Monetary Developments and Decolonization in Ethiopia (1941-1952)

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Abstract: The article analyses the reorganization process of the monetary setting in Ethiopia which started in 1941 along with decolonization, when the Italian colonial rule came to an end. The country regained independence and the former Ethiopian empire was restored. The monetary reform in Ethiopia after the liberation during World War II, was a necessary measure to be adopted. Different paths however could have been followed at that moment by the Ethiopian government. The crucial choice made in money matter was to re-establish a national monetary unit instead of keeping the country inside the East African shilling area, as it was envisaged in British designs for the post-war setting of the Horn of Africa. The Ethiopian project unpredictably prevailed at the end of a weary negotiation, due to the chiefly American support in the framework of a new role gained by the United States in this area. The Ethiopian Authorities were, as a consequence, enabled to free themselves from dependence on Great Britain.

Keywords: Ethiopia; History of Money in Africa; Monetary Reform

JEL Classification: E 42, G 21, N 27

1. Introduction

The advent of a national currency in Ethiopia supported by the Emperor Menelik II had been marked by the first minting of coins in 1894 and by the establishment in 1905 of the Bank of Abyssinia, authorised to issue notes and to perform banking operations (Mauri, 1967; Schaefer, 1992). In 1931, however, this institution was liquidated by Haile Selassie and its assets and liabilities as well as premises and staff were taken over by the new established state-owned issuing bank: the Bank of
Ethiopia. The Bank of Ethiopia, at its turn, closed its business following the occupation of the country by the Italian army (Mauri, 1967) (Tuccimei, 1999).

The purpose of this paper, however, is to describe and analyse the reorganization of the monetary setting in the country, started in 1941, when the short-lived Italian colonial rule came to an end during World War II. The terminal date of the study is the end of 1952.

Historically, when one country conquers another country, the currency brought in by the conqueror usually replaces the currency of the occupied country. This was the case of Ethiopia; twice in the laps of a quinquennium the legal tender currency was changed by two different conquerors. In 1936, the Italian lira had replaced the Ethiopian thaler issued by the Bank of Ethiopia and, in 1941, the currency of the defeated colonial ruler had been, at its turn, replaced by the East African shilling brought in by the British conquering army. The new occupying power, in fact, had found it more convenient in 1941 not to allow its own domestic currency, i.e. the sterling, to be legal tender in Ethiopia and, instead, to enforce the British colonial currency which was issued by the East African Currency Board.

The paper has two more sections. Section 2 analyses the heterogeneous monetary circulation of the country after the collapse of the Italian colonial administration and the attempts of Ethiopian authorities to reorganise the monetary setting. Section 3 deals with the re-achievement of monetary sovereignty by independent Ethiopia.

### 2. The Adopted First Measures

Ethiopia, after a centuries-old independence, had experienced in the second half of the 30s a short period of colonization and economic development, accompanied by an increasing use of money for transactional purposes, under Italian rule. These improvements in monetary circulation occurred thanks to the fact that a number of Italian banks had settled in the country and a network of 24 bank-branches, covering all the provinces, had been set up (Mauri, 1967) (Tuccimei, 1999).\(^1\)

In the course of the Second World War the Emperor Haile Sellassie re-entered the country in 1941 and eventually Ethiopia was liberated from Italian occupation. Upon his return to the throne, the Emperor, intended to pursue the same objectives in the monetary and financial field on which were based his innovative policies.

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1 In addition, in Eritrea were operating 13 bank-branches and in Somalia 5 bank-branches for a total of 42 branch-offices in the whole Italian East Africa Empire (A.O.I., Africa Orientale Italiana)
implemented in the country during the early nineteen-thirties, just few years before foreign invasion. These objectives were mainly represented by the creation of a national bank of issue, wholly Ethiopian-owned, and by the establishment of a domestic monetary system with the aim of providing a homogeneous currency for the economic development of the country (Mauri, 1997).

However the economic and political situation of Ethiopia at that time, which continued to feel the effect of the recent hostilities, together with the British military presence, suggested leaving these objectives aside for the time being and to give, instead, priority to the reorganization of the current monetary setting. British-East African, Egyptian, Indian and Italian notes and coins as well as Maria Theresa’s silver thalers, in fact, circulated side-by-side in a chaotic situation characterized by wild fluctuations of market rates of exchange, i.e. the prices of one currency in terms of another to settle demand and supply as for any other commodity traded on the market.

The Maria Theresa’s thaler was an impressive-looking silver coin originally struck in Vienna during the reign of the Empress Maria Theresa of Habsburg and minted thereafter for the countries of the Red Sea Littoral and for Abyssinia, but always with the same date, 1780 (Tschoegl, 2001). In some areas of Ethiopia in 1941 the Austrian silver coins, being a full-bodied money, were still the most popular means, both for payments for goods and services and for hoarding. According to Pankhurst (1965) and other authors, this silver coin, besides its use as money, i.e. means of payment, standard of value and store of value, also performed relevant non-monetary functions: in fact it served as jewel, as certified source of silver for melting down and even as a measure of weight (28.0668 grams).

The volatility of free market exchange rates among different currencies circulating in Ethiopia, as observed before, was high and rates differed notably from one place to the next. Furthermore, for each single monetary unit, coins were unequally valued in relation to their denomination, the intrinsic nature of specie (metal

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1 The British, who entered the Ethiopia in the temporary absence of Ethiopian authorities, had in fact, replaced the Italian Colonial Administration in ruling the country. The political, military and economic control was firmly in British hands. Ethiopia was incorporated into the British sterling area via East Africa shilling and full banking services were provided under monopoly by a British financial intermediary, the Barclays Bank. A branch of this institution had been opened in Addis Ababa, just after liberation of the city in order to meet the immediate banking requirements (Perham, 1949; Konczacki, 1962). The British Military Administration was, in fact, reluctant to share power, chiefly in the monetary and financial field, with emerging Ethiopian authorities and the Emperor Haile Selassie, on the other hand, was distrustful of British designs on his empire (Vestal, 2002).
differing in silver, nickel, acmonital,\textsuperscript{1} copper and bronze and in finesse) and their wear (Mauri, 1967).

The overall circulating medium of exchange and its qualitative make-up changed over time as a result of currencies inflows and outflows across the little watched Ethiopian borders. The intensity of these flows was at the same time an impact on prices of commodities and on the fluctuations of free market exchange rates of the various notes and coins in circulation.

Alarmed by the rapid worsening of monetary situation, Ethiopian Authorities decided to regulate without further delay the whole matter. With an initial ordinance dated September 27th, 1942 (Proclamation no. 23), Ethiopian Authorities made the export of Maria Theresa’s silver thalers subject to their preliminary authorization. An outpouring of the Austrian thalers from the country was going on, following a sharp rise of the price of silver on the world market.

The exchange rate of Habsburgs silver coin (full bodied money) with the East African shilling in the free market had, in fact, exceeded that of the official exchange rate. The apex of the gap between free market exchange rate and official exchange rate occurred in 1944, when the value of the Maria Theresa’s thaler in terms of silver content and based on the international silver price corresponded approximately three shillings, while the official exchange rate was two shillings per thaler (Luther, 1958).

An attempt to complete regulation on this matter was made by the government of Addis Ababa with a set of laws, each apparently drawn up at different time, which appeared together in the \textit{Negarit Gazeta} of 31st October 1942.

The first law (Proclamation N°. 31) revoked definitely the status of legal tender of the Egyptian pound and of the Indian rupee. Legal tender statuses were reconfirmed, on the other hand, for East African shilling (Mauri, 2009) and Maria Theresa’s thaler and were given back to the Italian lira. It is worth to remind at this point that according to the preceding Notice No. 3 of 7th April 1941 issued by the British Military Administration and signed by General Sir Alan Cunningham at his headquarter in Harar, only four currencies had gained the blessing of legal tender

\textsuperscript{1} Acmonital (acronym “acciaio monetario italiano”) was a steel alloy used in Italy for minting coins.
status: the Maria Theresa’s thaler, the East African shilling, the Indian rupee and the Egyptian pound.\(^1\)

According the Proclamation N°. 31 of 31\(^{st}\) October 1942, all currencies outside the three given legal tender status, were to be considered foreign and to be traded only by *ad hoc* authorised dealers. The above-mentioned act also confirmed the ban on export of Maria Theresa’s thalers and – it added – of any other currency without specific authorisation (Perham, 1949).

The content of this law was, however, partially contradicted by a successive act (Proclamation N°. 32) which awarded legal tender status only to the Austrian full bodied silver coin and to the East African shilling. Italian lira, instead, was to be accepted for payments to the Public Administration for only one quarter, starting from the date the act became effective. The Italian currency was to be allowed to circulate among private parties, and to be valued on the basis of the official exchange rates, provided that liras were of a coin or, in the case of notes, of denomination not exceeding ten. A decree of the same date (Legal Notice No. 10/1942) fixed the value of Maria Theresa’s thaler at 1.875 East African shillings.

The obvious aim of all these enactments of the Ethiopian government was to reduce the heterogeneity of the stock of money in circulation by excluding currencies of foreign origin except those most accepted by people and those officially used in the country by British military authorities. The exclusion of Italian lira, the currency formerly introduced into the country by the collapsed Italian colonial empire, was not immediate but easily foreseeable in this context.

The official exchange rate between the East African shilling and the Maria Theresa’s thaler was later modified in the Austrian silver coin’s favour with a decree issued on 29\(^{th}\) January 1943 (Legal Notice no. 13/1943). According to new official rate, one Maria Theresa’s thaler was worth two East African shillings.

Eventually, on September 30\(^{th}\) 1943, was issued the Legal Notice 32/1943 in order to regulate the outflow of East African shillings.

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\(^1\) Marein (1955, p. 216) states at this regard: “the said Notice contains a passage which seems to indicate that General Cunningham’s power to issue such rules is derived from His Imperial Majesty”. The Notice of April 7\(^{th}\) 1941 was followed by a Notice issued by British Military Authority on April 24\(^{th}\), 1941, fixing official exchange rates between Italian lira and the legal tender currencies. According to this Notice, one Maria Theresa’s silver thaler equalled 45 Italian liras, one East African shilling’s worth was 24 Italian liras, one Egyptian pounds’ worth was 492 Italian liras and one Indian rupee’s worth was 36 Italian liras.
The results obtained by this series of measures were, however, definitely unsatisfactory, only in part owing to the lack of enforcing power of Ethiopian authorities, especially in the outlying areas. The Emperor, on the other hand, had hoped to embark upon a complete monetary reform, but his designs met with an understandable strong British resistance. The British, in fact, meant to keep Ethiopia within the monetary area of the East African Currency Board and were, if anything, inclined to make concessions in the banking industry field, which was much less interesting for them (Mauri, 1967). Priority was thus given by the Emperor to financial reconstruction by creating an Ethiopian bank.

Plans to establish a bank of issue as it had been in 1931 the Bank of Ethiopia, short lived because of Italian occupation had obviously to be set aside, at least for the moment. They were in fact conflicting with British objectives on money matter in the region. A compromise-solution calling for a constitution of a state-owned commercial bank was necessarily opted for. Slightly less than two months after the establishment of the Post Office, on 26th August 1942, the law constituting the State Bank of Ethiopia (SBE) as a corporate entity was enacted (Proclamation No. 21). Article 3 of the above mentioned imperial proclamation prescribed that the capital of the bank was to correspond to one million of Maria Theresa’s silver thalers, the currency then in force in the country along with the East African shilling. The capital was fully subscribed by the Ethiopian Ministry of Finance.

Contacts with Barclays Bank, followed and an agreement was eventually reached in the context of a wider Anglo-Ethiopian convention, requiring the British bank, previously operating as sole bank in the country, to pull out of Addis Ababa on 15th April of the following year relinquishing its branch to the State Bank of Ethiopia.1

The Bank’s charter, published in Negarit Gazeta on 30th November 1943 (General Notice N2. 18/1943), authorized it to carry out all kinds of transactions customary for commercial banks on the withdrawal of Barclays Bank and, further, gave it the power to make industrial loans. The Bank was entrusted also of the service of fiscal agent and banker of the Ethiopian government. The governance of the Bank, consisting of a Board of Directors, the members of which were to be appointed by the Imperial government. (Mauri, 1997)

1 The Addis Ababa branch of Barclay’s Bank had been opened in 1941.
3. The Re-achievement of Monetary Sovereignty

The Imperial government’s firm decision to face and solve radically the monetary difficulties of the Ethiopian economy as well as to replace East African shillings with a national currency providing by this way a uniform medium of exchange for the whole country helped to accelerate the process of monetary and banking reform. As might be expected, British resistance made tricky the implementation of Emperor’s plans, but at the end these difficulties proved less strong than anticipated. It often happens that a nation’s development is determined by fortuitous circumstances, foreign as well as domestic, and by relevant events occurred in other parts of the world. The rise of cold war and United States ambitions to play a leading role also in the African continent and chiefly in a country close to the oil producing area of Arabic Peninsula pushed the British to reconsider radically their plans on the Horn of Africa.¹

This project gave rise to Proclamation N°. 76 of 29th May 1945, cited as the Currency and Legal Tender Proclamation, 1945. A preliminary modification of the terms of the 1942 Anglo-Ethiopian monetary agreement was, however, a pre-condition and a new agreement was thus reached which conferred monetary sovereignty on Ethiopia.² British resistance to Ethiopia’s exit from the East African Currency Board’s monetary sphere was overcome by an undertaking of Addis Ababa authorities to make a substantial use of sterling as reserve currency. In addition, as a preliminary step, a loan of silver was obtained from the United States on the base of the Lend-Lease Act of 11th March 1941.³

With the above mentioned law of 29th May 1945, which contextually repealed the previous Legal Tender Proclamation n. 32 of 1942, an Ethiopian monetary system was established on the decimal system and based on a currency denominated “the Ethiopian dollar” which was nominally in gold. In compliance with the terms of International Monetary Fund agreement, an initial parity, establishing weight and

¹ A “Mutual Aid Agreement” between U.S. and Ethiopia was signed on August 9th, 1943 (Vestal, 2002).
² See E.W. Luther, Ethiopia, p. 105
fineness, was set, corresponding to 5.52 grains of fine gold equivalent to 40.25 U.S. cents.¹

Monetary functions were assigned exclusively to the State Bank of Ethiopia upon Government delegation. Since the Bank was to continue to grant credit and make commercial loans, it was considered best to separate the two activities in laying definite plans by creating an Issue Department within the Bank’s organization chart. Thus the task of issuing notes and coins was fully entrusted to this department of the Bank.²

To back the issue of bank-notes a monetary reserve known as “the Currency Fund” was to be set up, but the name was, in fact, improper and misleading since only issue of notes and not of metal token coinage was covered while the term “currency” encompasses both. The Fund was to be composed of not less than 75% gold, silver and foreign hard currencies (in bank balances or prime securities readily convertible) with the remaining in Ethiopian Treasury Bonds.³ The Issue Department was subject to direct supervision by the Ministry of Finance. The Ethiopian Ministry of Finance was also empowered to regulate procedures to be followed in exchange transactions as well as in the withdrawal of the other currencies circulating in the country.

This ministry had also the task to fix the exchange rates between circulating currencies and the new currency. In addition, the exchange rate was set at which the value of obligations contracted prior to July 1945 and pending financial transactions denominated in East African shillings at 23 July 1945 was to be converted into Ethiopian dollars. That rate was two shillings per Ethiopian dollar. With reference to values of obligations contracted prior to July 1945 and pending transactions denominated in Maria Theresa thalers, instead, an exchange rate was not fixed at this time and the task was left to the State Bank of Ethiopia. A legal exchange rate of parity for the Maria Theresa’s thaler to the Ethiopian dollar was,

¹ See Art 2 of Proclamation N°. 76/1945 and Art. of the Attachment A to this law. See also Z.A. Konczacki (1962)
² See Art. 3 of Proclamation N°: 76/1945 and Art. N°: 1 and Art. N°: 2 of the ordinances in Attachment A.
³ The Currency Fund was initially mainly composed of East African shillings, which were first converted into sterling. Even the Maria Theresa thalers, once withdrawn from circulation, went to enlarge silver reserves, whilst gold reserves were increased mainly by domestic mining output. At the end of 1946, the Currency Fund consisted of 5% of metal reserves, 93% of foreign currency reserves and 2% of Ethiopian Treasury bonds (Luther, 1958).
however, established for the conversion into the new Ethiopian monetary unit of all values denominated in thalers mentioned in all legislative acts then in force.

Differing treatment of the two currencies in circulation in the country at the time of the reform had been foreseen and was clearly reflected in the expiry dates of their status as legal tender. The Maria Theresa’s silver thaler was to have ceased to hold such a status when the law in question came into force. The State Bank of Ethiopia was to have handled the withdrawal from circulation of these full-bodied silver coins on the basis of a variable exchange rate to be established periodically taking into account silver price trends. The East African shilling was, instead, to maintain its legal tender status for another half-year. Nonetheless, certain limits were placed on the circulation of this British colonial currency’s fractional coins.

The law, additionally, established the denominations to be adopted for the new currency: the Ethiopian dollar. The task of specifying the features of the notes and coins was entrusted to the Ministry of Finance. The issue of 1, 5, 10, 20, 50, 100 and 500 Ethiopian dollar bank-notes as well as the minting and issue of copper pieces corresponding to 1, 5, 10 and 25 cents and a silver 50-cent piece were planned.¹

Both the bank notes and coins were made in the United States and the shipment to Addis Ababa was done via Djibouti. With the introduction of the new currency, however, some problems arose with the 25 cents copper pieces.²

However, the forecasts of Ethiopian authorities turned out to be, as usual, excessively optimistic. The Maria Theresa’s thaler continued, in fact, to circulate as a means of payment liked by the public and the State Bank of Ethiopia, given its very limited branch network, was definitely unable to carry out, as planned by the Ethiopian government, the replacement of the Austrian silver thalers. Furthermore, a large part of the population even totally ignored the monetary reform brought in by the Ethiopian authorities. But also the withdrawal of the East African shillings – which presented undoubtedly much less concern since this currency, used primarily by foreign businessmen and upper income groups, circulated mainly in the most important commercial centres – took much more time than had been foreseen by

¹ According to art. 6 “the currency notes issued by the State Bank shall be legal tender in Ethiopia for the payment of any amount” and “coins issued under this Proclamation shall be legal tender for any amount in the case of silver coins and not exceeding ten dollars in the case of base metal coin”.
² In fact the silver piece of 50 cents was equal in dimension to the 25 cents copper piece and counterfeiters dipped the copper quarters in a nickel solution passing them off as half dollar pieces (Deguefe, 2006).
Addis Ababa authorities. The initial half-year transition period in which this currency was still to be considered legal tender had thus to be reluctantly extended. However, a non-extendible expiry date for the circulation of East African shilling was set at 23rd May 1946.\textsuperscript{1}

Following the definitive disappearance of the East African shilling, every possible course of action was taken by Ethiopian authorities to complete the withdrawal from circulation of the Maria Theresa’s silver thalers. This was a goal which two attempts at monetary reforms had already failed to achieve in the past. The first had been promoted by Menelek II at the start of the century, the second by Haile Sellassie himself in the mid-thirties. Not even the Italian colonial administration, with the advantage of a large banking branch system spread throughout the Ethiopian territory, had succeeded in this action (Mauri, 1967).

A first law issued on 30th November 1946 (Proclamation N°. 81) forbade not only payments and trade but also hoarding of Maria Theresa’s thalers and contemplate heavy fines on violators. It is interesting to point out that prohibition of hoarding was not easily understandable in a country where a large use of the Austrian silver coins was made in jewels production (Pankhurst, 1965; Mauri, 2003). The law was to take effect on different dates in the various regions of the country.

The results, however, fell so far below expectations, that a second law was enacted few months later which extended the deadlines previously set.\textsuperscript{2} But the Maria Theresa’s thaler continued to circulate even after the expiry date set by this second law. Thus, with Proclamation N°. 105 (Negarit Gazeta of 27th August 1949) it was enjoined in peremptory terms that these silver coins had to be delivered to the State Bank of Ethiopia and reasserted the absolute ban on negotiating them for any other purpose. The law cited contemplated a fine of up to 5,000 Ethiopian dollars and imprisonment up to five years for violators.

At the time when Eritrea, following a United Nations resolution, was federated with Ethiopia, the problem arose in introducing Ethiopian currency into this territory as legal tender in the place of East African shillings circulating under British Administration (Rena, 2007). The proclamation N°. 127 of 25th September 1952 was enacted to this end. It extended the Ethiopian monetary system to the incorporated territory and prescribed that the value of all pending financial

\textsuperscript{1} See Legal Notice 90/1945 in Negarit Gazeta of 30th November 1945.
\textsuperscript{2} See Proclamation N°. 99, in Negarit Gazeta of 29th April 1947.
transactions be converted into the national currency at the rate of 2.86 East African shillings per Ethiopian dollar.

The official exchange rate was considered slightly disadvantageous by the Eritrean businessmen, since in the past the Ethiopian dollar had been valued and traded at about 2.50 shillings on the Asmara free market. However, the introduction of Ethiopian currency into Eritrea did not create serious problems, since Maria Theresa’s silver thaler had for some time held only a marginal position among the currencies in circulation (Caselli and Mauri, 1986).

4. References


