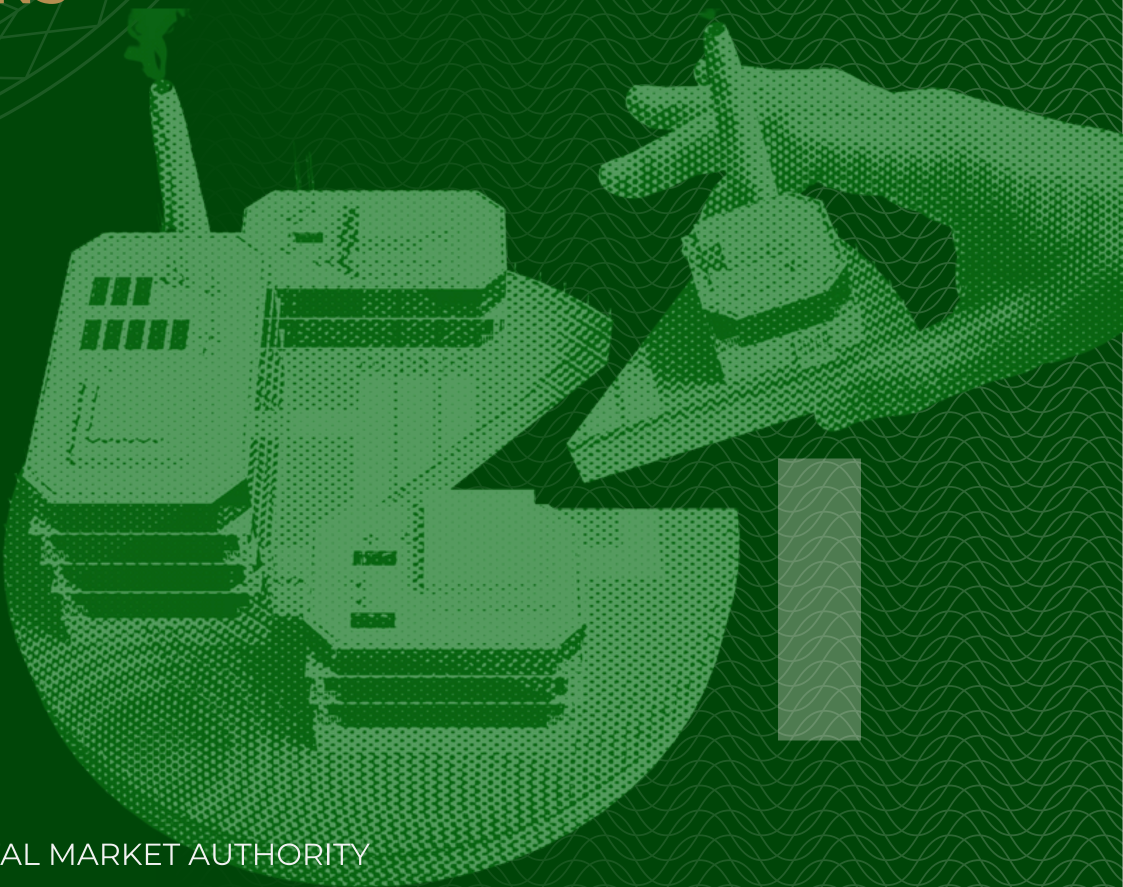
ASSESSMENT OF SHAREHOLDER PATTERNS AND DYNAMICS

IN ETHIOPIAN FINANCIAL INSTITUTIONS



BY: ETHIOPIAN CAPITAL MARKET AUTHORITY

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ETHIOPIAN CAPITAL
MARKET AUTHORITY

JULY, 2024
ADDIS ABABA
ETHIOPIA

TABLE OF CONTENTS

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01 INTRODUCTION

The financial sector operations and dynamics are paramount for the overall economic stability and growth of a country. Understanding the intricate details of shareholdings within financial institutions is essential for regulatory bodies like the Ethiopian Capital Market Authority (ECMA) to formulate effective policies, ensure market transparency, and make informed decisions that promote sustainable development.

Ethiopia's banking sector comprises a diverse array of entities, including both state-owned and privately held banks. By June 2023, the total number of private commercial banks functioning in Ethiopia had reached 30 (NBE, 2023). Over the past 20 years, there has been a notable surge in the establishment and growth of private banks, with some recently transitioning from the microfinance sector to full-scale banking operations.
This transformation underscores the sector's adaptability to evolving market needs and regulatory frameworks. The expansion of private banks is reflected in the substantial growth of their total capital, paid-up capital, and authorized capital. Additionally, the increasing number of shareholders and total shares demonstrates a growing investor interest and confidence in the sector. Despite the absence of a formal secondary market, share transfers among shareholders have been observed, indicating a degree of liquidity and investor activity within the sector. Furthermore, the issuance of new shares, including those targeted at institutional investors, signifies the sector's efforts to raise capital and expand its operations.

Likewise, the insurance industry is primarily composed of privately owned share companies, contributing significantly to the diversification of financial services available to the public. As of June 2023, there were a total of 18 insurance companies operating in Ethiopia (NBE, 2023).
Similar to banks, insurance firms have witnessed considerable growth in their capital base, reflecting increased investor confidence and market stability.

The rising number of shareholders and total shares further exemplifies the sector's expansion and attractiveness to investors.

While share transfers among shareholders have occurred, albeit to a lesser extent than in banks, insurance companies have also engaged in share sales to institutional investors, though in smaller volumes.

Microfinance Institutions (MFIs) also play a vital role in extending financial services to underserved communities, particularly in rural areas where traditional banking services are limited. By June 2023, The capitalization of MFIs has shown steady growth over the years, with significant increases in authorized shares, indicative of the sector's resilience and adaptability. Notably, MFIs have a considerable portion of their shares owned by institutional investors, including regional governments and local non-governmental organizations, underlining the social and economic significance of microfinance activities. The active participation of these investors' underscores sustained interest in supporting initiatives aimed at poverty alleviation and inclusive economic growth.

Despite these positive developments marked by significant growth in capitalization and shareholder base, challenges such as the absence of a formal secondary market for share trading persist in Ethiopia's financial sector. Additionally, ECMA, as the newly established regulatory body—faces the ongoing task of ensuring market transparency, stability, and investor protection amidst rapid sectorial growth and evolving market challenges and opportunities. The sector remains dynamic, with ongoing efforts to attract investment and expand financial services to underserved communities.

Therefore, this assessment aims to understand the capital structure, financial performance, share transfers, and institutional investor presence across banks, microfinance institutions, and insurance companies to provide insights into the current state and inform future regulatory and market development initiatives.

The remaining part of this report is structured in the following manner. In Section 2, we outline the objective of the assessment. Section 3 provides a comprehensive description of the data sources utilized, the analytical framework employed, and the method of analysis applied. Moving on to Section 4, we present the results of the analysis and discuss the key findings. Section 5, the concluding section, summarizes the report. Finally, the recommendations are put forward.

02 OBJECTIVE OF THE ASSESSMENT

The overarching objective of this assessment is to understand the shareholding dynamics, financial performance and capital structure within Ethiopia's financial institutions. Specifically, the assessment seeks to:

1. Assess the changes in total capital, paid-up capital, and authorized capital across banks, insurance companies, and MFIs from 2020/21 to 2022/23;

2. To the extent the data permits, understand the financial performance of the financial institutions;

3. Assess the patterns of shareholder base and share transfers within banks, insurance companies, and MFIs;

4. Review the volume of shares sold to institutional investors and its implications for capital raising and market expansion; and

5. Conduct a comparative analysis of share ownership and transfer across banks, insurances and MFI.

03 DATA SOURCE AND METHODOLOGY

3.1. DATA SOURCE

Primary data on shareholding, financial performance, and capital structure from all private commercial banks, insurance companies, and eighteen (18) MFIs for the period 2020/21 to 2022/23 has been collected. The dataset includes information such as total capital, paid-up capital, authorized capital, number of shareholders, authorized shares, par value of shares, shares sold to institutional investors, shareholders who have transferred their shares, and the number of shares transferred.
Data were also extracted from the annual reports of each financial institution and the National Bank of Ethiopia (NBE).

3.2. ANALYTICAL FRAMEWORK AND METHODOLOGY

The assessment utilizes a multi-faceted analytical framework to comprehensively analyze shareholding patterns and dynamics within Ethiopia's financial institutions. Here's a comprehensive set of criteria:

1.Capital Structure:

Classify the composition of total capital, paid-up capital, and authorized capital across banks, insurance companies, and MFIs

2. Financial Performance
Assess the profitability metrics such as return on assets (ROA), return on equity (ROE), equity-to-liability ratio, solvency margin, combined ratio and expense ratio for each financial institution.

3. Institutional Investors Presence
Quantify the presence of institutional investors' in each financial industry.

4. Secondary market performance or Share Transfer Dynamics:
Determine the volume of share transferred, and the shareholders engaged in share transfer.

The methodology employed comprised the following components: -

- Descriptive Analytics: Conduct descriptive statistics such as mean and average change for key variables including total capital, paid-up capital, authorized capital, number of shareholders, number of shares, and share transfers. Bar chart and line charts were generated to illustrate the distribution and trends of the data over the study period.

- Trend Analysis: Trends in total capital, paid-up capital, authorized capital, number of shareholders, number of shares, share transfers among shareholders, volume and value of shares sold to institutional investors have analyzed over the study period (2020/21 to 2022/23). Trend analysis enables the identification of patterns and changes in shareholding structures and capitalization levels.

- Comparative Analysis: A comparative analysis of shareholding patterns and dynamics across banks, insurance companies, and MFIs.

04 RESULT AND DISCUSSION

4.1 CAPITAL STRUCTURE OF BANKS

Currently, there are 30 privately owned commercial banks in Ethiopia that operate as share companies. Analyzing the trend in total capital, paid-up capital, and authorized capital of banks from 2020/21 to 2022/23 reveals significant growth and changes in the capital structure, as observed in Figure 1.

Over this period, total capital increased substantially from Birr 93.741 billion in 2020/21 to Birr 160.540 billion in 2021/22, and further to Birr 209.318 billion in 2022/23. This represents a notable increase of approximately 71.3% from 2020/21 to 2021/22, and a further increase of approximately 30.4% from 2021/22 to 2022/23. This consistent upward trend in total capital indicates the enhanced financial capacity of the companies, potentially allowing for increased investment and growth initiatives.

Similarly, paid-up capital, which represents the portion of authorized capital that shareholders have actually contributed, also saw significant growth. It rose from Birr 56.924 billion in 2020/21 to Birr 100.426 billion in 2021/22, and further increased to Birr 128.408 billion in 2022/23.

This reflects a substantial increase of approximately 76.8% from 2020/21 to 2021/22, and a further increase of approximately 27.8% from 2021/22 to 2022/23. The consistent growth in paid-up capital indicates shareholders' confidence in the companies' prospects and financial stability, as they continue to inject more capital into the business.

The NBE issued a directive on April 12, 2021, which adjusted the minimum paid-up capital requirement for banks to 5 billion, effective from June 30, 2026. This adjustment could be a contributing factor to the noticeable increases in paid-up capital.

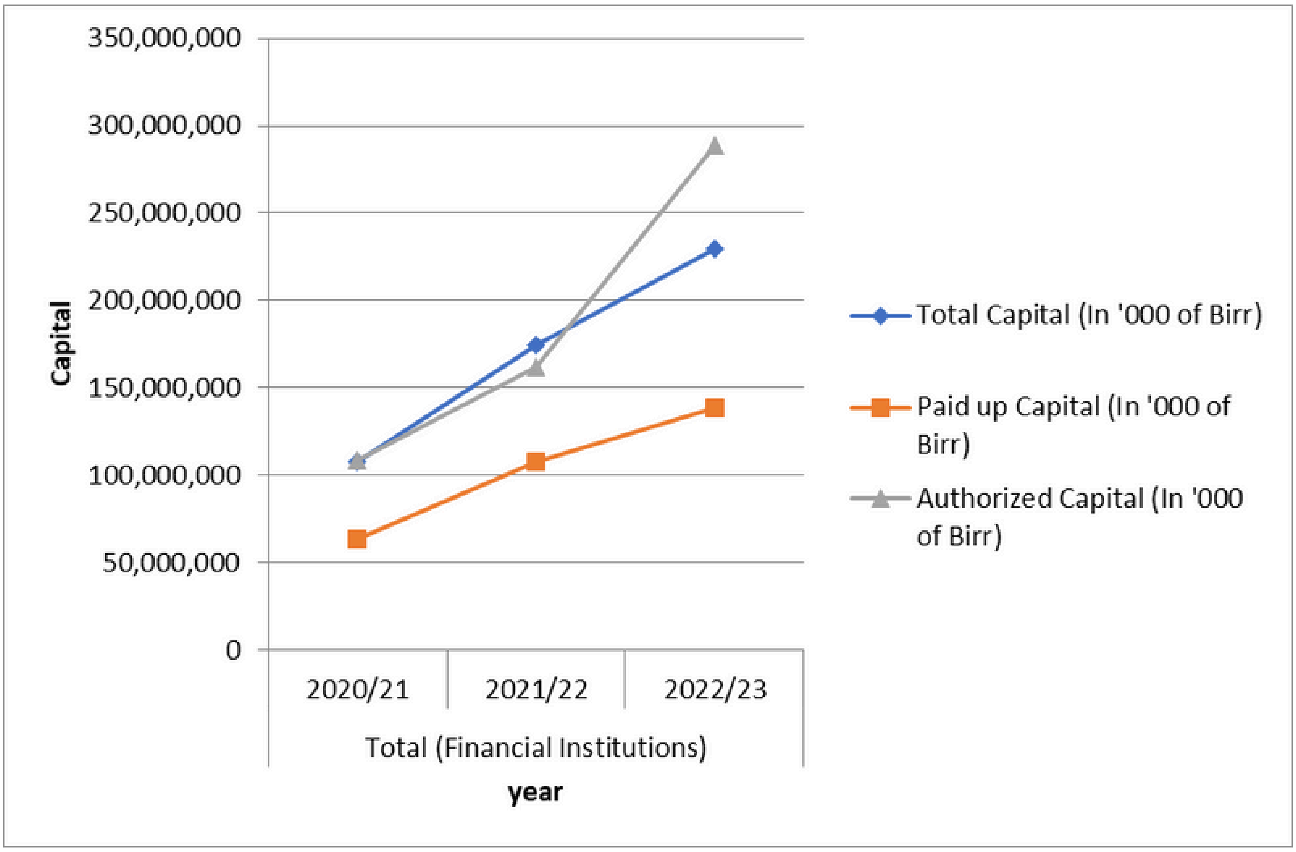
The authorized capital, representing the maximum amount of capital the banks are legally allowed to raise, also increased over the period. It grew from Birr 100.001 billion in 2020/21 to Birr 151.607 billion in 2021/22, and further to Birr 271.793 billion in 2022/23. This represents an increase of approximately 51.6% from 2020/21 to 2021/22, and a more substantial increase of approximately 79.5% from 2021/22 to 2022/23.

This expansion indicates banks' readiness to capitalize on growth opportunities and meet regulatory requirements. Higher authorized capital also gives banks flexibility in raising funds through equity offerings or debt issuance.

Overall, the trend analysis indicates robust growth in the bank's financial resources, particularly in total and paid-up capital, reflecting increased financial capacity and shareholder[1] confidence. However, the more conservative growth in authorized capital suggests prudent management of the company's capital structure to sustain financial stability and shareholder ownership right.

[1] **https://addisfortune.news/breaking-news/central-bank-increases-minimum-paid-up-capital-to-5b-br/**

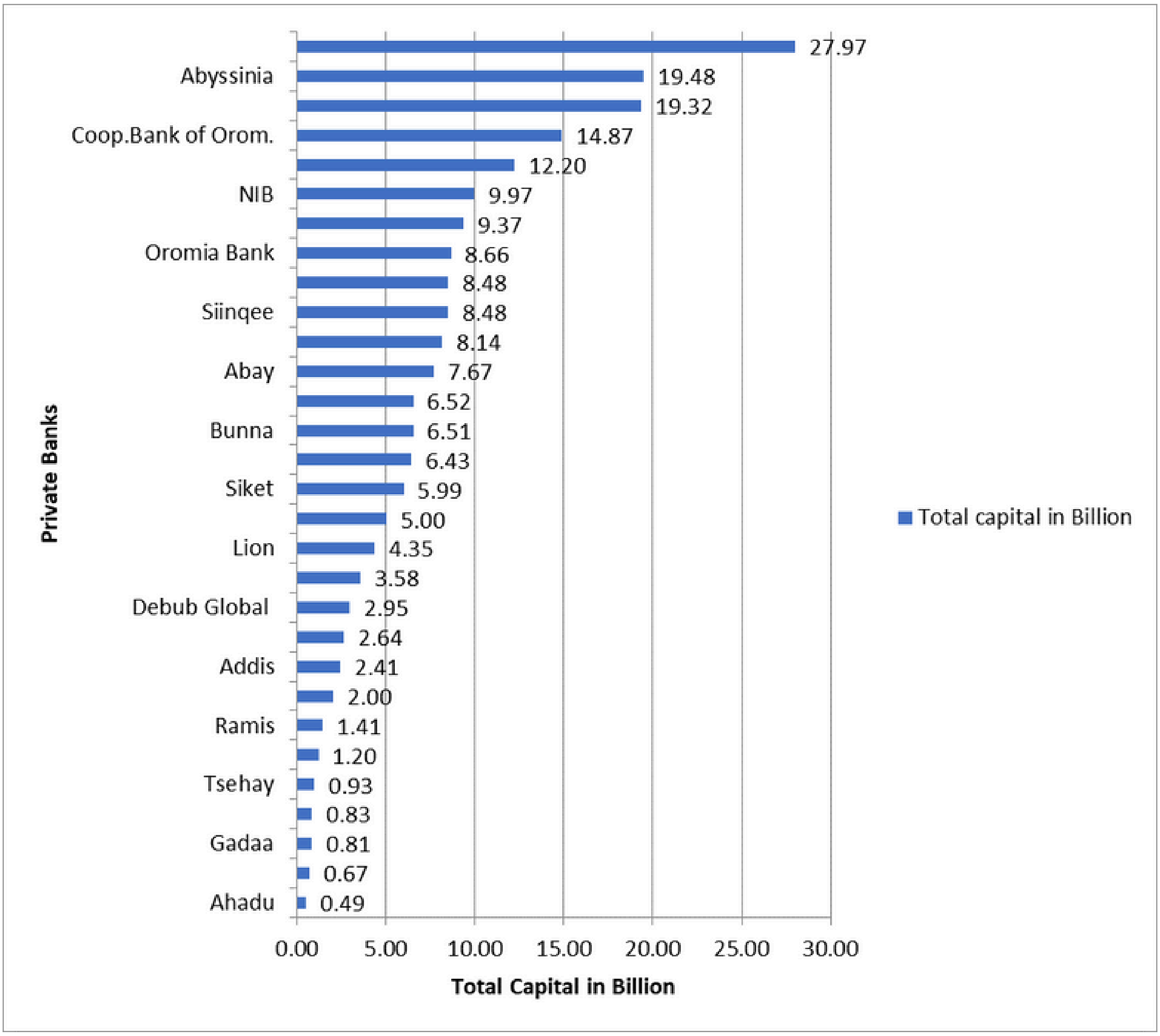
Figure 1: Capital Structure of Banks



Source: Drawn based on data collected from Banks (2020/21-2022/23)

Figure 2 illustrates that Awash, Abyssinia, Dashen, Cooperative Bank of Oromia, and Tsedey banks were ranked as the leading five banks in the fiscal year 2022/23, with total capital amounts of Birr 27.97 billion, 19.48 billion, 19.32 billion, 14.87 billion, and 12.2 billion, respectively. On the other hand, Ahadu, Shabell, and Gaada, with total capital amounts of Birr 0.49 billion, 0.67 billion, and 0.81 billion, respectively, occupy the bottom positions.

Figure 2: Rank of Banks by Total Capital



Source: Own Construction using data collected from Banks (2020/21-2022/23)

4.2 FINANCIAL PERFORMANCE OF PRIVATE BANKS

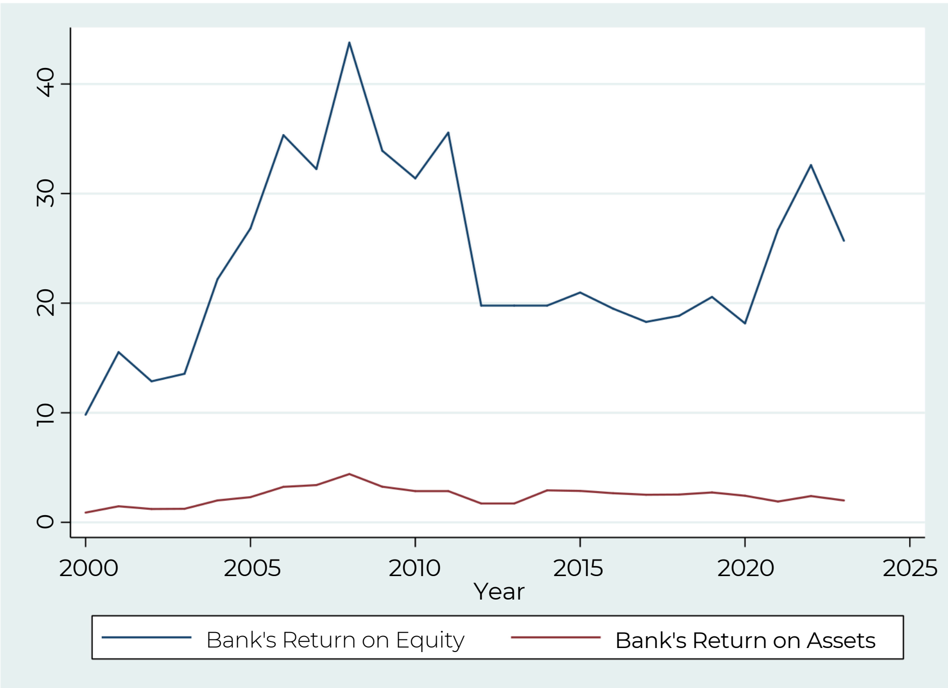
The bank's ROE and ROA are key indicators used to assess the financial performance of commercial banks. ROE measures a bank's profitability by showing how much profit it generates with the money shareholders have invested. It is calculated by dividing net income by shareholders' equity and multiplying the result by 100% to express it as a percentage. Similarly, ROA measures a bank's efficiency in generating profit from its assets. It shows how much profit a company generates for each birr of its assets. It is computed by dividing net income by total assets and multiplying the result by 100% to express it as a percentage.

Figure 3 illustrates the trends in these metrics for commercial banks. The ROE has shown fluctuations over the years, ranging from a low of 9.82% in 2000 to a high of 43.77% in 2008, and then decreasing to 18.16% in 2020. Overall, there seems to be a general upward trend in ROE from 2000 to 2008, indicating improving profitability and efficiency. However, from 2008 to 2020, ROE shows a fluctuating trend with a slight overall decline, ending at 18.16% in 2020. The decline in ROE after 2008 suggests challenges or inefficiencies within the banking sector that may have impacted profitability.

On the other hand, the spike in ROE in 2021 (26.70%) and 2022 (32.60%) may indicate a recovery or improvement in profitability. Overall, the trend in ROE suggests a period of growth followed by stabilization or slight decline, indicating the need for further examination into the factors affecting profitability.

Similar to ROE, ROA shows an upward trend from 2000 to 2008, increasing from 0.89% to 4.41%. This indicates improving efficiency in generating earnings from assets during this period. From 2008 to 2020, ROA shows some fluctuations but remains relatively stable overall, ending at 2.43% in 2020. The stability in ROA suggests consistent efficiency in utilizing assets to generate profits, despite challenges in profitability. However, in 2021 and 2022, ROA declines to 1.90% and 2.40%, respectively, indicating a decrease in efficiency in generating earnings from assets. The decline in ROA in recent years may reflect challenges in asset management or economic factors affecting asset productivity.

Figure 3: Trend in Financial Performance Metrics



Source: Drawn based on data extracted from Financial Stability Report (April 2024) and Ethiopia's Banking Sector report produced by Cepheus Research and Analytics (2019).

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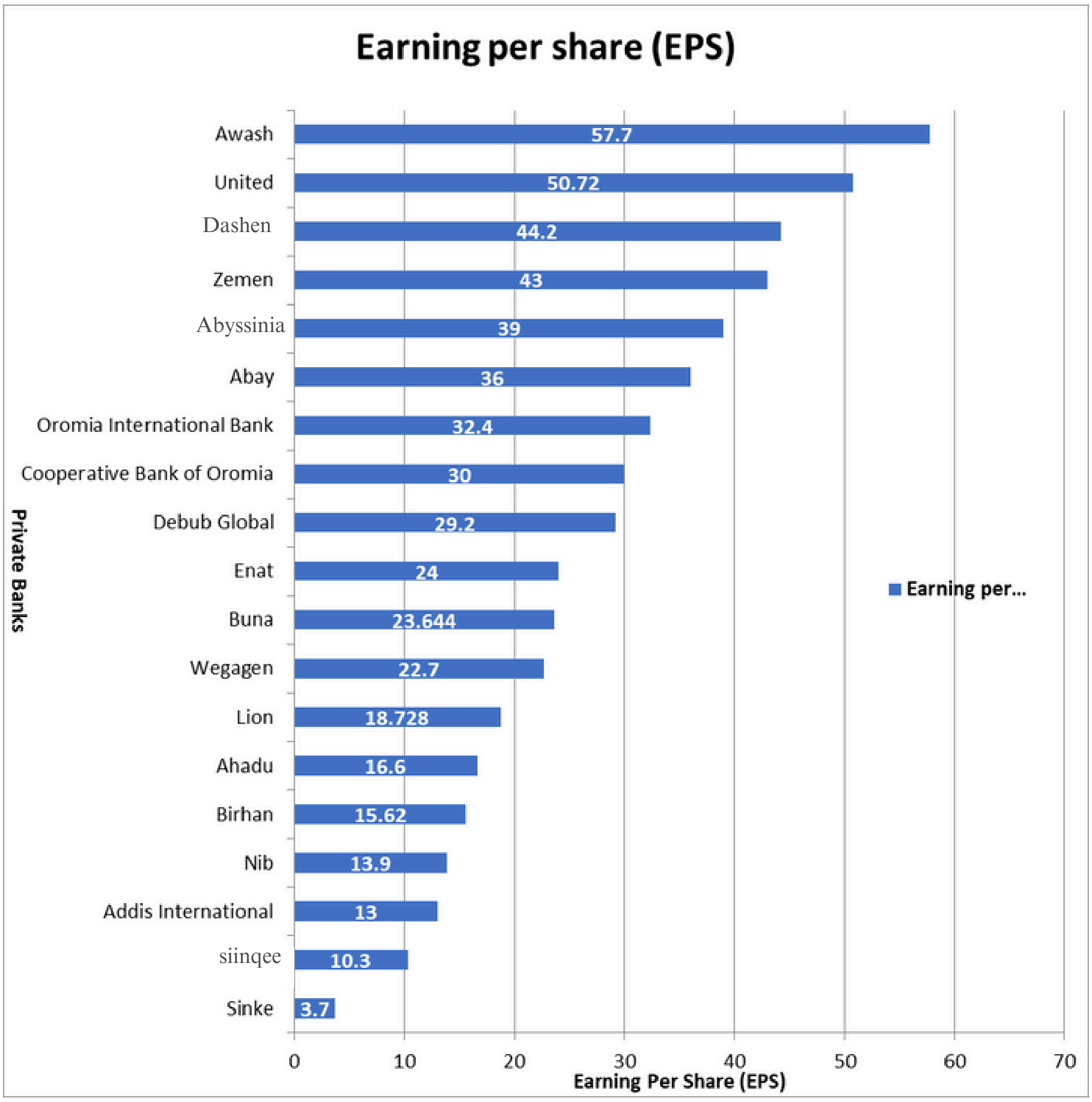
The earnings per share (EPS) data for banks in the 2022/23 fiscal year, sourced from their official reports, paint a compelling picture of financial performance. Leading the pack, Awash, United, Dashen, Zemen, and Abyssinia banks boast notable EPS figures of 57.7%, 50.72%, 44.2%, 43%, and 39%, respectively. These high EPS values reflect robust profitability and efficiency in generating returns for shareholders, making these banks particularly attractive to investors. Among the newly established banks, only Sinke and Tsedey have included EPS figures in their annual reports. Consequently, the comparison excludes the remaining 12 new banks, as they have not provided this crucial financial information in their annual reports. This ranking underscores the financial strength and investment appeal of the top-performing banks, highlighting their position as leaders in the industry.

Figure 4: Earning Per Share of Banks



Source: Own Computation from the Data Extracted from the Bank's Report (2022/23)

The average EPS percentage of private commercial banks during the 2022/23 fiscal year stands at 27.6%, reflecting the standard profitability level among the banks surveyed. Banks with EPS exceeding the mean are deemed to possess profitability above the average, whereas those with EPS below the mean are seen as having below-average profitability. Investors can utilize the average EPS as a yardstick to assess the profitability of individual banks contributing to their decision where to channel their investment.

4.3 INSTITUTIONAL INVESTORS PRESENCE IN THE PRIVATE BANKS

In the Ethiopian capital market, institutional investors are entities that invest substantial amounts of capital on behalf of others, including pension funds, insurance companies, mutual funds, banks, and investment firms. These entities are vital to the market, channeling funds from various sources into stocks, bonds, and other securities. Pension funds, insurance companies, and mutual funds are particularly prominent- managing retirement benefits, investing premiums, and pooling resources from multiple investors to build diversified portfolios. Banks and financial institutions also contribute significantly by investing in government and corporate debt instruments.

As shown in Tables 1, 2, and 3, in the private commercial banking sector, an estimated 1.9 million shares were sold to institutional investors in the 2020/21 fiscal year, totaling a value of 1.223 billion birr. This number increased to 11.6 million shares with a value of 10.944 billion birr in 2021/22 and further rose to 15.46 million shares with a value of 15.461 billion birr in the 2022/23 fiscal year. The increase in the number and value of shares sold to institutional investors indicates growing interest from institutional players in the Ethiopian capital market due to the prospects of the sector. Furthermore, the increased volume and value of shares traded also enhance liquidity in the capital market, making it easier for investors to buy and sell securities.

Over the three-year period from 2021 to 2023, the proportion of total shares sold to institutional investors relative to the total number of shares showed a notable increase. In 2021, approximately 1.18% of the total shares, totaling 1,894,352 shares, were sold to institutional investors.

This proportion grew substantially in the following years, with 4.75% of the total shares, 11,588,253 shares, being sold to institutional investors in 2022. This trend continued into 2023, with 5.04% of the total shares, totaling 15,461,610 shares, being sold to institutional investors. This upward trend suggests a rising interest from institutional investors in acquiring shares of the company. The increase in institutional investment may be indicative of positive perceptions regarding the company's financial health, growth prospects, or strategic initiatives.

In terms of the proportion of the value of shares sold to institutional investors relative to the total value of shares, there was a significant increase. In 2021, approximately 2.15% of the value of shares, equivalent to 1.22 billion Birr, was sold to institutional investors. This proportion rose substantially in 2022, with institutional investors acquiring around 10.9% of the total value of shares, amounting to 10.94 billion Birr. By 2023, while the proportion slightly decreased to 10.7%, institutional investors still bought shares worth 13.88 billion birr. Despite the minor decline in the proportion, the value of shares sold to institutional investors remained substantial, reflecting ongoing interest from institutional investors in the company's shares.

Despite this positive trend, the proportions of shares sold to institutional investors in terms of number and value remain relatively small compared to the total number of shares. One of the potential reasons is the National Bank of Ethiopia (NBE) regulatory limits on share ownership in banks and insurance companies to ensure financial stability and prevent undue influence by any single shareholder. According to NBE directives, individual investors are permitted to own a maximum of 5% of the total shares in a bank or insurance company, while institutional investors are allowed to own up to 10% of the total shares.

These thresholds are intended to promote a diversified ownership structure, reducing the risks associated with concentrated ownership and fostering a more stable financial environment (NBE, 2021). This suggests that the company has yet to fully tap into the potential of institutional investment. The small proportion could indicate several issues or areas for improvement. First, it may signal a lack of aggressive outreach or marketing efforts specifically targeting institutional investors. Engaging with institutional investors requires tailored strategies, comprehensive presentations, and often direct meetings, which might not have been fully utilized. Second, it could point to a need for more robust corporate governance practices or financial transparency.

Institutional investors typically demand high levels of transparency and corporate governance to mitigate risks associated with their investments. Improving in these areas could enhance the company's attractiveness to institutional investors. Third, the small proportion may also reflect market perception issues. If the company is not widely recognized or perceived as undervalued, institutional investors might overlook it in favor of other opportunities. Enhancing brand visibility and actively managing the company's public image could help address this.

Table 1: Institutional Investors Shares in Private Banks (2020/21)

Name of the Bank	Par value	Shares sold to Institutional Investors	Value of the share
Bunna	100	1	100
NIB	500	2	1,000
Wegagen	1,000	3	3,000
Birhan	1,000	90	90,000
Debub Global	1,000	122	122,000
Awash	1,000	640	640,000
Hijira	1,000	13,313	13,312,800
Enat	1,000	96,888	96,887,646
Goh Betoch	1,000	110,670	110,670,000
Zemen	1,000	272,547	272,547,000
Oromia Bank	1,000	318,359	318,359,000
Abyssinia	1,000	335,822	335,821,775
Hibret	100	745,896	74,589,600
Total		**1,894,352**	**1,223,043,921**

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Table 2: Institutional Investors Shares in Private Banks (2021/22)

Name of the Bank	par value	Shares sold to Institutional Investors	Value of Share
NIB	500	2	1,000
Wegagen	1000	2	2,000
Debub Global	1000	3	3,000
Bunna	100	4	400
Siinqee	1000	22	22,000
Ahadu	500	25	12,500
Birhan	1000	91	91,000
Awash	1000	3,404	3,404,000
Hijira	1000	19,464	19,464,000
Abay	1000	60,000	60,000,000
Enat	1000	126,991	126,990,985
Goh Betoch	1000	145,370	145,370,000
Dashen	1000	309,000	309,000,000
Zemen	1000	318,714	318,714,000
Oromia Bank	1000	387,016	387,016,000
Amhara	1000	599,209	599,209,000
Hibret	100	715,754	71,575,400
Abyssinia	1000	1,404,652	1,404,651,525
Tsedey	1000	7,498,530	7,498,530,000
Total		11,588,253	10,944,056,810

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Table 3: Institutional Investors Shares in Private Banks (2022/23)

Name of the Bank	Par value	Shares sold to Institutional Investors	Value of the Share
Lion	1000	1	1,000
Bunna	100	6	600
Debub Global	1000	16	16,000
Siinqee	1000	22	22,000
Ahadu	500	27	13,500
Wegagen	1000	28	28,000
Birhan	1000	91	91,000
Zamzam	1000	131	131,000
Hijira	1000	21,534	21,534,000
Abay	1000	50,000	50,000,000
Gadaa	1000	83,537	83,537,000
Goh Betoch	1000	166,476	166,476,000
Enat	1000	188,925	188,925,022
Omo	1000	193,295	193,295,000
Abysiniya	1000	211,686	211,686,000
Dashen	1000	298,000	298,000,000
Ramis	1000	405,860	405,860,000
Zemen	1000	438,667	438,667,000
Oromia Bank	1000	451,350	451,350,000
Amhara	1000	599,209	599,209,000
Tsehay	1000	1,056,200	1,056,200,000
Hibret	100	1,756,007	175,600,700
Tsedey	1000	9,540,542	9,540,542,000
Total		**15,461,610.02**	**13,881,184,822.00**

Source: Own construction (2020/21-2022/230)

During the period from 2021 to 2023, private commercial banks experienced significant growth in their shareholder base, number of shares, and respective values, as depicted in Table 4. In 2021, there were 175,729 shareholders, collectively owning 160,406,496 shares valued at 56.92 billion Birr. This figure doubled by 2022, with the shareholder count reaching 349,940 and the number of shares rising to 243,858,279, valued at 100.43 billion Birr. Continuing this upward trend, by 2023, the shareholder count further increased to 413,309, with a total of 306,767,861 shares valued at 128.41 billion Birr.

Table 4: The summary statistics of Shareholder

year	Number of Shareholders	Number of Shares	value of share	Shares sold to Institutional Investors	Value of Share sold to Institutional Investors
2021	175,729	160,406,496	56,924,933,324	1,894,352	1,223,043,921
2022	349,940	243,858,279	100,426,479,883	11,588,253	10,944,056,810
2023	413,309	306,767,861	128,408,497,000	15,461,610	13,881,184,822

Source: Own construction from the Data Collected from Banks (2020/21-2022/23)

4.4 INSTITUTIONAL INVESTORS PRESENCE IN THE PRIVATE BANKS

During the review periods (2020/21-2022/23), a considerable number of shareholders transferred their shares to others, despite there being no secondary market for share trading. In 2020/21, 3,464 shareholders transferred 6.22 million shares valued at Birr 2.01 billion; in 2021/22, 5,837 shareholders transferred 12.24 million shares valued at Birr 5.81 billion, and in 2022/23, 5,792 shareholders transferred 7.38 million shares valued at Birr 3.0 billion.

Table 5 illustrates the share transfer movement over the last three years (2020/21-2022/23). Over this period, a total of 15,093 shareholders transferred 25.9 million shares, amounting to a total value of 10.84 billion Birr. Zemen, Abyssinia, Cooperative Bank of Oromia, Hibret, and NIB banks were the top five banks in terms of the number of shareholders who transferred shares, with 3,253, 1,974, 1,357, 1,067, and 982 shareholders, respectively.

The Cooperative Bank of Oromia, Abyssinia, Hibret, Bunna, and Tsedey are the leading five banks based on the number of shares transferred. They account for 10.66 million, 5.016 million, 3.453 million, 2.192 million, and 1.268 million shares, respectively. On the other hand, Abyssinia, Tsedey, and Cooperative Bank of Oromia were ranked as the top three banks in terms of the value of shares transferred, with 5.016 billion, 1.268 billion, and 1.066 billion Birr, respectively.

The significant number of shares being transferred indicates increased activity within the capital market, even in the absence of a formal secondary market. This suggests growing investor interest and engagement in trading shares. The transfer of shares also provides some insight into the perceived value of shares, aiding in price discovery. It helps establish benchmarks for future transactions and the valuation of companies.

Share transfers contribute to increased liquidity in the market, allowing shareholders to exit their investments or redistribute their portfolios more easily. This liquidity attracts more investors and supports the efficient functioning of the market. The ability to transfer shares, as it is commonly used metrics in capital markets, indicates a level of investor confidence in the market. Investors also feel secure enough to buy or sell shares, even without a formal secondary market, which is crucial for market stability and growth.

Table 5: Share Transferred

Name of Banks	Number of Shareholders who Transferred their Share Partly or wholly	Number of shares Transferred	Value of Shares Transferred
Tsehay	5	6,780	6,780,000
Tsedey	14	1,267,730	1,267,730,000
Ahadu	22	4,145	2,072,500
Dashen	46	408,761	408,761,000
Hijira	60	6,142	6,142,000
Gadaa	96	5,089	5,089,000
Zamzam	107	20,116	20,116,000
Goh Betoch	153	21,366	21,366,000
Wegagen	173	91,218	91,218,000
Lion	254	73,383	73,383,239
Abay	340	331,826	331,826,000
Amhara	385	23,400	23,400,000
Debub Global	449	48,180	48,180,000
Awash	637	361,109	361,109,000
Birhan	653	187,369	187,369,000
Addis	695	51,015	51,015,000
Bunna	716	2,191,690	219,169,000
Oromia Bank	784	121,096	121,096,000
Enat	871	66,072	66,071,920
NIB	982	675,191	337,595,500
Hibret	1,067	3,453,851	345,385,100
Coop.Bank of Oromia	1,357	10,660,411	1,066,041,100
AbysSinia	1,974	5,016,300	5,016,299,700
Zemen	3,253	763,619	763,619,000
Total	**15,093**	**25,855,859**	**10,840,834,059**

Source: Data Collected from Banks (2020/21-2022/23)

Table 5: Share Transferred

Name of Banks	Number of Shareholders who Transferred their Share Partly or wholly	Number of shares Transferred	Value of Shares Transferred
Tsehay	5	6,780	6,780,000
Tsedey	14	1,267,730	1,267,730,000
Ahadu	22	4,145	2,072,500
Dashen	46	408,761	408,761,000
Hijira	60	6,142	6,142,000
Gadaa	96	5,089	5,089,000
Zamzam	107	20,116	20,116,000
Goh Betoch	153	21,366	21,366,000
Wegagen	173	91,218	91,218,000
Lion	254	73,383	73,383,239
Abay	340	331,826	331,826,000
Amhara	385	23,400	23,400,000
Debub Global	449	48,180	48,180,000
Awash	637	361,109	361,109,000
Birhan	653	187,369	187,369,000
Addis	695	51,015	51,015,000
Bunna	716	2,191,690	219,169,000
Oromia Bank	784	121,096	121,096,000
Enat	871	66,072	66,071,920
NIB	982	675,191	337,595,500
Hibret	1,067	3,453,851	345,385,100
Coop.Bank of Oromia	1,357	10,660,411	1,066,041,100
AbysSinia	1,974	5,016,300	5,016,299,700
Zemen	3,253	763,619	763,619,000
Total	**15,093**	**25,855,859**	**10,840,834,059**

Source: Data Collected from Banks (2020/21-2022/23)

4.5 CAPITAL STRUCTURE OF MICROFINANCE INSTITUTIONS

At the end of the 2022/23 fiscal year, there were 47 MFIs in operation. Figure 2 indicates a relatively modest overall growth rate in total capital for the period from 2016/17 to 2022/23, averaging approximately 8.1% annually. However, a closer examination of the trend analysis reveals a dynamic pattern of growth, decline, and recovery, with substantial fluctuations observed in certain years.

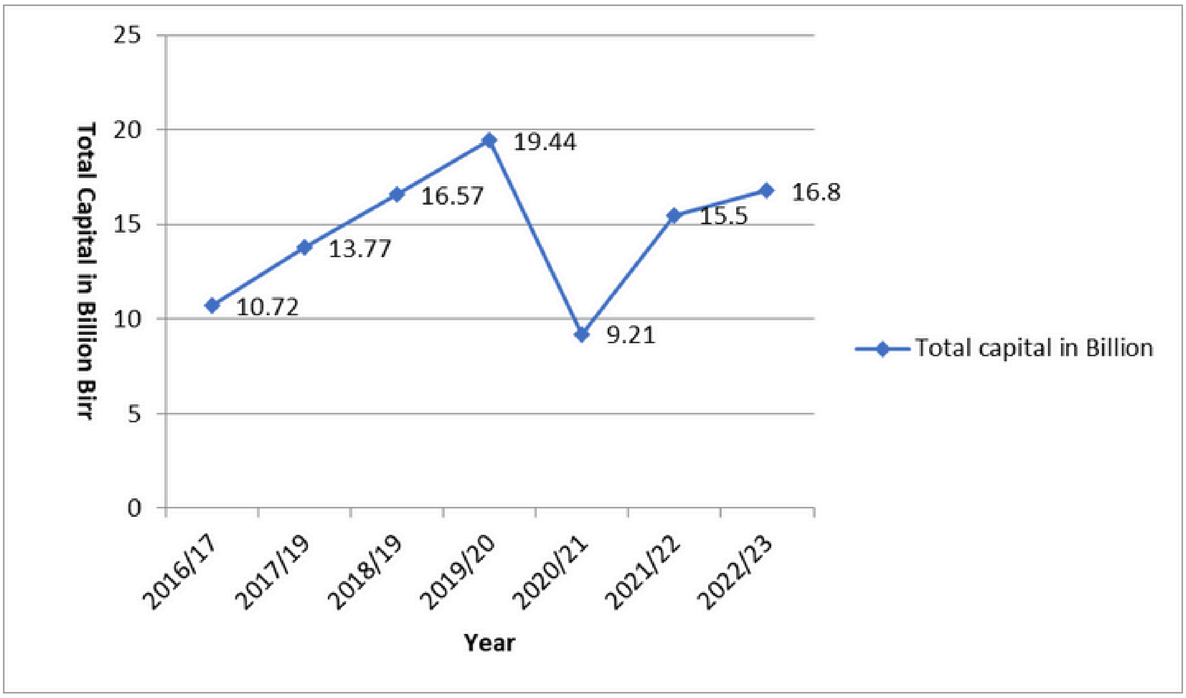
Between 2016/17 and 2019/20, there was a consistent increase in total capital, with percentage rises of 28.5% from 10.72 billion Birr to 13.77 billion Birr, 20.3% to 16.57 billion Birr, and 17.3% to 19.44 billion Birr in consecutive years, respectively. This trend shows a varied pattern throughout the years.

However, in 2020/21, there was a significant decline, with a sharp decrease of 52.6% from 19.44 billion Birr to 9.21 billion Birr in total capital. This decline was likely influenced by the transformation of four leading MFIs into banks, namely Amhara Credit and Savings Institution, Omo Microfinance, Addis Credit and Saving Institution Amhara, and Oromia Credit and Savings Institution. Similarly, Somali MFI and Sidama MFI transitioned into banks in the 2021/22 fiscal year. As a result, these MFIs, which held a considerable portion of the total capital, contributed to the slowdown in growth (NBE, 2023)

Nevertheless, the subsequent year, 2021/22, witnessed a remarkable recovery, with total capital bouncing back strongly, displaying a growth rate of approximately 68.46% and reaching 15.5 billion Birr. This rebound could be attributed to various factors, including the introduction of a new MFI into the industry, a boost in investor confidence, and regulatory adjustments. An example of such a regulatory change is the recent enactment of a law that requires MFIs established in 2023 and onwards, as well as existing ones, to have a minimum capital of Birr 75 million by the end of January 2028.

The following year, from 2021/22 to 2022/23, there was a more modest but still positive increase of 8.4%, bringing total capital to 16.8 billion Birr. The growth rate remained positive but slowed down compared to the previous year, indicating a continuation of growth at a more moderate pace. These trends underscore the importance of understanding and adapting to the dynamic nature of the banking sector, enabling stakeholders to make informed decisions for future growth and stability.

Figure 5: Trend of Total Capital



Source: NBE reports (2016/17-2022/23)

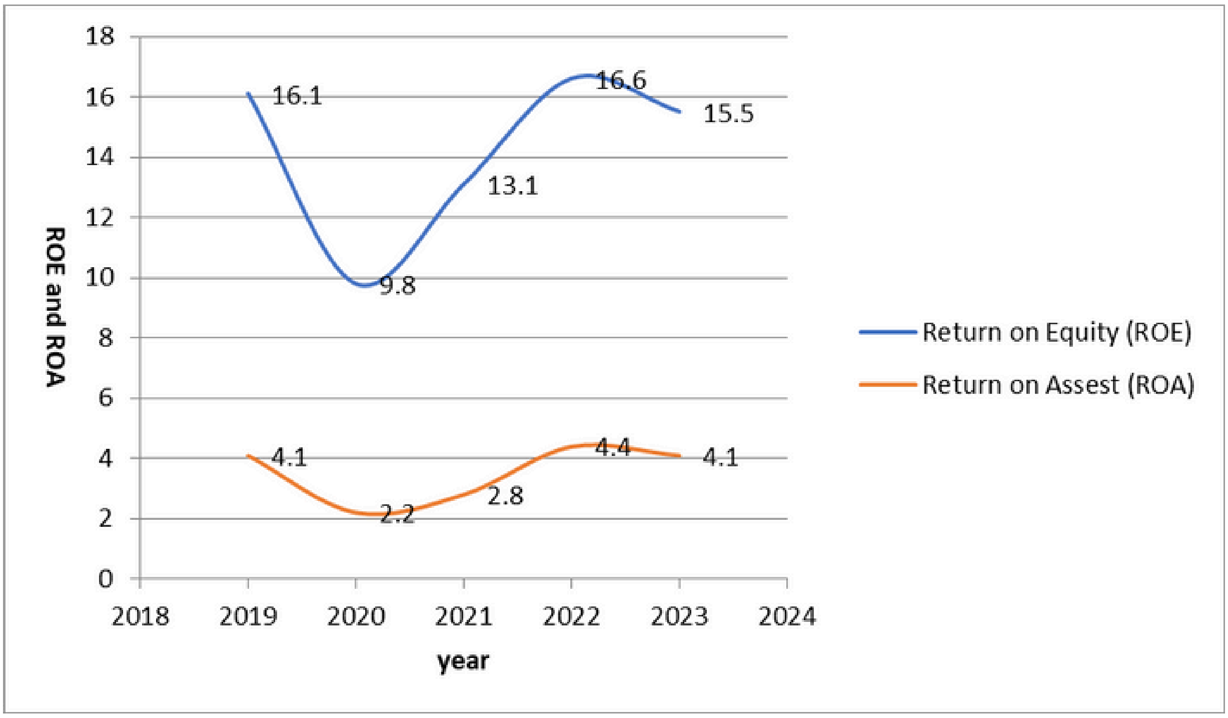
We attempted to gather the paid-up capital of all MFIs over the period of 2020/21 to 2022/23. Regrettably, out of 45 MFIs only 18 responded, where the information gathered indicates a total paid-up capital of 1.5 billion Birr in 2022/23. On average, each MFI possesses 81 million Birr paid-up capitals. Furthermore, their average authorized capital has surged to 160 million Birr as of June 2022/23, up from 73 million Birr in 2021/22

4.6 FINANCIAL PERFORMANCE OF MFIS

Figure 6 illustrates the trend of ROE and ROA from 2019 to 2023 for MFIs. The ROE of MFIs experienced some fluctuations during this period. Beginning at 6.1% in 2019, the ROE dropped to 9.8% in 2020, then climbed to 13.1% in 2021, increased further to 16.6% in 2022, and finally dipped slightly to 15.5% in 2023. Despite these variations, the overall trend indicates a slight decrease in ROE, with an average annual change of -0.12%.

During the same period, the ROA of MFIs also experienced fluctuations, with a decrease to 2.2% in 2020, followed by an increase to 2.8% in 2021, and a peak of 4.4% in 2022. However, the average trend indicates no significant change in ROA over the five-year period. This stable ROA suggests that Ethiopian MFIs, on average, maintained consistent profitability relative to their assets throughout these years, indicating a level of efficiency in asset utilization. Nevertheless, MFIs should continue to monitor and manage their asset utilization to sustain and potentially enhance their profitability over time.

Figure 6: ROE and ROA Trend of MFI



Source: NBE Annual Reports (June 30, 2019-June 30, 2023)

4.7 SHAREHOLDERS, SHARES AND SHARES TRANSFER DYNAMICS IN MFIS

Table 6 provides the mean values of several key variables related to shareholders and share transactions for the years 2021 to 2023. Over this period, a consistent growth trend was observed in most of these variables. The average number of shareholders in MFIs increased steadily from 88 in 2021 to 99 in 2022, and then saw a substantial spike to 142 in 2023. This indicates a growing interest of investors in MFIs, possibly reflecting increased confidence or proactive investor outreach efforts. Similarly, the average number of shares held by shareholders also showed consistent growth, rising from 26,283 in 2021 to 35,615 in 2022, and then further to 46,219 in 2023. This suggests an increasing ownership stake held by shareholders, possibly due to additional share issuances or stock splits.

Institutional investor interest also saw notable growth, with the mean number of shares sold to institutional investors increasing from 5,400,000 shares in 2021 to 6,400,000 shares in 2022, and then to 11,000,000 shares in 2023. This indicates a growing recognition of the MFI's value among institutional investors, potentially driven by positive financial performance or strategic initiatives.

Despite these increases, the mean number of shareholders who transferred their shares partly or wholly remained relatively stable, ranging from 20 in 2021 to 15 in 2023. This suggests that the proportion of shareholders engaging in share transfers did not change significantly over the years. Meanwhile, the mean number of shares transferred saw a slight increase from 16,975 shares in 2021 to 19,494 shares in 2023. This suggests a gradual rise in share transactions, possibly reflecting increased trading activity or changes in ownership.

Finally, the mean value of shares transferred remained relatively stable, starting at 4 million Birr in 2021, peaking at 6.5 million Birr in 2022, and then slightly decreasing to 6 million Birr in 2023. This indicates that while the number of shares transferred increased, the overall value fluctuated, potentially influenced by changes in share prices or transaction sizes.
In summary, the data reflects a period of growth and stability in shareholder-related metrics, indicating increasing interest from investors and possibly changes in the company's ownership structure and market dynamics.

Table 6: The Mean value of Shareholders Characteristics

Year	Number of Shareholders	Number of Shares	Shares Sold to Institutional Investors (Birr)	Shareholders who Transferred their Share	Number of Shares Transferred	Value of Shares Transferred (Birr)
2021	196	201,769	5,400,000	20	16,975	4,000,000
2022	204	224,940	6,400,000	12	17,795	6,500,000
2023	662	279,421	11,000,000	15	19,494	6,000,000

Source: Data Collected from Microfinance Institutions

4.8 CAPITAL STRUCTURE OF INSURANCE COMPANIES

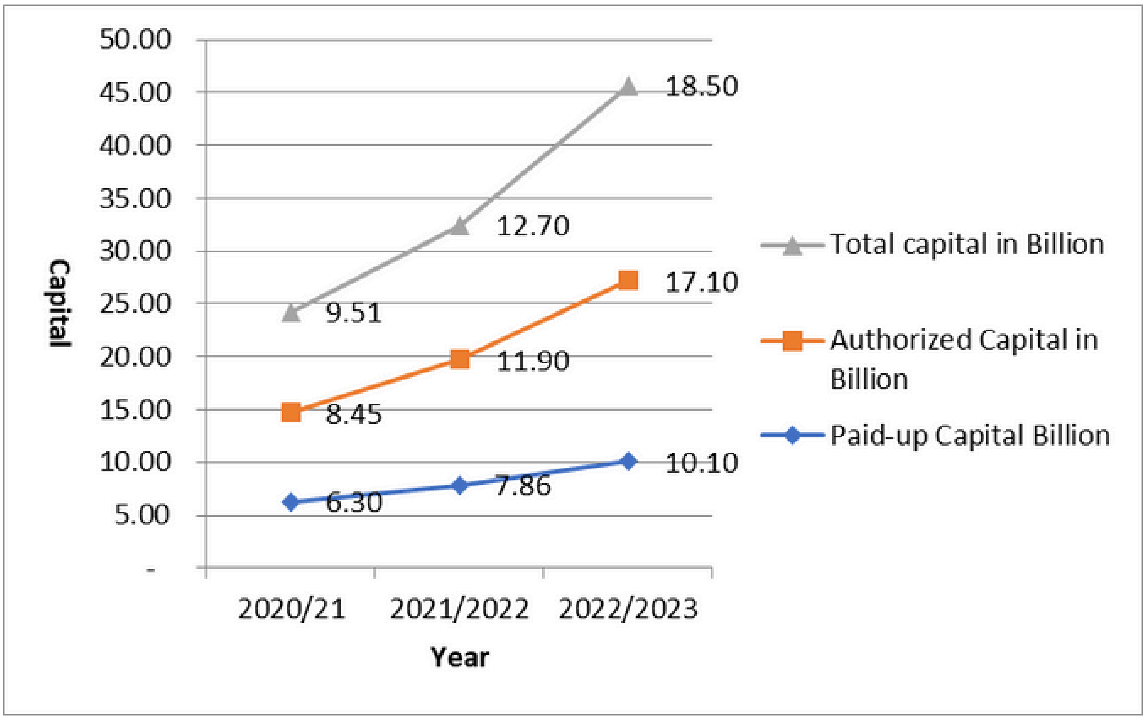
Currently, 18 privately owned insurance companies are providing insurance services in Ethiopia, with 18 of them being share companies. Analyzing the trend of total capital, paid-up capital, and authorized capital of insurance companies from 2020/21 to 2022/23 reveals consistent growth patterns across the board, as observed in Figure 7.

Total capital increased by approximately 33.8% from 9.51 billion Birr in 2020/21 to 12.7 billion Birr in 2021/22 and further surged by approximately 45.7% to 18.5 billion Birr in 2022/23. This indicates a substantial growth trend in the financial resources of insurance companies over the period. Similarly, paid-up capital showed steady growth, rising by around 24.8% from 6.3 billion Birr in 2020/21 to 7.86 billion Birr in 2021/22 and further increasing by approximately 28.3% to 10.1 billion Birr in 2022/23. This demonstrates a continuous injection of capital by shareholders into the companies, potentially reflecting confidence in their financial performance and future prospects.

Regarding authorized capital, there was a notable upward trend, with a rise of about 40.2% from 8.45 billion Birr in 2020/21 to 11.9 billion Birr in 2021/22 and a subsequent increase of approximately 43.7% from 11.9 billion 17.1 billion Birr in 2022/23. This trend indicates that insurance companies are positioning themselves for potential expansion by ensuring the legal capacity to issue additional shares if necessary.

Overall, the trend analysis indicates robust growth in the financial strength and capacity of insurance companies, showcasing their ability to attract capital, manage risks, and seize growth opportunities in the insurance sector.

Figure 7: Trends of Total, Paid-up & Authorized Capital of Insurance Companies



Source: NBE and Insurance Companies Annual Reports (June 30, 2021-June 30, 2023)

4.9 FINANCIAL PERFORMANCE OF INSURANCE COMPANIES

The combined ratio and expense ratio are vital metrics used in evaluating the financial performance of insurance companies. The combined ratio represents the sum of an insurer's loss ratio and expense ratio, expressed as a percentage. The loss ratio is calculated by dividing the total incurred losses (including claims payments, adjustments, and reserves) by the total earned premiums. The expense ratio, on the other hand, is computed by dividing the total operating expenses (such as administrative, underwriting, and marketing expenses) by the total earned premiums.

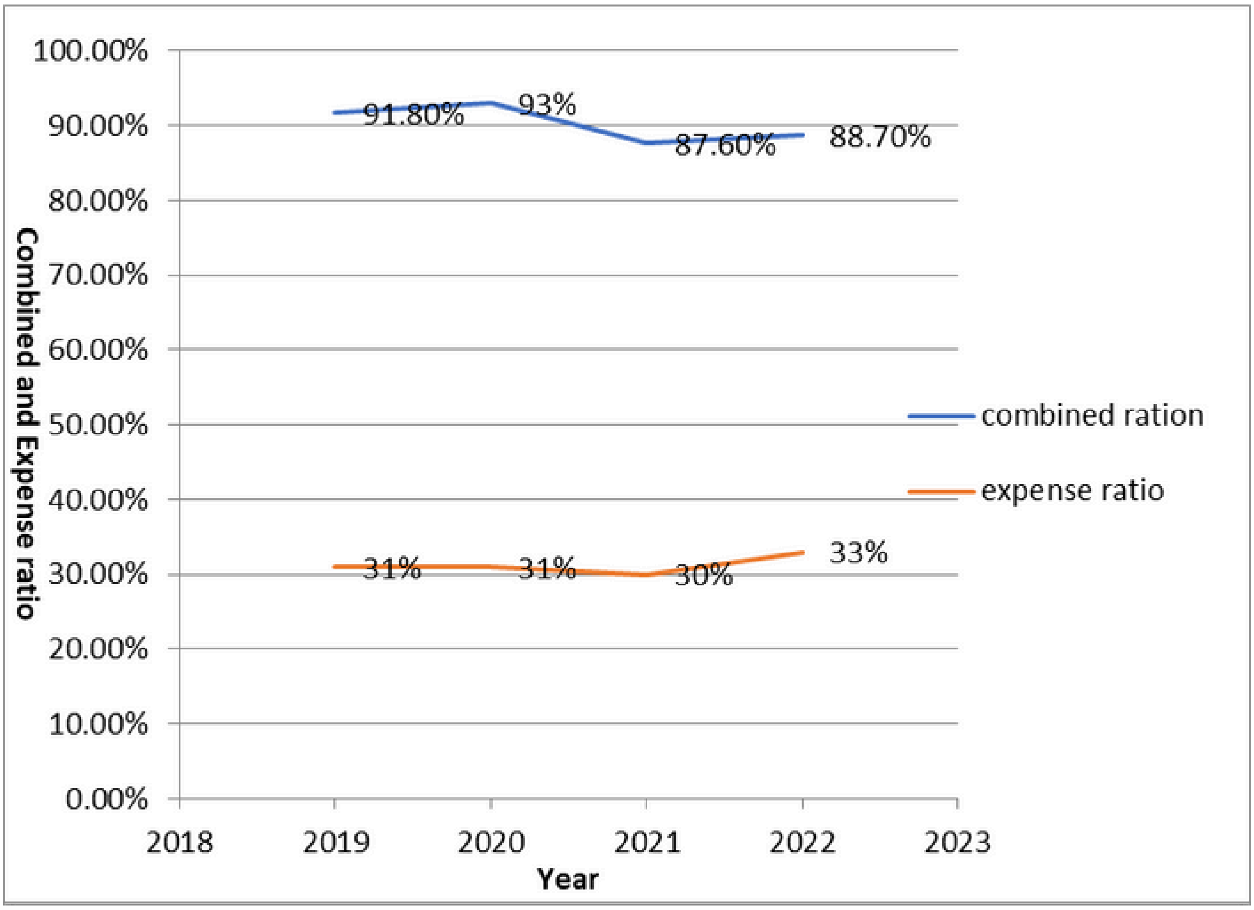
A combined ratio below 100% indicates profitability in the underwriting operations, while a ratio above 100% suggests an underwriting loss. The expense ratio specifically reflects the efficiency of an insurer in managing its operating expenses relative to its premium income. Together, these ratios provide insights into the overall financial health, underwriting profitability, and expense management practices of an insurance company.

Figure 8 illustrates the changing pattern of the combined ratio alongside of the consistent pattern of the expense ratio. In 2019, the combined ratio was 91.80%, indicating that the company's underwriting operations were profitable as it was below 100%. However, the expense ratio was relatively high at 31%, suggesting that the company's operating expenses were a significant portion of earned premiums. In 2020, although the combined ratio increased slightly to 93%, it remained below 100%, indicating continued underwriting profitability.

The expense ratio remained stable at 31%, indicating that the company maintained consistent expense management practices. In 2021, there was a notable improvement in the combined ratio, dropping to 87.60%, indicating even stronger underwriting profitability. The expense ratio also decreased slightly to 30%, indicating improved efficiency in managing operating expenses. However, in 2022, we see a slight increase in both ratios.

The combined ratio increased to 88.70%, suggesting a slight decrease in underwriting profitability, while the expense ratio increased to 33%, indicating higher operating expenses relative to earned premiums. Overall, despite some fluctuations, the companies have generally maintained underwriting profitability and has shown improvements in expense management, except for a slight setback in 2022. These fluctuations could be due to various factors such as changes in claims experience, expense management initiatives, and market conditions, which would require further analysis to understand fully.

Figure 8: Trends of Combined and Expense Ratio of Insurance



Source; NBE and Insurance Companies Annual Reports (June 30, 2019-June 30, 2023)

The equity-to-liability ratio of an insurance company measures the proportion of its equity, representing shareholders' ownership interest, relative to its liabilities, which encompass obligations to policyholders, creditors, and other stakeholders. It is calculated by dividing the total equity of the insurance company by its total liabilities and expressing the result as a percentage. A higher equity-to-liability ratio indicates a stronger financial position and greater capacity to absorb losses or withstand adverse financial events. Conversely, a lower ratio suggests higher leverage and potential financial risk.

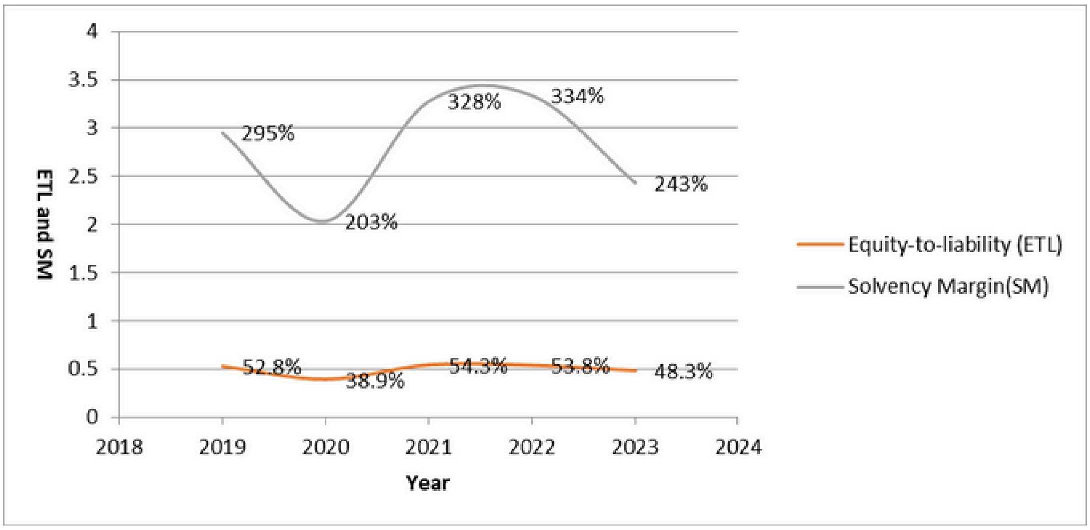
Conversely, the solvency margin of an insurance company assesses its ability to meet its financial obligations, particularly claims and other liabilities, based on available assets. It is calculated by dividing the company's available solvency margin by its required solvency margin and expressing the result as a percentage. The available solvency margin represents the excess of assets over liabilities, while the required solvency margin is the minimum level of assets needed to meet regulatory or internal requirements. A solvency margin above 100% indicates that the insurance company has more than enough assets to cover its obligations, reflecting financial stability and robustness. Equally, a solvency margin below 100% may suggest potential financial vulnerability and inadequate asset coverage for liabilities.

Analyzing the equity-to-liability ratio and solvency margin of the insurance company from 2019 to 2023 reveals notable trends, as depicted in Figure 9. In 2019, the equity-to-liability ratio stood at 52.8%, indicating that the company's equity represented approximately 52.8% of its liabilities. However, in 2020, the ratio dropped significantly to 38.9%, marking a considerable decline of approximately 13.9 percentage points. This decline might suggest a reduction in the company's financial cushion or an increase in liabilities relative to equity. The ratio recovered substantially in 2021, rising to 54.3%, an improvement of about 15.4 percentage points from the previous year. Although the ratio slightly decreased in 2022 to 53.8%, the change was relatively minor. However, in 2023, it decreased further to 48.3%, marking a decline of approximately 5.5 percentage points.

In terms of the solvency margin, which measures the company's ability to meet financial obligations, there was a significant increase from 2019 to 2020. In 2019, the solvency margin was 295%, indicating a strong ability to cover obligations. However, it decreased substantially to 203% in 2020, a decline of approximately 92 percentage points. This suggests that the company's financial position became less robust, potentially due to increased liabilities or reduced equity. From 2021 to 2023, the solvency margin demonstrated consistent growth. In 2021, it increased to 328%, showing an improvement of approximately 125 percentage points from the previous year.

Furthermore, in 2022, the margin continued to rise to 334%, indicating a further strengthening of the company's financial health. However, in 2023, there was a slight decrease in the solvency margin to 243%, marking a decline of approximately 91 percentage points. Overall, while the equity-to-liability ratio experienced fluctuations, the solvency margin showed an overall positive trend, suggesting a generally improving ability to meet financial obligations.

Figure 9: Trends of Equity-to-Liability and Solvency Margin



Source: NBE Annual Reports (June 30, 2019-June 30, 2023)

4.10 INSTITUTIONAL INVESTORS PRESENCE IN INSURANCE SHARE COMPANIES

The result of trend analysis on the dataset reveals interesting insights into the dynamics of private investment in acquiring shares over the three-year period from 2020/21 to 2022/23. The trend shows a consistent increase in the value of shares sold to institutional investors each year. Over the three-year period from 2021 to 2023, the insurance companies experienced significant developments in various aspects of shareholder activity. In 2021, institutional investors purchased shares valued at 1.16 billion Birr, representing approximately 18.39% of the total value of shares, which amounted to 6.30 billion Birr.

This proportion notably increased in 2022, with institutional investors acquiring shares worth 2.71 billion Birr, accounting for around 34.42% of the total value of shares, valued at 7.86 billion Birr. Although the proportion slightly decreased in 2022, institutional investors subscribed shares valued at 2.78 billion Birr, or approximately 27.56% of the total value of shares, valued at 10.08 billion Birr. This trend indicates a growing interest among institutional investors in acquiring shares over the years, reflecting a positive sentiment and confidence in the insurance company's performance and potential returns.

Meanwhile, the proportion of shares sold to institutional investors relative to the total number of shares remained relatively stable, fluctuating between 6.34% and 7.10% over the three years. In 2021, institutional investors purchased 936,425 shares out of a total of 14.76 million shares (6.34%). This proportion increased to 7.10% in 2022, with 1,261,793 shares sold to institutional investors out of a total of 17.76 million shares. By 2023, the proportion remained stable at 6.35%, with 1,478,036 shares sold to institutional investors out of a total of 23.28 million shares.

Despite fluctuations in the proportion of shares sold to institutional investors relative to the total number of shares, the total value of shares and the number of shares owned by shareholders continued to rise consistently, indicating overall growth and stability in shareholder participation.

4.11 SHAREHOLDERS, SHARES AND SHARE TRANSFER DYNAMICS OF INSURANCE COMPANIES

Analyzing the trend in the number of shareholders, number of shares, and share transfer activity in insurance companies from 2020/21 to 2022/23, along with the percentage changes, provides valuable insights into the dynamics of shareholder activity within the insurance sector.

Firstly, the progress of the shareholders over the three-year period from 2021 to 2023 indicates a consistent growth in investor interest and participation in the company. In 2021, the insurance companies had 11,199 shareholders, which increased by approximately 3.49% to 11,589 in 2022, and further by approximately 6.07% to 12,295 in 2023. This steady growth reflects a continuous influx of new investors into the industry, suggesting increasing awareness and attraction towards its shares. On the other hand, the rise in the number of shareholders correlates with the growth in the total value. As more investors join, the total value of shares increases. It grew by approximately 24.42% from 2021 to 2022 and by approximately 28.31% from 2022 to 2023. These changes indicate a broadening investor base, suggesting growing confidence among investors in the company's prospects and performance.

Secondly, the number of shares also exhibited a notable increase. In 2020/21, there were 14.8 million shares, which rose by approximately 19.6% to 17.8 million in 2021/22, and further increased by approximately 31.7% to 23.3 million in 2022/23. This indicates that insurance companies are issuing more shares, likely to accommodate the rising number of investors and to raise additional capital for expansion.

Thirdly, share transfer activity showed a significant rise throughout the period. The number of shareholders who transferred their shares partly or wholly increased by approximately 6.8% from 289 in 2020/21 to 307 in 2021/22, and further rose by approximately 8.5% to 333 in 2022/23. Similarly, the number of shares transferred increased by approximately 61.7% from 286,576 shares in 2020/21 to 462,964 shares in 2021/22, and further surged by approximately 76.4% to 816,023 shares in 2022/23. This increase reflects heightened activity in the secondary market, where investors buy and sell shares among themselves.

The value of shares transferred also witnessed substantial growth. From 2020/21 to 2021/22, the value increased by approximately 61.6%, from 125 million Birr to 202 million Birr, and then by approximately 75.2% to 355 million Birr in 2022/23. This indicates a growing market for share transactions within the insurance sector.

Finally, there was a consistent growth in the proportion of shares transferred from the overall count of shares. It experienced a gradual surge of around 34.0% from 1.94% in 2020/21 to 2.60% in 2021/22, and subsequently escalated by approximately 34.8% to 3.50% in 2022/23. This signifies an increasing level of liquidity and trading activity within the industry. Nevertheless, due to the relatively small magnitude of the proportion of shares transferred from the total number of shares throughout the three-year period, it can be inferred that the shareholders remain relatively stable.

Overall, these trends suggest a promissory market for insurance company shares, driven by increasing investor interest, trading activity and potential for further growth and development in the industry.

05 CONCLUSION

The financial industry in Ethiopia has experienced significant expansion in various aspects in recent years. The total capital of the sector surged from 112.461 billion Birr in 2020/21 to 244.619 billion Birr in 2022/23, marking an impressive percentage increase of approximately 117.5%. This surge is indicative of growth and underscores the sector's strengthened financial foundation. Both paid-up capital and authorized capital have also shown substantial increases, reflecting promissory financial performance and investor confidence in the sector. Key financial performance indicators such as Return on Equity and Return on Assets for banks and MFI and combined ratio, expense ratio, equity-to-liability ratio, and solvency margin for insurance companies demonstrate the sector's improved financial performance during this period. Moreover, there has been a considerable increase in the number of shareholders both individual and institutional and the shares transferred to other demonstrating growing interest in investing in Ethiopia's financial institutions.

06 ACTIONS TO BE TAKEN FORWARD

Based on the findings provided, the following recommendations are forwarded:

1. **Education and Awareness creation:** Offer educational programs to investors, informing them about the benefits and risks of various investment options.
2. **Engage Institutional Investors:** Strengthen relationships with institutional investors by creating tailored strategies to attract more investment. Implement outreach programs to engage directly with institutions, presenting detailed investment opportunities in banking, microfinance, and insurance.

3. **Focus on Corporate Governance:** corporate governance practices to meet institutional investors' demands and increase market confidence.

4. **Improve Market Visibility:** Launch marketing campaigns and participate in industry events to promote opportunities in the Ethiopian capital market. Invest in marketing and PR efforts to enhance brand perception and visibility, emphasizing unique selling points and success stories.

5. **Enhance Financial Transparency:** Improve financial reporting standards to provide clearer insights into companies' financial health and performance. Ensure timely and accurate financial reporting to boost investor confidence.

6. **Improve Financial Performance:** Focus on improving financial performance to showcase growth potential and attract institutional investors. This may involve increasing revenues, improving profit margins, and efficient cost management.

7. **Collaborating with other government institutions to design and implement incentive packages:**

   - Incentivize institutional investor participation by offering exclusive access to research reports, market insights, or networking events.
   - Offer incentives for companies to enhance corporate governance practices, such as tax breaks or regulatory benefits for adhering to best practices. Recognize companies with strong governance structures through awards or certifications.
   - Incentivize companies to participate in marketing campaigns and industry events by offering co-funding or promotional support. Provide incentives for companies to share success stories and achievements in the market.
   - Introduce incentives for companies to improve financial transparency, such as reduced listing fees for those meeting higher reporting standards. Offer recognition or awards for companies demonstrating exceptional transparency and accountability.

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