

Entrepreneurs find themselves unable to secure the financial backing necessary to scale their businesses. Consider a young woman with a innovative tech solution designed to improve her community's daily operations. She is resourceful, passionate, and eager to make a difference. But when she approaches financial institutions, she is met with obstacles as lenders are often unable to provide the capital she needs. As a result, her vision remains unfulfilled, a scenario far too common for many MSMEs across Ethiopia. The gap between available financial support and the needs of these businesses is enormous, leaving much of Ethiopia's economic potential untapped.

It is a stark reminder that innovation and economic growth are stifled when access to capital is restricted.





Key Questions for Ethiopia's Future MSME Growth in the Capital Market

Why?

Why is it essential to unlock long-term, diversified financing for MSMEs to enable their growth, innovation, and job creation in Ethiopia's economy?

What?

What does a successful capital market ecosystem look like, and how can Ethiopia create one that serves the diverse needs of its MSMEs?

How?

How can capital markets provide a sustainable solution to lending, and what would that mean for the success and growth of MSMEs?

While capital markets could play a key role in providing long-term financing options to MSMEs, this solution is still a long way off in Ethiopia. In the future, capital markets could offer alternative financial avenues such as equity financing or bonds, allowing businesses to secure funds outside of traditional banking systems. However, for this to become a viable solution, the country needs to lay the groundwork. While this is a long-term vision, the conversation about how to move toward such an ecosystem should start today.

Recommendations

1. Set up a dedicated unit within Ethiopia's capital market structure to focus on the unique needs of MSMEs. This could include crafting MSME-friendly policies and creating a tailored environment to help them access funding.
2. Establish regulations that foster investor confidence and ensure market stability while being flexible enough to meet the needs of MSMEs.
3. Develop education and awareness programs for both MSMEs and potential investors. This will help MSMEs better understand how to access capital markets and help investors recognize the potential of investing in MSMEs.
4. Develop a range of financial products such as bonds, equity financing, and venture capital that are specifically designed to meet the needs of MSMEs.
5. Facilitate continuous dialogue between government bodies, financial institutions, MSMEs, and investors to ensure that all stakeholders are aligned and working toward a common goal.
6. Implement systems that provide up-to-date information on market conditions, regulations, and available financing options to both MSMEs and investors.

There is a need for coordinated action from various relevant stakeholders, including the Capital Market Authority, financial institutions, development partners, and private sector actors, to unlock capital market opportunities for MSMEs. Strategic pilots, policy dialogue, and investments in market infrastructure are critical as the next steps. Together, these efforts will pave the way for MSMEs to benefit from capital markets and help unlock Ethiopia's full economic potential.

Your Invitation to Learn More: The story of capital markets and their potential to transform Ethiopia's MSME sector is one of hope and opportunity.

[Click here](#) to dive deeper.

Where are they now?

Finding Her Voice Berhan's Journey of Resilience and Success



Many development programs are designed as time-bound interventions to equip beneficiaries with the tools and resources to become self-sufficient. However, measuring the long-term impact of these programs is crucial to understanding their true effectiveness. Through the journeys of program participants, we can assess the sustainability of their progress and identify opportunities for improvement in future interventions and program design.

In this new series, Where Are They Now?, we will highlight the stories of early program participants, reflecting on their challenges, growth, and achievements since their initial involvement. This column will delve into their experiences, tracing their journeys, and examining where they are today.

As development practitioners, we must continually ask ourselves: How can we ensure that the positive changes we initiate today are sustained for the long-term? Let these stories challenge us to design more sustainable and scalable interventions, as we remain committed to creating lasting change in the communities we serve.

Rooted in Strength

Berhan's journey began as a young girl seeking a better life. Born and raised in Selale, Berhan made the bold decision to leave her hometown at a young age. "I was a 6th grader when I made the decision to leave and move to an Arab country. I went from Selale to Addis to get my passport, and then off to Beirut," Berhan begins.

For eight years, she worked in Beirut for a family as a cleaner and occasionally cooking. Her hard work allowed Berhan to buy a small condominium. "That house wasn't big, but it was the fruit of my hard work. It felt like the most satisfying achievement," she recalls.



A New Chapter

After a brief stay in Ethiopia, Berhan moved to Dubai and continued working in domestic jobs. She later returned to Ethiopia, got married, and became a full-time housewife. "I focused entirely on raising my children. My daughter is 8, and my son is 5. They're my whole world," she says with a soft smile.

"My husband convinced me to sell the house I'd bought and use the money to buy this bigger one. I trusted him, thinking it was for our family's best interest," she gestures around the home. "It's a two-bedroom house, much bigger than my first. But life took a turn I never imagined."

Berhan's voice weakens as she continues. "One day, I discovered my husband had fathered a child with another woman and left us. He comes around occasionally, and his mother gives me some teff, but that's all the support we get. He even tries to claim this house, pressuring me to sell it and give him the money. I've worked so hard for this home; it's for the children. I don't know what to do," she says, tears shining in her eyes.

Bridges of Opportunity

During this challenging time, she heard about a training opportunity at ELBEE, a center offering skills training for women, through the Mastercard Foundation's BRIDGES program. She learned about basketery, a craft that she could do from home while caring for her children. "It was a chance to learn a new skill and earn a steady income," she explains.

It's not just the money that Berhan values, it's the community and sense of belonging she's found at ELBEE. "I've made friends here, and it's become like a second family. Some days I work from the center, and we share stories, support each other, and laugh. ELBEE gave me more than just a skill, it gave me a sense of purpose," she says warmly.

"I work late into the evening, making up to four baskets a week, which brings in about 1,000 birr. It's tough, but I truly enjoy what I do," Berhan says proudly. Her entrepreneurial spirit didn't stop there. She also started buying plastic items from Mercato and selling them at the Sunday Market outside the church. "I set up a small display and weave as I sell, it's been a great way to showcase my work and earn extra money," she says with a smile. That's when she realized she could increase her earnings by diversifying her income source.

Berhan's focus remains on her children and their future. "They're both in school now, which gives me the time to prepare for their needs and focus on my crafts," she says with a sense of pride. "It's been a tough journey, but my children are my motivation. I'm determined to build a better life for them."

Today, Berhan is a skilled artisan and a thriving entrepreneur, far from the young girl who set out in search of a better life. Her path has been one of perseverance, strength, and an unyielding desire to create a better future for her children. "Life hasn't been easy, but my work and my love for my children have made me strong," she says with a proud smile. "This is just the beginning, and I'm grateful for this new chapter in my life". With her growing business and unwavering determination, Berhan is building a future where she and her children can thrive. "With God's help, I aspire to build a successful business of my own. I've already taken the first steps, and if I had the means, I would establish an enterprise to provide a better life for my children."



I set up a small display and weave as I sell, it's been a great way to showcase my work and earn extra money.

Berhan, handmade basket business owner



The Evolution of Money and Finance in Ethiopia

A Journey to the Stock Exchange

Picture this: It is the early 1900s in Addis Ababa. Gold coins glint under the morning sun, exchanged between traders. Money is not yet paper; it is tangible, weighty and sometimes even edible. The economy moves at the pace of caravans, and financial transactions rely on trust, barter, and a sharp sense of value.

Fast forward to today and Ethiopia is launching its own stock exchange, a modern financial marketplace where shares, bonds, and investments will change hands in the blink of an eye. The journey from “Salt bars and barter to banking systems digital mobile Money” a fascinating tale of resilience, adaptation, and ambition. To understand the present, we must look at the past.

The Beginning of Ethiopia’s Financial System

For centuries, Ethiopia’s financial landscape was deeply tied to commodities, goods that functioned as a medium of exchange. Long before coins and paper money were introduced, Ethiopia had a rich tradition of using “primitive money,” a term for goods that functioned as a medium of exchange. Salt played a particularly critical role in the system. Blocks of salt, known as Amole, were cut into various sizes and traded throughout the Ethiopian empire. Its value increased the farther it travelled from its source in the Danakil Depression. Caravans, laden with donkeys and camels, travelled across Ethiopia’s mountainous terrain, enduring heavy taxation and harsh conditions.

As Ethiopia’s global trade declined, the use of minted coins diminished, and commodity money such as salt bars (amole), iron bars, and pieces of cloth became common for local transactions. Barter also remained widespread. However, commodity money had many drawbacks, including inconsistent sizes and quality, and fluctuating value due to supply and demand. It was also not accepted across all regions. As a result, the Maria Theresa thaler, a silver coin minted in Austria, gained acceptance. First minted in 1741, the thaler had silver purity of 80%, and became a dominant medium of exchange. It remained in circulation until the mid-20th century, with an estimated 50 million thalers in use during the Italian occupation.

In addition to salt, cotton cloth, known as “Ferghi”, was used as currency, particularly in the highland regions. Unlike salt, cloth was more durable and stable in value, easily divisible for flexible transactions. Iron also played a role, particularly in agricultural communities, where iron bars served as currency.

The Transition to Coinage

It is believed that the Aksumite kingdom minted its coins starting during the reign of King Endubis (c. 270—310 CE). Made from gold, silver, and bronze, these coins featured inscriptions in Greek and Ge’ez and facilitated both local and international trade by providing a standardized medium of exchange.

In 1894, Emperor Menelik II introduced the Ethiopian talari as the first standardized local coinage, equivalent in value to the Maria Theresa thaler. The talari was produced in the Paris Mint and divided into 20 *Gheresh* (ገርሽ) or 40 *Bessa* (ቤሳ). This period also saw the establishment of Ethiopia’s first financial institution, the Bank of Abyssinia, in 1905. It held a banking monopoly, issuing loans, collecting deposits, and printing banknotes.



The Rise of Modern Banking

In 1915, the bank issued Ethiopia's first paper currency, featuring the emperor's image, with denominations of 5, 10, 20, 50, 100, and 500 Birr, alongside coins in smaller denominations. Although it struggled to gain acceptance, and coinage continued to dominate commerce.

By the early 20th century, Emperor Haile Selassie sought to gain greater control over Ethiopia's financial system. In 1931, he nationalized the Bank of Abyssinia, replacing it with the Bank of Ethiopia. The new institution introduced a decimal currency system, establishing the birr (also called the Ethiopian dollar) as the official unit, divided into 100 metonnyas (later called *santims*).

In 1945, Ethiopia pegged the birr to the U.S. dollar, reaffirming it as the nation's official currency. The National Bank of Ethiopia (NBE) was established in 1963 and began operations on January 1, 1964, marking a significant milestone in the country's financial history.

After the revolution, the Derg regime imposed strict currency controls and centralized the financial system in line with its socialist policies. Following the fall of the Derg in 1991, Ethiopia's economy gradually began to liberalize.

The Future of Finance in Ethiopia

Today, Ethiopia operates on a fiat money system, where the value of the currency is decreed by the government and is not backed by physical commodities like gold or silver. The *Birr* remains the legal tender.

In recent years, digital payments and financial technology have gained significant traction in Ethiopia. Digital transaction platforms have become increasingly prevalent, offering greater financial services. Additionally, the government has changed the Birr note that would reflect Ethiopia's rich linguistic and cultural heritage. Whether through the integration and expansion of mobile banking, or continued financial reforms, Ethiopia's monetary system is positioned for continued evolution, driven by both its historical foundations and its aspirations for the future.

Introducing the Ethiopian Securities Exchange (ESX)

In addition to advancement in digital finance, Ethiopia has introduced a Capital Market, aimed at modernizing and boosting the financial sector.

The Ethiopian Securities Exchange (ESX) will serve as a platform for businesses to raise capital through public investment while offering individuals the opportunity to buy and trade company shares. This move is expected to attract foreign investment, create jobs, and accelerate economic growth.

Looking Toward the Future

From camel caravans carrying gold to digital trading platforms where investments are made in seconds, Ethiopia's financial evolution is a story of transformation. The introduction of the stock exchange marks a new era, one in which Ethiopian businesses and investors can engage in a dynamic, modern financial system.

Stepping into this next chapter, one thing is clear: Ethiopia is not merely catching up with global finance; it is forging its own path, shaped by a history rich in trade, resilience, and ambition. As Ethiopia continues to modernize, its financial system will be shaped by both its rich history of trade and its ambition to stand at the forefront of global finance.



FC is the leading development consulting organisation in Ethiopia. Founded in 2006, FC has grown to design and implement economic development projects across the agriculture, manufacturing and service sectors. Our multidisciplinary teams combine a capacity to execute with clarity of the local context. We leverage on our partnerships with public and private organisations as well as a networked on-the-ground presence in most regions of Ethiopia. We have delivered at-scale real impact in terms of jobs & wealth creation, business formation & growth, and investment attraction & mobilization.

Projects featured in this edition of The Context:



BRIDGES is a five-year programme (2019-24) aiming to create and support 718,000 youth jobs, mostly for women. It's implemented by First Consult in partnership with the Mastercard Foundation. The Programme focuses on the manufacturing sector, covering all regions and city administrations to address unemployment in Ethiopia.



The Micro, Small and Medium Enterprise Recovery and Resilience (MESMER) Programme, a five-year programme launched in October 2022, works to support 72,200 MSMEs and create 410,800 jobs within enterprises by building the resilience and growth prospects of MSMEs through access to finance. The Programme is supporting MSMEs by providing business development support, psychosocial services and technical assistance to financial institutions.

Join us on this transformative path as we unlock opportunities and shape a brighter future for Ethiopia.