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Financial & Telecom Liberalization: Potential Prospects & Hazards

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While Ethiopia has recorded significant achievements in GDP growth, it faces predictable armor of trials with too few mechanism and wherewithal, while also wrestling with the perennial problem of sequencing policy reforms, all subject to doctrinal reins. Given the very slim boundaries for maneuver imposed by abject poverty, deficits and a complex interlace in its political fabric, getting the priorities right are the central issues to be addressed. Using comparative analyses with other African nations that have liberalized their economy, the research delves into the impact of liberalization and the requisite preparatory basis of a reform pedestal on which the nation can be a winner in this game. The financial sector is underdeveloped in comparison to some neighbors where part of the population operates in a cashless society. Financial and telecom liberalization is an integral part of the overall economic liberalization, a set of policy measures designed to deregulate and transform the system with the view to achieving a liberalized market-oriented system within an appropriate regulatory framework. Findings of the research undergird eloquent testimony of complexity and uncertainty theories and functioning economic models that Ethiopia can emulate, underpinning the fact that this can be complex, when reforms are subject to ideological therapy. Hence, managed restructuring of the public sector, establishing institutional capacity for policy analysis, formulation and coordination, regulatory capacity, advancing fiscal sustainability are gleaned as a panacea for change and transformation. Creating a merit based and metric civil service is a basic requirement to achieve higher 'allocative' and 'productive' efficiency, augmenting private sector share and improving public sector financial health. African countries have now deregulated their ICT industry and wooing investors to the economy, with significant impacts to show, driving rapid growth with the exception of state monopolies - Ethiopia, Eritrea and Djibouti.

Key words: liberalization, right sizing, meritocracy, telecom, private sector, regulation

1. Introduction

The Ethiopian economy has recently been growing double digit recently that provides opportunities to integrate investment and aid with a strong economy to finance development within. This is despite the fact that, it has not sustained long periods of high economic growth rates in the past. A 2010 World Bank Memorandum asserts that (World Bank, 2010) *the poverty-focused development strategy has registered some notable success. The shift in macroeconomic policy in the early 1990s decisively contributed to stability, raised growth rates, reduced the country's external indebtedness and created new margins of maneuver for sectoral and structural policies.* Nonetheless, in effect, Ethiopia's growth potential is yet to be mobilized, mired by self-reinforcing dynamics locking the country in low growth equilibrium. Recently, many developing nations, has faced a turbulent economic environment because of the global financial crises and stemming from surging import prices that have contributed to a jump in inflation. The global recession is putting pressure on export receipts, remittances & FDI (IDA and IMF, 2011:2).

> *While authorities have been successfully implementing a macroeconomic adjustment package since late 2008 to help lower inflation and build up international reserves, the global recession is now putting renewed pressure on the external position as export receipts, remittances weaken and inward direct investment slows. Programs were adopted to address the strains on the balance of payments and to keep inflation low, but seeking a balance among conflicting objectives is indeed a major preoccupation. The uphill struggle is accommodating higher capital outlays, continued tight fiscal stance, slowing of the pace of monetary growth and gradual real exchange rate adjustment.*

The *Growth and Transformation Plan* (GTP) emphasizes macroeconomic stability as the primary policy objective, based on a case scenario of an average annual growth rate of 10%. The monetary program seeks to limit broad money growth, seeking to enhance its control over reserve money by systematic use of the regular treasury-bill auctions to manage liquidity.

> *Prudent implementation of this program, accompanied by planned reform measures, will provide a sound macroeconomic environment for economic growth. The financial support being provided under the exogenous shocks facility, coupled with the new allocation of IMF's Special Drawing Rights will further boost foreign reserves, thereby enhancing confidence in the sustainability of the economic program* (Ibid). *Igniting growth and setting in motion a process of structural transformation will in effect involve unlocking these self-reinforcing mechanisms. This calls for a coordinated change in the composition and the level of public investment and by providing targeted public goods that will create better functioning and thicker markets. Accelerating growth will hinge on greater levels of capital stock that would increase, in turn, the rate of return of private investment, which, in addition to a suitable investment climate, is critical to accelerate growth. The proposed short-term actions could trigger a process of virtuous change based on market integration, labor productivity improvement and complementarities between public and private investments; build confidence; and lay the ground for future long-term reforms* (World Bank, 2010:4).

Political supports for any reform in specific countries are very essential for the introduction, implementation and sustainability of the reform. In developing countries, reforms usually come from external link through the government need and interest with either voluntary or pressures from international institution, which is the major determinant for the successful introduction of the reform. Contrary to this, there may also be political resistance, which is primary obstacle in introducing reforms. Financial and telecom sector liberalization like other reform needs greater political consideration and support to be effective and functional. Different procedures, technical quality, and evidence and research based financial liberalization will contribute to national development and hence the imperative to win the attitudes of the politicians.

The state still has snags in demarcating its governing and mercantile roles, resulting in significantly tinsel fiscal behavior, added to the chronic deficit in economic orderliness, tainted by graft and influence peddling. State-owned arenas of banking and financial intermediation, airlines, shipping lines, telecommunication, power generation and transmission are hemorrhaging the economy when they can actually be agents of transformation under a liberalized regime. This think piece is a dialogue starter article based on the various assessments undertaken in the recent past by various scholars and institutions (Kiyota, et al., Costantinos, 2011; IT & Telecom Digest, 2014; World Bank, 2010 and IDA and IMF, 2011, etc.).

2. **Statement of the problem, research questions, objectives and methodology**

The IMF/WB JSAN (2011) main concerns stem from trajectories that threaten Ethiopia's macroeconomic stability. The alarm is predicated on heavy financing needs that have not been secured, insufficient prioritization; limited role envisaged for the private sector, high and rising inflation and entrenched negative real interest rates and debt distress (Costantinos, 2013).

> *The GTP's ambitious spending plans may be outstripping the absorptive capacity of the economy, which is already stretched. The financing needs for the public sector will crowd out private sector credit on the domestic side and strain debt sustainability on the external side.*

Furthermore, the report underpins that the GTP's let-down will hinge on high government spending and the virtual absence of the measures to allow room for the private sector to thrive and as a result, generate more growth and help GTP achieve its goals. The nation's history is also punctuated by authoritarian culture over many centuries that outweigh its democratic credentials – to be a soldier, to bear arms and to fight has always been a mark of manly distinction. Indeed the belief the state is ultimately the panacea for all the ills in the country has run along much of Ethiopia's history.

It is widely recognized that increased participation in international trade and investment can serve as an engine for economic growth and development. Implicit in international trade is the principle of comparative advantage that generally provides that states should trade with each other because they are better off by maximizing their production potential for some products and, through trade, obtain products they do not have or produce with less efficiency (Lemessa, 2007). The overall objective of this lecture series is to analyze the prospects of Ethiopia joining the world community in its financial management standards.

As far as economic matters are concerned, in one sense or other, profits are evil, and that the search for profits involves, in one form or another, the exploitation of the rest of society. Things done in the public sector tended *ipso facto* to be viewed in a positive light; those done in the private sector were correspondingly viewed with suspicion. The idea that market forces could be trusted to bring about a socially desirable outcome is given almost no credibility at all (Harberger, 2010:4).

> *Ethiopia's financial sector remains closed, much less developed than its neighboring countries. On other side, various literatures assert that some factors have contributed to the underdevelopment of financial sector in Ethiopia. Ethiopia has no capital market and very limited informal investing in shares of private companies. A series of financial sector reforms has been introduced since 1992, when private banks were allowed to be re-established. Nevertheless, the three large state-owned banks continue to dominate the market in terms of capital, deposits and assets. The government is committed to alleviating poverty through private sector development and integrating Ethiopia into the global economy. However, it is not prepared to privatize large state-owned bank, allow for private ownership of land, or open the financial sector to foreign competition* (Kiyota, et al., 2007:5).

The politicians put their own justification for resisting financial sector liberalization and open no door for the introduction of the foreign bank and competitions. Given the justification, Ethiopian financial sector remains one of the most closed and weak in sub-Saharan Africa because of government's dominant role in the sector. The financial repression school (as it is sometimes referred to) argues that government intervention in the finance sector, in particular through subsidized interest rates and (favored) credit allocation, not only distorts the financial market but also depresses savings and leads to inefficient investment (Geda, 2006). Not only this, the majority of peoples are remaining under banked in Ethiopia. Besides, they are also outside and uncovered with insurance schemes. The financial sectors are highly concentrated at urban areas where the minorities are living. Almost all rural dwellers are out of the financial service as the financial institution and service are limited to the urban areas.

Those who have access to banking, insurance and other financial services are suffering from less quality service and credit crunch. Because of lack of effective competition both from domestic and international market in financial sectors, the performance of the sectors and their service still remain very poor in terms of both quality and time.

2.1. **Research questions**

The issue of financial sector liberalization in Ethiopia is complex. Hence, the research will attempt to address the rationale and justification of politicians for resisting financial sector liberalization, the credibility and soundness of the justification and assess the Ethiopian financial sector performance in comparison to some selected African countries.

2.2. **Objective of the research**:

The objective of the research is to identify credibility and soundness of the political resistance and its justification to financial sector liberalization in Ethiopia. The specific objectives of the research are to explain the justification not to liberalize financial sector in Ethiopia, identify whether the justification is based on the research and evidence and assess the financial sectors performance of the country in comparison to some selected countries those liberalize their financial sectors

2.3. **Methodology and approach**

Since the research addresses the politics of the financial liberalization, qualitative approaches to research were employed. Descriptive and analytical approaches with comparative approach to the paper were used to explain and compare the performance of some of financial & telecom sector of Ethiopia with some selected African countries. Data were collected from secondary sources of data including journal, articles, books, manuals and reports in order to assess the financial sector performance and its level of liberalization. Analysis is focused on the political justification of the government to identify the reasons of their justification. Using qualitative methods and comparative analyses, the research delves into the requisite preparatory basis of a reform pedestal on which the nation can be a winner in this game. The major significance of the lecture series is that it could be a good starting point for public dialogue and for future academic introspection. It can also be serve as an input to the future writing on the issues of financial sector liberalization. Lastly, the direct output is also important for the partial fulfillment of the course "institutional and policy reform".

3. **Literature**

In this section, various empirical and theoretical aspects of the research will be assessed from diverse experience and angles. Many writers and scholars have contributed to the discourse on financial sector liberalization in developing nations.

3.1. What is financial liberalization

Financial liberalization is an integrated part of overall economic liberalization. Specifically, the objective of financial liberalization is to promote the role of the market and to minimize the role of the state in determining who gets and gives credit and at what price, or as stated by McKinnon (1973), the primary objective of financial liberalization is to eliminate financial sectors from 'financial repression.' However, as an integrated part of overall economic liberalization, especially as openly put into agenda by the Washington Consensus, the ultimate objective of financial liberalization is to accelerate the integration of a developing country economy into the global market economy based on capitalism. The key components of financial liberalization are the following (Baswir, 2006)

- deregulation of interest rates & removal of credit control;
- liberalization of government banks and financial institutions;
- liberalization of restrictions on the entry of private sector and/or foreign banks and financial institution into domestic financial markets;
- introduction of market based instruments of monetary control and
- capital account liberalization

Based on the above six components, the scope of financial liberalization can be seen easily. From the Washington Consensus agendas point of view, operationally financial liberalization does not only consist of the tight budgetary policy and the removal of subsidies, trade and financial liberalization, at the same time it also includes the liberalization of state owned enterprises.

For example, the removal of credit control has a direct relationship with the removal of subsidy from agriculture and/or small and medium enterprises credit. The privatization of state owned financial institutions have a direct link with the liberalization of state owned enterprises. While the removal of restrictions for foreign banks to enter domestic markets, indirectly relates to trade liberalization. As such, emerging of dangers of liberalization cannot be escaped. Even though discourses about the dangers of financial liberalization nowadays tend to be shifted into sequencing the process of liberalization, the emergences of systemic dangers behind it for poor nations cannot be avoided.

3.2. Politics of liberalization

Government intervention in an economy is an inevitable since it is responsible for well-functioning and stability of the economy. Government intervenes in the market for different purpose and using different means or instruments of intervention. The two major and overriding purposes of government interventions are either political or developmental. The paper concentrated on the politics of the financial liberalization.

Political view of financial liberalization dictates that the financial repression or financial liberalization is the function of the views and interest as well as the relative influence of different political actors in a given nation. Primarily, financial liberalization is the political choice of the elite in the government position authority. Nevertheless, it is subject to different domestic and international pressures that pose responsibilities on the incumbent government to consider and reconsider the financial role of the government. As stated in different literature, domestic political actors place greater pressure on the incumbent to reform its financial sector as they have direct contacts with the politician. However, liberalization greatly depends on types of regimes and public trust. Aid and loans could be used by international institutions as an instrument to influence liberalization. In this respect, the influence of such international institution is extensive and high on developing countries especially African countries. Nevertheless, this influence is highly subject to the political attitude and supports of the domestic political system.

3.3. Theoretical Perspectives of Financial Liberalization

3.3.1. Origin of the financial liberalization theories

While it is of fundamental importance that Ethiopia itself defines approaches to, and processes of, participation, democracy and good economic governance, it is also necessary that such approaches be synthesized with universal principles, which assure both peaceful political contestation and policy participation. Without this, the process may well result in varying degrees of political and economic liberalization, but not in a functioning market driven economy and democracy, which again raises some fundamental questions. The questions this raises are what brought about the current 'market-driven' dynamics in Ethiopia's recent history, viz. could it be doable to accede in the WTO at this time for Ethiopia. What should be done to increase the Participation of the Private sector in the economy? Under what mechanisms will the private sector be an additional engine of growth? These questions underlie other pertinent questions that are beyond the scope of this paper. What are the sources of dynamism for the Ethiopian economy? Why is the nation so poor when the economy is growing double digit? Do market economies have indigenous roots in Ethiopia? What are the endogenous and exogenous factors that brought about this new chapter in its history? What are the strategic options for economic governance that enhance sustainability? Hence, a series of literature review and interview instruments that reflect the range of questions were developed and administered to collect a wide range of views from key informants and knowledgeable civic personalities of varying lifestyles and the international community.

The origin of the financial liberalization theories was dated back to the work of McKinnon (1973) and Shaw (1973). However, prior to their work different scholars contributed to the development of the financial sectors especially by relating financial liberalization and economic development, investment and saving. The origin is not a contemporary phenomenon. Cited in Arestis, Nissanke and Stein, 2005 and Odhiambo, 2011, it was Patrick (1966), however, who published the seminal work on the relationship between financial development and economic growth. He hypothesized two possible relationships, a "demand-following" approach, in which financial development arises as the economy develops, and a "supply-leading" phenomenon, in which the widespread expansion of financial institutions leads to economic growth. According to Patrick's hypothesis, the direction of causality between financial development and economic growth changes over the course of development. In his view, financial development is able to induce real innovation of investment before sustained modern economic growth gets underway, and as modern economic growth occurs, the supply-leading impetus gradually becomes less and less important as the demand-following response becomes dominant (Odhiambo, 2011).

Earlier time, there were also different arguments and debate on issues given by Patrick with the varieties of contributors. A great deal of debate on the issue has been made with contributors ranging from Bagehot (1873) and Schumpeter (1912), who supported the supply-leading view, to Robinson (1952), who voiced strong support for the demand-following approach, to mention only the main protagonists (Ibid). The first and most known theoretical contribution to the financial liberalization, as stated in different literatures, were developed and provided by McKinnon (1973) and Shaw (1973). They stressed on two channels: first, financial repression affects how efficiently savings are allocated to investment; and second, through its effect on the return to savings, it affects the equilibrium level of savings and investment.

In this framework, therefore, investment suffers not only in quantity but also in quality terms since bankers do not ration the available funds according to the marginal productivity of investment projects but according to their own discretion. Under these conditions, the financial sector is likely to stagnate. The low return on bank deposits encourages savers to hold their savings in the form of unproductive assets such as land, rather than the potentially productive bank deposits. Similarly, high reserve requirements restrict the supply of bank lending even further whilst directed credit programs distort the allocation of credit since political priorities are, in general, not determined by the marginal productivity of different types of capital (Odhiambo, 2011 & Arestis, 2005).

According to McKinnon (1973) and Shaw (1973), a repressed financial market discourages savings, retards the efficient allocation of resources, increases the segmentation of financial markets, and creates financial disintermediation of the banking system. The McKinnon and Shaw theses on financial repression and their proposal for financial liberalization became the new orthodoxy in the 1970s and 1980s. This orthodoxy has brought a shift of emphasis in policy priorities to an extent that it influenced even the thinking of the World Bank and IMF (Ibid). As the results of the above problem of the financial repression, they are strongly challenging the wisdom of the conventional financial repression. As such, they pointed out the important role of the financial sector in increasing the volume of savings because of creating appropriate incentives.

In order to reach higher savings and hence investment rates, McKinnon (1973) and Shaw (1973) argue that governments should abolish interest rate ceilings and allow real interest rates to be determined by the market. This they argue, will lead to increase in savings and hence investment and ultimately leading to economic growth as well as bringing inflation down (Owusu and Odhiambo, 2011).

3.3.2. Liberalization and Economic Growth

There are multiple and deep rooted controversy concerning the causal relationship between financial liberalization and economic growth/development. Greater disagreements among different writers and scholars were significantly viewed in different literatures. Philip Arestis (2005) stated that The difficulty of establishing the link between financial development and economic growth was first identified by Patrick (1966) and further developed by McKinnon

(1988a) who argued that: "Although a higher rate of financial growth is positively correlated with successful real growth, Patrick's (1966) problem remains unresolved. There is widespread disagreement among scholars in terms of both theoretical and empirical evidence on the impacts of liberalization on economic performance.

3.3.3. The theoretical predictions are ambiguous.

Some works suggest that, by promoting cross-country risk-diversification, financial liberalization fosters specialization, efficiency in capital allocation and growth. By generating international competition, it may also improve the functioning of domestic financial systems with beneficial effects on savings and allocation. On the other hand, financial liberalization may be harmful for growth in the presence of distortions. It may trigger financial instability, as well as misallocation of capital, which are detrimental for macroeconomic performance. The empirical literature has not been able to resolve this theoretical controversy that financial liberalization does not affect growth, others that the effect is positive, yet others that it is negative (Bonfiglioli, 2005; Bumann, et al., 2012). The discussion on liberalizing financial markets started with the seminal publications of McKinnon & Shaw, 1973. Both scholars wrote their work as a critique of government policies, which were focused on financial repression, based on inefficiency of the state-dominated financial operation of the sectors (Odhiambo, 2011; Arestis, 2005; Bumann, et al., 2012).

No one can put generalization regarding the relationship between financial liberalization and economic growth and development. The only possible thing is that viewing the impacts of financial liberalization on economic performance (growth and development) from different angle and direction from which financial liberalization is operating. Bonfiglioli (2005) stated that to understand better the effect of financial liberalization, it is important to know the channels of operation. Furthermore, financial liberalization has distinct impacts depending on environmental, social, political, economic and institutional setup, which need particular strategy in order to do it in a successful manner. Based on the relationship between finance and economic growth, Bumann, et al., 2012 draw a closely related discussion on the relationship between finance and growth. The main idea is that financial liberalization may affect financial development, which, in turn, affects economic growth.[i]

3.3.4. The hazards of Financial Liberalization

In short, the dangers of financial liberalization for the developing countries can be traced from three categories as the following. *Firstly*, financial liberalization increases financial fragility and deterioration in the economic performance of the developing countries. Moreover, as it had been experiencing by South and South East Asian Nations during the 1997/1998 monetary crisis, financial liberalization can be accumulated into economic, social, and political turmoil. *Secondly*, financial liberalization tends to create wider inter sectoral, inter region, and inter income groups economic inequalities within a nation. This phenomenon primarily has a very close link with the basic logic of financial sector activities - economic activities within the financial sector primarily based on the 'money follow the business' logics: financial liberalization tends to promote the increase of money circulation towards places where it can be easily accumulated. Consequently, financial liberalization tends to downgrade states capacity in defending national integrity and sovereignty. On the one hand, financial instability and economic inequality become a very serious threat for a nation to defend its national integrity and sovereignty.

4. Presentation and analysis of data

Here diverse empirical data were used to analyze the politics of financial liberalization in Ethiopia. As such, the resistance and justification, the credibility of the resistance and the performance of the financial sectors in Ethiopia in light of some selected countries are discussed.

4.1. Political resistance in financial liberalization in Ethiopia and its justification

The Government faces insurmountable pressures from the international arena to liberalize the financial & telecom sectors, but politicians remain reluctant to liberalize the sectors. This policy challenge is often cited as a macro-economic policy constraint: that the impacts of the financial repression have adverse effects on the real economy (Gebre-Michael, 2007 & Kiyota, et

al., 2007). Domestic competition is minimal in the financial sector. International competition is non-existent in both sectors. Therefore, the closed nature of the sectors serves to negate the positive effects that would otherwise come from greater telecom services and financial intermediation. Foreign banks are not permitted to enter the market in any form; hence, the government maintains strong control over international capital movements. The domestic competition in Ethiopian financial sector is highly constrained with major government ownership. It exerts strict control on the domestic private ownership of financial institutions. This further exacerbated by the semi-monopolistic state owned Commercial Bank, lack of innovative financial management skill and non-commitment to manpower placement particularly in the leadership position (Ibid). The Central Bank has a monopoly on all foreign exchange transactions and supervises all foreign exchange payments and remittances. The currency is not convertible. The state carefully monitors and controls its movement and as a result, it trades in a very narrow range. Not only this, the bond market is limited to Treasury Bills, issued by the National Bank of Ethiopia (NBE). Interest rate floor is still determined by the NBE and the ceiling is open to the market (Ibid).

Both insurance and micro-finance in Ethiopia is very poor. Kiyota, et al., (2007) underpins that both sectors are dominated by the para-government. The sectors are constrained by legal and regulatory requirements for their establishment. Gebre-Michael, (2007) compares the Ethiopian insurance penetration in total insurance premium as percentages of GDP and density that shows per capita premium with Kenya, Zambia, Tanzania and South Africa. The Ethiopian insurance scheme was ranked at the bottom end. Ethiopian politicians and private owner of financial institution, irrespective of the pressures as well as potential benefits drown from liberalization; still oppose the introduction of effective sector liberalization. They have only taken the negative impacts of sector liberalization as their justification by ignoring the potential benefits of the liberalization. Kiyota, et al., (2007) provided plenty of evidence from the literature and their analysis and discussion made on the importance of greater openness and foreign participation in enhancing financial intermediation and economic growth, it may be surprising that the government remains so strongly opposed to sector liberalization. Officials justify their case by stating

- *The development of a viable domestic banking sector will be threatened by foreign banks, because they have more capital, more experience and better reputations; arguing that the sector is too young to compete.*
- *Entry by foreign banks will further skew credit allocation towards large-scale industrial, real estate and service enterprises and away from agriculture, small-scale and cottage/micro enterprises. Foreign banks will concentrate lending in urban centers using foreign funds, contributing little towards rural banking.*
- *Furthermore, they contend that foreign banks will "cherry pick" the best companies and sectors. Foreign banks would lend in their home or other foreign currencies, would not be interested in mobilizing domestic savings, and may serve as conduits for the inward and outward flows of capital. This may cause foreign exchange and/or liquidity shortages, with potentially adverse effects on the country's capital account.*
- *The concern is more pronounced in view of limited regulatory capacity of the central bank* (Ibid:5).

The questions to ask here are "is the justification of the government credible against sound theoretical and empirical evidence that prove otherwise". In the first place, the justification is based on the personal views of the political elite. It was not based on the comprehensive assessment of the benefit and negative effects of financial sector liberalization. Additionally, the concern of the government is one sided in that it ignores the possible potential benefits of liberalization given in different theoretical and practical contribution. Besides, it does not consider successful countries in liberalizing their financial & telecom sectors to learn lessons from them. As indicated in different literatures, liberalization has failed in developing countries not because of the defect of the system itself. The failure is attributed to the defects of other factors. Pill and Pradhan, (1997) in Kiyota, et al., (2007) stated that financial sector liberalization in developing countries especially in Africa has been less successful because of absence of supportive environmental condition. Based on the above, it is hard to say that the justification given are credible supported by sound analysis.

4.2. Performance of financial sectors in Ethiopia

Despite of numbers of financial sector reform government has been lounging since 1990s, Ethiopian financial sectors remain closed and underdeveloped while compared to the rest of the some neighboring countries. The government strictly intervenes and control in almost the entire financial systems. As it was shown in the introductory parts of this paper, the banking sectors as a major and dominant financial sector in Ethiopia was dominated by the single government owned Commercial Bank of Ethiopia. NBE on the other hand exercises regulatory procedures on the private banks. The implication of this is that there is no effective competition in banking system both from domestic and international or foreign banks. Additionally, the majority of the population remains under banked in Ethiopia, as the banks are highly concentrated in the urban areas. The following table shows population served per bank 2001-2007.

Table 1: population served per bank branches (Ethiopia, 1995-2007)

Year	2001	2003	2005	2006	2007
Population(in millions)	65.13	69.13	73.04	75..00	77.13
No. of bank branches	312	339	388	450	466
Population per bank	209,435	203,914	188,257	166,660	165,509

Source: Gebre-Michael, 2007 as taken from NBE

As shown in the table 1, the majority of the populace is deprived banking access especially rural dwellers who depend on subsistence farming. This is especially aggravated with greater concentration of the banking sectors in urban areas while little emphasis was left for the rural areas. In comparison with some selected African countries, Ethiopia is the least in terms of population served per bank branches. In 2007, for instance, in Ethiopia 165,000 peoples were served per bank while this is very small, for Ghana 54,000; Uganda 130,000; South Africa 11,136 and for Namibia 20,074 peoples were served per bank branches (Gebre-Michael, 2007). In 2010, this figure shows that one bank branch in Ethiopia serve 130,000 Ethiopians. This figure is 14,000 in Tanzania, 31,000 in Kenya and 70,000 in Uganda. Regarding insurance sector in Ethiopia, the sector in terms its coverage it far lag behind the insurance scheme of some selected African countries. As shown in the following table, the insurance penetration (total insurance premium as a percent GDP) and insurance density, which show per capita insurance premium of Ethiopia, ranked at the bottom end the growth of the league for some selected African countries. Other financial markets such as bond market (issued only by government i.e., Treasury bill) and microfinance institutions are under the government control with minimum or no private participation. Because of the prohibition of foreign banks and financial institution, and the concentration of MFIs in urban and semi-urban areas has not delivered the promise.

Table 2: insurance coverage	IP	ID
Ethiopia	1.0	1.2
Kenya	2.5	15
Zambia	1.3	6.5
Tanzania	0.8	2.9
South Africa	14	565

Source: Gebre-Michael, 2007

IP-Insurance penetration, ID-Insurance density

Besides, foreign exchange is very limited and dominated by large government banks while stock market is non-existence in the financial system of Ethiopia. Generally, given the political resistance to financial liberalization proposed by IMF and WB, the financial sector in Ethiopia has failed to provide effective and sufficient financial services to the community, most commonly for the larger portion of rural dwellers. In 2007, 93.3% of the population is served by less than 50% of the existing bank branches while the urban population, which accounted for 6.6% of the total population, was served by 243 bank branches (52.1%).

5. The Case for Financial and Telecom Sector Liberalization in Ethiopia

5.1. Ethiopian Financial and Telecom system remains closed

Finance: The post-1991 government led a transition to a more market-based system, and subsequent governments have introduced further reforms. Although state control has been reduced and domestic and foreign (private) investment promoted, the state still plays a dominant role in the economy today. Ethiopia's financial sector remains closed. Ethiopia has no capital market and very limited informal investing in shares of private companies. A series of financial sector reforms has been introduced since 1994, when private banks were allowed to be re-established. However, the three large state-owned banks continue to dominate the market in

terms of capital, deposits and assets. The government is committed to alleviating poverty through private sector development and through integrating Ethiopia into the global economy. However, the government is not prepared to privatize large state-owned enterprises or open the financial sector to foreign competition (Kiyota, 2007).

Telecom: After all the expose of the challenges, opportunities and potentials of opening up the Ethiopian telecom industry to private enterprise and competition, the next big questions is: who will rescue the sector? Who really has the knowledge, the expertise, exposé, skill, experience and zeal and passion, to take the telecom industry out of the woods through regulation, to the *Promised Land*? Like scattered sheep badly in need of a shepherd; like a soulless generation urgently in need of a leader; and like a clueless clan whose redemption can only come from one with knowledge beyond the imagination of those who populate that locality, the telecom industry desperately requires redemption. It requires the services of someone with a mission, passion and knowledge to lead it out of the woods through a well-orchestrated regulatory regime. For, if indeed Ethiopia is to benefit from the limitless opportunities that ICT offer, it is entirely the responsibility and duty of the government to take just one informed step: deregulate the telecom sector and welcome investment in telecom (Abang, 2014).

5.2. Potential Benefits and Qualifications to Liberalization

5.2.1. Finance

Kiyota, et al., 2008, assert, while the government's concerns about financial liberalization are understandable, nonetheless, a compelling case can be made in our view to pursue liberalization. Financial liberalization may have positive effects on the efficiency of the banking sector in the host market. This is because domestic banks are forced to compete with foreign banks and because skills and technology levels improve. Crystal, Dages, and Goldberg (2001) found that the entry of foreign banks had positive effects on the overall soundness of local banking systems partly because foreign banks screened and treated problem loans more aggressively. For example, Claessens, et al., (2001) examined 7,900 banks in 80 countries for 1988-1995 and found that foreign entry reduced the profitability of domestic banks but improved the efficiency of the banking sector. The entry of foreign banks through financial liberalization may improve bank supervision through regulatory spill over.

> According to Goldberg (2007:10) in Kiyota, et al., (2008), "*the entry of foreign banks in emerging markets that are healthier than domestic banks implicitly allows a country to import stronger prudential regulation and increase the soundness of the local banking sector*." Crystal, et al., (2001) in Kiyota, et al., (2008), *found that the entry of foreign banks had positive effects on the overall soundness of local banking systems partly because foreign banks screened and treated problem loans more aggressively. The entry of foreign banks may also contribute to financial stability in host countries. This is because the cross-border flows are generally more volatile than locally generated claims by foreign branches and subsidiaries.*

As a part of financial sector liberalization, the privatization of state-owned banks may be an important option to enhance the efficiency of the banking sector. Numerous studies have confirmed that state-owned banks are less efficient than private banks and that liberalization generally has positive effects on bank performance. The entry of foreign banks may have positive effects on employment and wages. While studies of manufacturing industries have confirmed that FDI generally had positive effects on employment and wages in host countries, since banks play an important role in financial intermediation, the effects of FDI for financial services on employment may be greater and broader than those of FDI for manufacturing sectors are.[ii] Similarly, financial services liberalization carries certain economic risks and uncertainties, some of which are consistent with the stakeholders' concerns noted above. Financial liberalization may cause financial fragility rather than financial stability.

For example, Demirgüç-Kunt and Detragiache (2001) in Kiyota, et al., (2008), *examined the relationship between banking crises and financial liberalization (defined as interest rate liberalization) for 53 countries between 1980 and 1995. They found that banking crises were more likely to occur in countries whose financial system was liberalized. This is especially true in developing countries where the institutional environment is weak.*

In undertaking liberalization, it may be important to give particular attention to the mode of entry and time frame so that the Ethiopian banking sector can enhance the quality of governance and develop its institutional framework, thereby providing insurance against financial crises. For example, government officials may choose to limit the degree of foreign ownership for a specified period of time in an effort to help domestic firms to prepare for future competition and enhance the quality of governance. Similarly, adjustment measures and regulatory monitoring of foreign bank branches, subsidiaries, and green field investments are essential in permitting foreign financial FDI. It is also important for the Ethiopian economy to expand banking in rural areas by establishing a specialized rural financial institution that would then take over rural lending activities from the state-owned banks.[iii] Ethiopia can improve the environment for economic growth if it develops policies that promote successful financial development and liberalization, instead of adamantly resisting it.[iv]

5.2.2. Telecom

"The sector played a crucial role in **Kenya**'s strong economic recovery in 2010 reaching 4.9% of GDP. By the end of 2010, two-thirds of Kenyan above 15 years were said to be using mobile money, transferring an estimated US$ 7 billion or 20% of GDP. Even internet access seems to have a reached a tipping point with an expected figure of more than 8 million subscribers, many accessing it through mobile phones. **Rwandan** telecom sector has shown particularly strong growth in recent years, buttressed by a vibrant economy, which has sustained growth of between 7% and 8% annually since 2008. As a result, the country is rapidly catching up with other markets in Africa, with increased penetration particularly evident in the internet and mobile sectors.[v] Surprisingly, **war-torn Somalia** is now offering some of the most technologically advanced and competitively priced telecom and internet services in the world.[vi]

> *After the start of the civil war, various new telecom companies began to spring up and compete to provide missing infrastructure. Funded by Somali entrepreneurs and backed by expertise from China, Korea and Europe, these nascent firms offer affordable mobile phone and internet services that are not available in many other parts of the continent. Customers can conduct money transfers and other banking activities via mobile phones, as well as easily gain wireless internet access. Prominent Somali telecom companies are Golis Telecom Group, Hormuud Telecom, Somafone, Nationlink, Netco, Telecom and Somali Telecom Group. The telecoms sector in Somalia is considered as one of the main industries, contributing 30% of its GPD in 2010, and 38% in 2012. There are presently around 25 mainlines per 1,000 persons, and the local availability of telephone lines (tele-density) is higher than in neighboring countries;* **three times greater than what is obtainable in Ethiopia** *which has eight times the population of Somalia* (IT & Telecom Digest, 2014).

"With annual GDP growth forecast to rise from currently 4% to 7% in 2015 and the following years, growth prospects for **Uganda**'s telecoms sector are excellent, according to BuddeComm, with stiff competition from telecom operators from the likes of MTN, BhartiAirtel and Orange. Deregulated telecoms sector in **Tanzania** according to a recent report by Business Monitor International, is an emerging global market for foreign investment. At close to 100% penetration, subscriber growth in the mobile market in **Algeria** has slowed considerably, and the attention is shifting to maintaining or improving the Average Revenue Per User (ARPU), which has continued to decline under intensifying price competition between the three networks.[vii] The deregulations of the telecommunication market at the beginning of the 21st century enabled a large proportion of the population to be finally connected to the global telecommunication network, and by the end of 2011; there were over 35 million mobile subscribers, compared to only 5 million in 2004.[viii]

"**South Africa** deregulated its telecoms sector in 2006, and in that year alone, the communications sector, which together with transport and storage, accounted for almost **10% of GDP** in the same year.[ix] Likewise, Ghana liberalized basic telecommunication services in August 1994, and today, the telecoms industry has become a key driver of the nation's economic growth, by directly accounting for 7% of investments in Ghana, **10% of government income** and 2% of GDP, **employing 1.5 million Ghanaians**.[x] "In Nigeria, the days of state-owned NITEL are still unforgettable experience for many. Nevertheless, **Nigeria** has today established itself as the

largest telecom market in Africa. "The country's telecom sector is undergoing speedy transformation because of explosive growth and rapid infrastructure development. Liberalization of the telecom sector have brought substantial benefits and enhanced choice. Moreover, the government is making efforts to transform the country's economy into a **knowledge-based economy** through improved broadband.

NITEL operated as a pure monopolist with the attendant inefficiencies in terms of poor quality of service, inappropriate pricing, corruption and epileptic equipment, providing just 40,000 connected lines to subscribers nationwide. Nigeria deregulated her telecoms sector in 2001, and with the establishment of the National Communications Commission (NCC), the industry has never known a better yesterday. Telecoms contribution to National Gross Domestic Products for year 2009 was 3.66% and the sector created over **three million-job opportunity** for both direct and indirect employees. **In 2013, with USD 9.3 billion revenue, it contributed 8.68% GDP** as the third largest contributor to the economy, and the nation's regulatory body, the NCC is benchmarking 15% for 2014. The number of mobile subscribers is expected to grow at a CAGR of around 15% during 2009-2014, with a penetration rate exceeding 88% by 2014, with over **127 million connected mobile lines** and still counting" (IT & Telecom Digest, 2014).

6. Capital markets (Costantinos, 2011)

6.1. What are capital markets?

Credit and capital markets are a viable option for financing social and economic development on a sustained basis for African economies, which are currently undertaking reforms toward market-based economic structures. These comprise financial institutions, which provide the intermediation processes required to speed up the pace of economic development and to facilitate the mobilization of savings and the channeling of these savings into investment in agriculture, mining, industry, commerce and other tertiary services. The liquidity provides opportunities for small and big savers to choose to hold their savings in either cash or securities or both. Capital markets are also important in both foreign direct investment and indirect investment. The impersonal nature of stock exchange transactions implies, for example, that investors need not be identified in their own names, in the circumstances they can buy and sell their securities without interference. With the internationalization of stock exchange dealings, foreign investors can buy shares and stock in emerging economies, whose inflow of foreign investible funds through the stock exchange can increase the investment resources available to national development.

Given the internationalization of capital markets, stock exchanges can facilitate debt-equity swaps & other debt conversion schemes. Because of the diversity of financial institutions in various countries, it is not that easy to have a catchall classification or categorization of financial institutions or credit and capital markets. General features of financial institutions found in both developed and developing countries include general banks, commercial banks, merchant banks, building societies, credit unions, savings and loans associations, development banks, insurance companies, pension funds, international development banks and export credit agencies.

In summary, the allocative function of a capital markets is to mobilize and allocate a nation's limited capital resources among numerous competing alternative uses that can be critical in determining the overall growth of the economy; in effect, providing means for securing funds for companies to expand and modernize. They facilitate the allocation of the country's real and financial resources between various industries and companies and hence accelerate industrialization and provide liquidity for the investment funds from the standpoint of the individual for the economy, a measure of confidence in the economy and serve as an important barometer for the economy through price mechanisms. They provide industrial management with some idea of the current cost of capital. This can be important in determining the level and rate of investment; acting as reliable medium for broadening the ownership base from the erstwhile public companies. Capital markets facilitate the privatization of public enterprises as small investors have opportunities to buy shares in the privatized enterprises.

6.2. Financial intermediation

In most African countries financial intermediation is in a rudimentary state, limited, as it where, mostly to banking institutions -- does this impose serious financial constraints on investment for long-term economic growth and development?

The development predicament of African countries could be attributed partly to the inadequacy of financial intermediation and mechanisms to mobilize the existing and potential financial resources for social and economic development. Savings and capital formation levels are low. Investment rates and investment performance levels are unable to generate sustained development. In effect, besides the mobilization of saving, improvement in the financial intermediation process is one of the critical preconditions for economic growth, transferring savings from surplus to deficit sectors and by doing so enhances new investments that accelerate the rate of growth. This underscores the importance of capital markets in the financing social and economic development. The role of the government and businesses in promoting credit and capital markets is crucial to financing human development by creating the enabling environment for the establishment and operationalisation of these markets. Nations need to develop their financial structures to promote rapid economic growth and support market forces to determine the pace at which the private sector should grow and trigger off the demand for the services of financial institutions, including those of stock exchanges.

There are certain basic facts, which need to be considered in perspective. For instance, whereas credit and capital markets are, in essence, private sector financial mechanisms, the laws and regulations governing their establishment and operations are promulgated by government, a misunderstanding of which could frustrate the development of these markets. This caveat is important given the level of the socio-economic development of most of our economies and the fact that we are learning and extrapolating financial instruments of development from other cultures. The shifting of non-market to market economic systems should underpin the changing relationships between the public and private sectors; giving both sectors opportunities to compete in financial markets. The dismal pace of developing credit and capital markets in Africa can be attributed to a number of impinging factors including the following. First is the policy of military regimes and the ideological orientation that contributed to the view that the public sector should dominate and control the "commanding heights" of the economy. The magnetization of economies has thus been held back with dire consequences for the evolution and development of financial markets as instruments of financing development. There is also the negative impact of financial repression.

On the other hand, we need to discuss also the inefficiencies of organized capital markets. The foregoing reasons for the retarded growth of credit and capital markets can be supplemented by findings of empirical studies on the efficiency of these markets. Capital markets may have inefficiencies due to small size; different risk preferences and perceptions of investors; poor communications (Internet access) and due to significant transaction costs, thereby limiting the number of market participants and restricting the market to relatively infrequent, large bargains.

6.3. Sustaining the enabling environment

How do we create and sustain the enabling environment for the establishment and development of capital markets in Ethiopia. What lessons of can we learn from in the establishment and development of capital markets in African Countries?

It could be argued that the removal of the above inefficiencies will improve the enabling environment for the development of credit and capital markets. The above efficiency constraints are derived, as they are, from the efficient capital market hypothesis on market efficiency and the expected availability of complete information to all the participants. These constraints are, no doubt, relevant to the environment prerequisites for credit and capital markets development in Africa. The Nigerian experience demonstrates that the environment of a country plays an import part in the success or failure of a stock market development program. Where the environment is conducive, the stock market develops much faster than in countries where the environment is

unfriendly. The various environmental factors that influence stock market development include the following: *political environment; status of the private sector; institutional environment: system of intermediaries and communications; legal and regulatory environment; marketing-educational efforts; broad range of securities instruments; appropriateness/type of stock exchange vis-à-vis level of development; and the level of a country's economic development.*

Lessons of experience should provide an opportunity for African countries to learn from the successes and failures of other countries. Public policymakers and the business community will thus be able to evaluate the merits comparatively, demerits and the timing of the establishment of credit and capital markets given the specific circumstances of each country. The basic understanding is that, since capital markets offer opportunities for rising capital for long-term development, all African countries should take keen interest in creating conducive environments for the earliest establishment of these markets either nationally, bilaterally/ multilaterally in collaboration with neighboring countries, or sub-regionally and then regionally. This is the background against which to review the lessons of experiences. Available information suggests that globally there has been significant expansion of financial systems and assets over the previous two decades or so. Most of this growth has been in the securities a segment of the capital markets, prompted, as it were, by new issues of international bonds. Lessons from the African experiences in capital markets development over the past two decades include:

- increasing reforms and liberalization of financial markets; growing internationalization of capital markets; changing institutional structures of financial markets;
- tightening of prudential regulation of financial system; general inhibiting factors which are more prevalent in Africa vis-à-vis other countries;
- promotional programs for capital markets through the education of the public; privatization of public enterprises and capital markets development;
- mobilization of foreign direct investment (FDI) resources through capital markets; and debt conversion schemes such as debt-equity swaps and the internationalization of securities;

The growing internalization of capital markets is another lesson for African countries. The new millennium has witnessed significant acceleration in the internalization of capital markets, both debt and equities; promoted largely by improved communication technology, the realization that widening resource gaps could be filled from outside national borders through capital markets, domestic restructuring and liberalization efforts in many economies, and the freeing up of previously existing constraints on investments by non-nationals.

The Ghanaian experience is useful as it has transformed the economy to a level where many consider has been an economic miracle. This includes the establishment of a Marketing Department of the Ghana Stock Exchange. The rational was that the viability of the Exchange depended largely on the public's perception and understanding of the beneficial role the Exchange can play in the economy. The promotional and educational programs include seminars, visits, advertisements and training courses for students and professionals. Training of the staff of the capital markets enhances their competence in the viability these markets. In addition, capital markets have an important role of in privatization of public enterprises, the scope, which capital markets have for the mobilization of FDI resources and the scope of using capital markets to partly solve the debt overhang problems through, for example, debt-for-equity swaps, debt-for-development swaps and other debt conversion schemes which are becoming very popular.

7. Concluding Remarks

With the change in the socialist regime in 1991, the government has been introducing social, political and economic reforms to boosting the economic development. Financial sector was also the one of the areas that has attention in the reform process. Especially, starting from 1994 the government attempts to reform the financial sector and different private financial institutions were established while only one state owned bank was privatized. Despite the government efforts, the financial sectors of the country remain highly closed and not well developed.

Different international financial and trade institutions have advised the government to liberalize further its financial sectors especially the introduction of foreign bank in its financial sectors. Nevertheless, the government has been holding its position in opposing to follow what those institutions put as a precondition for supporting the country. The politicians and their government simply expressed their idea by referring different negative impacts of the financial liberalization without considering various factors contributing to the negative impacts of the reform. Nevertheless, government's concern fails to recognize the potential of financial liberalization. The government has never made a comparative analysis to balance what would be the negative and positive impact of the liberalization if it will be implemented under appropriate macro-economic, political, legal and regulatory system, and institutional structure and setup.

Comparing to different neighboring and other African countries, the Ethiopian financial sectors performance was ranked at the bottom end. The banking sector is overwhelmed by semi-monopolistic state owned Commercial Bank of Ethiopia. The majority of the population remained under served and the financial institution such as banks, insurances and microfinance institution are still highly concentrated at the urban and semi-urban areas where less than 10% of the population resides. The only bond market is the Treasury bill issued by the government. Stock markets are non-existent while foreign exchange rate are monopolized by national bank of Ethiopia. As such, the majority is out of reach of financial service. The closed nature of Ethiopia's banking system is depicted by the absence of foreign participation, evidence of a non-competitive market structure, and strong capital controls. State-owned banks are comparatively inefficient relative to private banks. This serves to weaken the link between financial intermediation and economic growth, the importance of which is borne out extensively in the literature (Kiyota, 2007).

The question thus arises as to whether and how the Ethiopian authorities should address issues of financial liberalization amid widespread opposition to liberalization on a number of grounds. Nevertheless, a compelling case can be made for liberalization and the significant benefits that it may induce. In pursuing liberalization, the stakeholders' concerns need to be acknowledged and addressed with reference especially to improvement of financial regulation and oversight. These broader considerations involve questions of the overall strategy of economic development and improving the incomes and living standards especially of the rural poor. Financial liberalization is not a panacea for Ethiopia's broader economic problems. Nevertheless, it may serve to ameliorate these problems by improving the efficiency of the banking system and providing the basis for greater financial intermediation and economic growth (Ibid).

In conclusion, it is essential to underscore the caveat that credit and capital markets should not be perceived in isolation nor established in great haste. Involvement of all stakeholders in the decision-making process wills more than payoff for the time and effort expended in planning.

> **An efficient and a development-oriented private sector provide the nourishment, which these markets require to grow and function effectively. The markets themselves provide the credit ingredients, which the private sector requires to grow, expand and contribute to growth**.

Thus, there is a reciprocal and mutually productive relationship between the private sector on the one hand and credit and capital markets, on the other hand. The consequential growth response of the latter should give stimulus to the development and strengthening of the capital markets, which then provide the capital for long-term and sustained development; where it is expected that the nation will tackle this based on the realities of its own socio-economic environment. The main inference from the foregoing analysis is that there are immense opportunities for Ethiopia to develop and strengthen credit and capital markets as instruments of viable economic growth. What these opportunities are and how they can be unitized constitute the subject matter of the recommendations that augur on national level action to develop and strengthen credit and capital markets should be viewed from the perspective of

developing formal markets and those that are yet to establish these markets. Action to develop credit and capital markets can include the following.

- First, it is recognition and acknowledgement of the importance of capital markets in fostering national economic development and the commitment to develop appropriate institutions given the peculiar national circumstances and learning from the experiences of other countries. This entails a critical review of all regulatory provisions that have a bearing on the establishment and development of credit and capital markets. These laws include those governing the functioning of financial institutions and intermediation processes and for the rapid growth of the private sector and entrepreneurship across all sectors of the economy that would in turn accelerate the development of capital markets and strengthening of capital markets to attract domestic and foreign investors.
- Second, the formulation and implementation the macro-economic (monetary and fiscal) policies should include the developmental objectives and requirements of credit and capital markets. Intensification of the promotional and educational efforts to impart knowledge on the essence and opportunities offered by capital markets is essential. Government officials must not encounter legal ambiguities in the discharge of their capital market development related functions. Exchange controls should be dismantled wherever they exist. Financial repression should be avoided, as it tends to impede the development and functioning of capital markets. Securities pricing both primary and secondary markets should be market determined: regulatory authorities should establish the framework to enable appropriate capital market operators to perform this task. Such a framework should provide for free and fair pricing, market integrity and the high standards of probity and accountability expected of stock exchanges; review and overhaul the legal framework and as much as possible evolve laws that are relevant rather than transplant or retain irrelevant and obstructive laws.

Third, liberalization should not be regarded as a source of revenue for the treasury to offset deficits, but rather as a source of private sector development, entrepreneurship and capital markets development. This must be compounded by confidence building and profit-yielding measures should be put in place specifically to persuade and convince all to invest in national credit and capital markets; the use of capital markets as an option to alleviate foreign debt problems should be explored. Finally, appropriate human resources development skills should be developed based on scientifically determined needs for all aspects of credit and capital markets: various categories of expertise have been identified in the analysis and the training needs assessment exercises should be designed accordingly. Critical human skills are of essence in the establishment and development of capital markets in Africa. The quantum of existing skills would need to be determined, projections made for skills development in the long term, and training for these specialized services should be elaborated.

On the telecom sector, the Nigerian telecommunications sector has experienced dramatic transformations. Deregulation started in 1999, deployment of Global System for Mobile communications (GSM) or Digital mobile technology in 2001, Fixed Wireless Access system in 2002 and introduction of technology-neutral unified access. Also, 3G technology and (3) carriers in the 800 MHz spectrum band were launched in 2007, and more Spectrums are still been auctioned. While Nigeria has the highest telecom penetration in Africa as also compared to only 500,000 subscribers before liberalization to **181,345,953 total connected lines today and Internet use of 55.9 million users**, 8th in the world. . **In 2013, with USD 9.3 billion revenue, it contributed 8.68% GDP.**

Measures aimed at attracting a greater number of viable securities and companies to the Stock Exchange include the establishment and management of agencies for the collective distribution of securities or collective saving institutions; training of stockbrokers and reorganization of their profession; and the creation and management of the profession of intermediate brokers.

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[i] *There is an on-going debate about whether the role of financial liberalization with respect to the finance–growth nexus is positive. Financial liberalization will never succeed with the absence of effective government regulation, appropriate macroeconomic, financial and institutional environment without which the financial linearization would resulted in financial crisis, which is prevalent in most developing and emerging countries. Financial liberalization does not mean that the government will totally ignored from financial sectors but direct government involvement has to be limited to the building appropriate environment and regulation for effective functioning of the financial sectors (Kiyota, et al., (2008).*

[ii] *According to Goldberg (2007), green field investment is expected to have positive effects on employment while the effects of mergers and acquisitions are less transparent.*

[iii] *Countries such as Kenya, have fostered specialized financial institutions to deal with rural lending. For more information, see Robinson (1997, p. 24)*

[iv] *Bad policies are the reason why financial globalization often leads to harmful financial crises. Instead of rejecting financial globalization, we can greatly improve the environment for economic growth if we develop policies that promote successful financial development and financial globalization (Mishkin, 2007:287).*

[v] *Although the country was slow to liberalise the mobile sector, allowing South Africa's MTN a monopoly until 2006 when the fixed-line incumbent, Rwandatel became the second mobile operator, and there is effective competition among the three current operators, each of which provides wide geographic coverage.*

[vi] *After the start of the civil war, funded by Somali entrepreneurs and backed by expertise from China, Korea and Europe, nascent firms offered affordable mobile phone and internet services that are not available in many other parts of the continent. Customers can conduct money transfers and other banking activities via mobile phones, as well as easily gain wireless internet access. Prominent Somali telecom companies are Golis Telecom Group, Hormuud Telecom, Somafone, Nationlink, Netco, Telcom and Somali Telecom Group. The telecoms sector in Somalia is considered as one of the main industries, contributing 30% of its GPD in 2010, and 38% in 2012.*

[vii] *Algerie Telecom's Mobilis, Orascom's Djezzy, and Wataniya's Nedjma.*

[viii] *Algerian official figures show that the telecommunications market's total revenues for fixed and mobile has grown by 17 per cent (from $4.7 billion in 2010 to $5.5 billion in 2011), contributing to only 4 per cent of the GDP. By comparison, the same sector contributed 8 per cent of GDP in Morocco, and about 12.5 per cent in Tunisia in 2011 according to the same source. While this difference can be partly explained by the high level of Algeria's GDP compared to its neighbouring countries, the aim of the Algerian government is to raise the contribution of the telecoms sector to 8 per cent of GDP by 2014, while creating 100 000 direct jobs in the industry and 300 000 indirect jobs.*

[ix] *In late 2006, the government awarded Neotel a licence to become the second fixed-line operator. The new company was expected to challenge Telkom with competitive prices. Fixed line penetration is estimated at 10 per cent, while mobile penetration is significantly higher at around 93 per cent, according to figures from the Department of Trade and Industry. Cell C, Telcom, Neotel, Vodacom, Gateway Comm, Virgin Mobile and MTN are the major players in the industry. The South African ICT market is estimated at US$ 42.6-billion (R468.4-billion) in 2013, with IT accounting for US$ 15.08-billion (R164-billion), and communications US$ 27.18 billion (R297.4-billion). The sector contributes approximately 8.2 per cent to South Africa's GDP.*

[x] *The major players in the industry are MTN, Tigo, Vodafone, Airtel and Glo, all sharing 11.4 million subscribers. The Ghanaian mobile market grew by 1.7% quarter-on-quarter in the fourth quarter of 2013 and 9.4% year on year in the 2013 Fiscal Year, compared to 2.9% quarter-on-quarter and 2.1% year-on-year in the last quarter of 2012 and 2012 Fiscal Year respectively, though shrink in growth has been attributed to sector saturation.*