



**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF SOCIAL ANTHROPOLOGY**

**THE ROLE OF ETHNIC BASED NETWORKS IN BUSINESS IN
MERKATO, ADDIS ABABA, SINCE 1991**

EYOSIYAS GETACHEW

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ADDIS ABABA, ETHIOPIA**

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BY: EYOSIYAS GETACHEW

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Declaration

The thesis entitled “The Role of Ethnic Based Networks in Business in Merkato, Addis Ababa, Since 1991”, is my original work and has not been presented for a degree, diploma or fellowship to any other university and that all the sources of materials used for the thesis have been dully acknowledged.

Eyosiyas Getachew

Signature _____

Date _____

ADVISOR'S THESIS SUBMISSION APPROVAL SHEET

This is to certify that the thesis, entitled “The Role of Ethnic Based Networks in Business in Merkato, Addis Ababa, Since 1991”, has been developed by Eyosiyas Getachew under my/ supervision. I recommend that the student’s thesis can be presented for a review and oral presentation.

Name of principal advisor

Signature

Date

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We, the examiners' board, approve that this thesis has passed through the defense and review process:

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Internal examiner	Signature	Date
_____	_____	_____
Principal advisor	Signature	Date

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List of Abbreviations and Acronyms

AACA	Addis Ababa City Administration
CSA	Central Statistics Agency
EC	Ethiopian Calendar
EFFORT	The Endowment Fund for the Rehabilitation of Tigray
EPRDF	Ethiopian People`s Revolutionary Democratic Front
TPLF	Tigray people Liberation Front

Abstract

Modern African history shows that ethnicity has been manipulated by rulers for political and economic control, social supremacy and cultural domination. Ethiopia is not exceptional in all this. An example of this is business activities, mainly in Addis Ababa, are influenced by ethnic networks, and preferences so much as to sabotage equal business opportunities. This study examines the impact of ethnic networks on businesses in Merkato, Addis Ababa. The aim of the research is to contribute to an understanding of the role of social relations/networks in shaping businesses both positively and negatively. Guided by qualitative research approach the study mainly draws a theory of social network, to reveal how business/market is run mainly on ethnic based networks and other ties such as religion and kinship. The findings of this study reveal that business/market networking, in post 1991 Merkato, is mainly created through political and ethnic affiliations as well as corruption. Following this, ethnic networking has become the main feature of the market center. Building such business relationships has become increasingly important as firms and individuals seek to improve their competitive advantage by entering long-term relationships and networking with strategic business partners based on ethnicity. Particularly, main trade sectors and areas in this large market center are mainly controlled by people belonging to one ethnic group (Tigreans). Even though such networking mechanisms create a more trusting and cooperative environment, they can, as the same time, lead to the collapse of the economy by limiting business transaction within a limited group of people. In conclusion, ethnic based networks provide a domain of interaction at the wider ethno-political community, dominating business. Thus, the public make business networking based on ethnicity, religion and kinship ties. While such business networking has positive effects such as market access, trust, confidence, etc, it may also bring negative effects such as bias, unfair economic and political domination and discrimination.

Keywords: Ethnic Networking, Business, Post 1991 Merkato

Chapter One

Introduction

1.1 Background of the Study

Ethiopia's population is highly diverse with different language and ethnic groups. There are more than eighty ethnic groups and languages in Ethiopia (CSA 1999). According to the 2007 Ethiopian population census, 34.5% of the population was Oromo, 26.9% Amhara, 6.2% Somali, 6.1% Tigray, 4% Sidama, 2.5% Gurage, 2.3% Wolaita, 1.7% Hadiya, 1.7% Afar, 1.5% Gamo, 1.3% Gedeo and others accounted for 11.3%. Moreover, orthodox Christians accounted for 43.5 per cent of the population, followed by Protestants (18.6 per cent) and Roman Catholics (0.7 per cent). The Muslims constituted 33.9 per cent of the population.

The socialist military regime in Ethiopia was overthrown by ethno-nationalist armed forces at the end of the Cold War. Then after, a political regime that came to power in 1991 has adopted a federal system, which is explicitly based on ethnicity, to radically reconstruct the Ethiopian state as a multi-ethnic federation (Tsegay 2010:116). Following this, the politics of ethnicity was formally institutionalized. This federal system of government was intended to decentralize power and resolve the nationalists' question, by accommodating the country's various ethno-linguistic groups. However, after the implementation of ethnic federalism in the country, peaceful coexistence is being eroded (Asnake, 2014:17).

Post 1991 Ethiopia is different from the past unitary state in many ways. Firstly, the unitary Ethiopian state was changed to ethnic federalism. Secondly, the Ethiopian federal model has created a situation that a separate identity, an ethnic one, to overwhelm the national identity (Aalen and Hatlebakk, 2008:5). The Tigray People's Liberation Front (TPLF) (the core organization of EPRDF), representing only 10% of the total population of Ethiopia, devised this policy to divide the people of Ethiopia along ethnic line so that it could maintain its political position at the expense of other political groups (Aalen 2002:109).

The regional states that formed the federation in 1991 were: 1. Tigray; 2. Afar; 3. Amhara; 4. Oromia; 5. Somali; 6. Benishangul-Gumuz; 7-11 Southern Nations, Nationalities, and Peoples (a "voluntary" merger of 5 regions); 12. Gambella; 13. Harari; and 14. Addis Ababa. Later, Dire Dawa was made a federal city-state. In addition to this, following the current government change

in the country, two more regions (Sidama and South West peoples) are added to the already existing ones. “The post 1991 political developments...have brought about new elite configurations and as such a new dimension to the intra and inter elite competition and the interest to be served” (Merera, 2003:173).

The EPRDF's (Ethiopian People's Revolutionary Democratic Front) multi-ethnic state rhetoric, has sparked controversy because its policies appear to be slanted towards Tigray, Ethiopia's fourth biggest ethnic group (Habtu, 2004:102). In actuality, the EPRDF used to be controlled by former members of the TPLF (Tigray Peoples Liberation Front), because the majority of the revolutionary soldiers were Tigrean and more radical parties from other ethnic groups withdrew. It was in the Tigray people's best interests that autonomy of ethnic groups was declared because, as a cultural minority, they had been impacted by past regimes' policies.

In many African countries, political favors, whether in cash or in kind, are inspired by ethnic bias and favoritism (Ilorah, 2009:698). Easterly & Levine (1997:21) argued that, Ethnic bias and favoritism have aggravated the fragmentation of Africa's diverse ethnic groups and have been linked to the continent's poor economic performance. The literatures in this area show that ethnic networks are highly correlated with the other societal problems. Thus, countries with high levels of ethnic fractionalization also tend to have poor institutions. These poor institutions dampen economic growth in countries with high levels of ethnic fractionalization (Choudhary and Reksulak, 2011:40). In general, trends in Africa show that ethnicity has been manipulated by rulers for their sake of political appointment, economic control, social supremacy and cultural domination (Asnake, 2014:1).

Ethiopia is not exceptional in all this and since 1991 business activities, mainly in Addis Ababa, has been influenced by ethnic network, relationships and connections. In current Ethiopia, there seems to be a system where relatives from specific ethnic groups are encouraged to participate in business activities and show significant economic progress while others are discouraged. Moreover, some public sector institutions that have direct relationship with business favors members of their ethnic group, hence only few belonging to specific ethnic groups easily earn financial support for businesses while others are discriminated.

In this regard Zahorik (2005) argued that ethnicity in Ethiopia is being a major obstruction for socio-economic and political development because of its politicized nature where by the majority of decision-making processes are done through ethnic lenses. He also noted that “this (decision-making process) causes an atmosphere where people, instead of searching for their own individual life-strategies are treated according to their ethnic background as a primordial entity allowing or restricting access to politics, business or education”. Business needs such inputs as finance, skilled work force and public institution services so as to operate properly. Any bias, dalliance or favors may influence the business both positively and negatively.

Based on this background information, this study attempts to investigate the impact of ethnic networking in trade business activities in Merkato, Addis Ababa. It particularly addresses issues contributing to ethnic networking in trade activities and the resulting effect on the general economic progress of the country.

1.2. Statement of the Problem

Many scholars believe that, in fact, ethnic based networking in the business sector is anti-developmental and aggravates the problem of income inequality and leads to resource scrambles harmful to economic growth (Alesina & Rodrik, 1994 cited in Richard, 2009: 1). It is also undistinguishable from corruption since it often involves explicit and implicit reciprocal obligations among the favored groups, depending on whether the beneficiaries are business associates and acquaintances or friends and loved ones. Moreover, it weakens the ability of the state to function efficiently and pursue growth-promoting policies (Easterly & Levine, 1997:11). It is also argued that, ethnically diversified societies may produce situations of uncoordinated government ministries, each pursuing its own rent-seeking strategy without taking into account the effect of its actions on others’ rents (ibid).

According to Alesina and La Ferrara (2005:762) ethnic fractionalization can impede growth due to increased conflicts of interests, racism, and prejudices. This leads to counterproductive government policies because the focus is on suppressing certain ethnic groups rather than promoting growth and development. Such unequal treatment of citizens on the basis of their ethnic background is the main characteristic of the political leadership in many African countries, for instance, awarding unqualified bidders (Ilorah, 2009:9). Similarly, in Ethiopia,

ethnic networking has clear influence and the sentiments have their own attachment with employment, business area (unfair business competition among ethnic groups), and public investment which directly or indirectly affect the economic performance of individuals and institutions (Asnake 2014:43).

Since 1991, many scholars argue that (Aalen, 2002; Asnake, 2014; Sarah & Mesfin, 2011) ethnicity has played a central role in the Ethiopian politics and other aspects of society, which has brought significant economic and political inequality. The ruling party favors one ethnic group, paving the road for ethnicity to become a prominent factor in all aspects of people's lives. Business and the economy have been dominated by a single ethnic community, resulting in ethnic networking in business and unequal resource distribution and favoritism throughout the country. Furthermore, this ethnic networking in business has corrupted the system in the economy sector (banks and other financial institution make decisions not on the basis of economic calculation or feasibility of business but on political or ethnic considerations).

I the researcher, myself am a business person working at Merkato area for more than twelve years. I have business relationships with other traders as well as government offices working on business and related issues. I have also been a victim of ethnic discrimination, business conspiracies and unfair competitions as well as lost many business opportunities.

Ethnicity seems to guide everything in Ethiopia and it affects business activities, as well, in one way or another. However, there are little research works that are conducted so far in relation to ethnic networking and its impacts on business activities in the entire country in general and specifically in Addis Ababa, Merkato. Most of previous studies that focused on ethnicity and economic activities are undertaken by researchers in the fields of economics and political science. This study will try to give detail anthropological investigation of ethnic networking and its impacts on free business opportunities.

Taking in to account the lack of researches in this specific area, I intended, in this study, to fill some part of the research gap by assessing the base and type of market networking as well as both the negative and positive impact of ethnicity on business activities in post 1991 Merkato.

Based on the above stated problem and in line with the research's specific objectives, the study attempts to answer the following fundamental questions

1. To what extent is trade system in Merkato influenced by market networking?
2. What are the types of market networking in post 1991Merkato business?
3. On what grounds are market networks formed in post 1991 Merkato trade system?

1.3. Motivations of the study

What motivated me to do this research and choose the topic is my involvement with the business community in Merkato. I accidentally joined the woodworking and goods and consumer goods trade sectors, where I was able to become a business owner and create jobs for many Ethiopians. However, the biggest challenge in the domestic market in this area was the fact that the sector (especially in Merkato) was ethnically driven.

My first experience came from the Diaper Business. I imported baby Diaper with trade mark Bamboo or Hey Baby from Turkey. However, even if the business is profitable and its demand is very attractive I could not enter the business because the job is usually held by the “Silte” community, since the distribution, price fixing & all transaction are influenced by their network only. As someone from a different ethnic group, I was not able to break through. I got loss twice & then I left this diaper business as well as the business area and concentrated in construction wood material supply. This sector has also some Ethnic influences, but I am struggling to survive. Some indicators of ethnic bias in this sector are as follows.

The importation and distribution of the log wood comes from the Oromia region, so the work falls under the control of the Oromo ethnic. The sale of lumber and shivering was done only by the Gurage people of the Dobi community. Wood assembly and production of wood products is done mainly by the so called “Gurage” people of “Kistane” communities. While the distribution of Log Wood is controlled by Oromo community, the shivering is controlled by “Dobi” community and the assembly is controlled by “Kestane” community. I am not a member of any of these four ethnic groups. They influenced that came from other ethnic by hiding of raw materials, fixing price by Monopoly without participation of others etc. That's what happened to me and I struggling to stay in the sector. Based on these major experiences of my life, I was inspired to do a research on this topic for my MA thesis.

1.4 Objectives of the Study

1.4.1. General Objective

The general objective of this study is to examine the role of ethnic networking (connection) in business activities in post 1991 Merkato, Addis Ababa.

1.4.2 Specific objectives

Under the above general objective the study attempts to address the following specific objectives

- To examine the role of ethnicity in determining business practices in Merkato since 1991
- To identify the type of market networking mechanisms in Merkato trade system since the start of ethnic federalism in Ethiopia
- To assess how the macro level ethnic politics matter in adjusting business practices in ethnic lines

1.5. Method of the Study

As this study is intended to examine the impact of ethnic networking on business activities, it has adopted a qualitative research approach. Qualitative research helps to explore the human elements of a given topic, and examine how individuals see and experience the subject matter (Given, 2008). In this particular research, the approach helps to capture the types and basis of market systems in Merkato and how individual business workers in the study area understand the impact of ethnic networking on their businesses.

1.5.1. Data Sources

In this study both primary and secondary sources of data are used. Primary source of data refers to the data collected from individuals, organizations and institutions through direct observation, face to face interview and different means that enable to get firsthand information. In this study the primary data sources include the construction sector traders, business owners from different ethnic groups at Merkato, bankers and representatives from trade associations and trade and industry office in Merkato, Addis Ababa. Whereas, the secondary data sources are published and unpublished materials related to the study's central focus such as books, thesis, journals, and articles which are reviewed to construct the conceptual and theoretical framework of the study as well as to explore empirical researches related to this study.

1.5.2. Data Collection Instruments

The data analyzed in this study was gathered using three data collection instruments, namely: - in-depth interview, focus group discussion and participant observation, which are explained in what follows.

Participant Observation:

Participant observation is both a humanistic and scientific method that is frequently used as main data collection instrument in anthropological studies. It produces the kind of experiential knowledge that one talks convincingly (Bernard, 2006:9). According to Bernard (2006:61), participant observation gives the researcher an intuitive understanding of what is going on in a culture and allows you to speak with confidence about the meaning of data. "When used as a method, participant-observation is conducted by a single investigator who 'lives with and lives like those who are studied, usually for a year or more'" (Van Maanen, 1996:78).

This instrument is found to be beneficial to this study as it helps to understand the actual state of things in business areas such as the relationship between ethnic networks and unequal business competition through close observation. During the observation the researcher played a participant observer role in different circumstances. At times the researcher even engaged in some activities such as selling and buying construction materials and try to observe who, how, to whom, from whom and why people are buying and selling in order to identify the customers ethnic and religious backgrounds. In this regard, based on Spradley (1980), I was trying to employ both active an moderate participant observations.

Besides these, the researcher also tried to observe the kind of business connections between that various business owners and/traders have with financial institutions (banks) and public institutions like tax offices and other important things around Merkato that the study can benefit from.

In-depth Interview:

Interview is one of the most elementary forms of data collection, which involves asking people questions and receiving answers from them (Marvasti, 2004:25). Although there are different interview techniques, in this research I have used in- depth interview to get details of research participants' views. Because, in-depth interviewing is founded on the notion that delving into the subject's 'deeper self' produces more authentic data and it helps gaining an empathic

appreciation of the informants on the issue under study and to gain access into the hidden perceptions of their subjects (Johnson, 2002 in Marvasti, 2004:77). Therefore, in this study, in-depth interview is used to address personal perceptions, attitudes and feelings of people on the issue of ethnic networking and business activities. In addition to this, the instrument is found to be appropriate to gather detailed information on the subject matter. Following this, in-depth interview has become one of the study's main data collection instruments, which allowed the researcher to get detailed understanding of informants' perspective on the research problem.

In order to get detail account of participants' perceptions through in-depth interview, I focused only on 17 informants most of them were from different ethnic backgrounds (gurage, Tigray, Amhara, Oromo and Silte) and who are from different religious background. Seven of them are business owners who represented different ethnic groups, 3 employees, 2 from trade associations, 2 from chamber of commerce and 3 customers/buyers. Also, I restricted the sample to individuals aged 18 and above at the time of the interview. Apart from this, equal proportion of gender distribution was taken in to account while selecting these informants.

Focus Group Discussion (FGD):

FGD is another data collection technique employed in this study. FGD is important for both the researcher and the participants to learn from each other. In this study, all the discussants are working in Merkato area and have been given equal chances to involve freely and are encouraged to express their idea, beliefs and arguments regarding the subject matter. Even though, I raised other questions on the discussions, the main issue of discussion was "the positive and negative impacts of ethnic networks on business activities in post 199 Merkato". I have conducted three FGDs, one with men trade business workers, one with businesswomen and another with officials from trade offices each consisting seven participants. Discussants were selected based on their profession, business type their business experiences in Merkato, their good knowledge of how business is run in the area and gender. some of them are victims and some are among those who benefited from the ethnic networking. The FGDs were conducted in places free from disturbing noise and on Sunday when the informants do not work.

1.5.3. Sampling Techniques

For this research purposive sampling technique is used to select research participants. The reason that a researcher selected purposive sampling method is that it proves to be effective

when only limited numbers of people can serve as primary data sources due to the nature of research design, aims and objectives. The researcher also believed that it is possible to obtain a representative sample by using a sound judgment, which will result in saving time and money. Accordingly, ethnicity has become the main focus point while selecting participants. In addition to ethnicity other factors such as sex and age were taken into consideration when selecting participants.

1.5.4. Method of Data Analysis

To analyze the data qualitative method of analysis was employed. All the data collected were translated from Amharic into English then thematically grouped, organized, conceptually described and analyzed. The data, which is related with opinions, perceptions, attitudes towards the research problem and the life experiences of research informants, were analyzed from the perspective of each of the informant.

1.6. Scope of the Study

The geographic scope is limited to one area in Addis Ababa called Merkato in order to make the research more manageable. In terms of content, the study emphasizes on the base of market networking; and impacts of market networking on the trade system of post 1991 Merkato. Even though there are many different networks, such as information and technology networks, e-commerce, career and social networks, this study focuses only on business networking, where business networking refers to a net or web of business relationships/connections within and between different categories of people (in-group and out-group).

1.7. Significance of the Study

The study may have the following significances. Firstly, it can provide information regarding ethnic networking and factors affecting business activities in the study area. Second, it may help the policy makers to identify strategies for managing the impact of ethnic networking on business activities in the study area. Third, the outcomes of the study may imply a clear perspective of ethnic based business network and its socio economic impacts in Ethiopia. And finally, it can contribute in initiating other researchers to undertake detailed researches in this particular area of study.

Chapter Two

Conceptual Framework and Review of Related Literature

This section deals with concepts, theories and empirical literature related to the current study. It is an attempt to synthesize existing insights and discussions on the topic raised in this study, while advancing towards the analysis and discussion of the subsequent sections.

2.1. Definition of Concepts

2.1.1. Ethnicity, Ethnic Group and Ethnic Identity

There is no single definition of ethnicity that everyone agreed on. One of the reasons for the lack of such universally agreed meaning is that the concept is relatively new in the discipline. However I have tried to review some of the definitions of the term given by different scholars and come up with an operational definition for this study.

According to many writers and particularly Lobo (2020:70) the term ethnicity is derived from the Greek term *ethnos* which means “people” that all individuals may belong to different race and different nations united by a particular civilization and common language. On the other hand, Thomas Erikson (1993:123) uses the term to show “the relationships between groups whose members consider themselves distinctive and these groups may be ranked hierarchically within a society”. He therefore, describes ethnicity in terms of the classification of people and group relationship that has a political and organizational aspects as well as symbolic one. From others’ perspective, ethnicity is conceived as something constructed, invented or created (Barth, 1969; Anderson, 1983; Saul, 1979; Sharp, 1988; Cohen, 1978:39). Often associated with this view is the notion that the ethnic group has not a concrete existence but is rather a figment of the human imagination.

An ethnic group can be defined as a community of people within a larger society, that may be socially distinguished, or set apart primarily on the basis of cultural differences that may constitute differences in religion, language and traditions (Bennett 2003:56). Mariro (1998:18) also defines ethnic group as the members of a distinct population, or are supposed to be united by ties of a racial, national or cultural nature. The sociological theorist Weber (1968, as cited in Cornell & Hartmann, 2007:31) also defined ethnic groups as ‘human groups that entertain a subjective belief in their common descent because of similarities of physical type or of customs

or both, or because of memories of colonization and migration'. Anderson (1983:43), in his part described ethnic groups as “an imagined community” that possesses a “character and quality” (Anderson, 1983:43).

Hutchinson and Smith (1996, as cited in Baumann, 2004:6) proposed six features that define an ethnic group. These are a common proper name, a myth of shared ancestry, common historical memories, one or more aspects of common culture (such as religion or language), a connection with a homeland, and an impression of solidarity. These features of ethnic group also guide the sense that the term is used throughout this study.

Ethnic groups constitute an identity as defined by outsiders who do not belong to the group but identify it as different from their own groups and by “insiders” who belong to the same group. This generally becomes the basis of mobilizing group’s consciousness and solidarity and which in certain situation result in political activities (Kasfir, 1976:153).

Ethnic identity is an affiliative construct, where an individual is viewed by themselves and by others as belonging to a particular ethnic or cultural group. Cheung (1993) defines ethnic identification as "the psychological attachment to an ethnic group or heritage". Phinney (2003:63) on his part defines ethnic identity as “a dynamic, multidimensional construct that refers to one’s identity or sense of self as a member of an ethnic group”. An individual can choose to associate with a group especially if other choices are available (i.e., the person is of mixed ethnic or racial heritage). Affiliation can be influenced by racial, natal, symbolic, and cultural factors (Cheung, 1993).

2.1.2. Business Network

Business refers to “legal activities carried out for the purpose of obtaining profit” (Hashim 2012:45). It is “an integral part of a system that is socially composed of community, business and micro business, government, economy, and finance, all of which are assigned to the production, organization, and marketing of valuable results” (Almoharby 2011:7).

Networks can be defined as "groups or chains of businesses or organizations that are interconnected." (Huovinen, 2019:70). The network concept comprises two main components: nodes and connections (Darven; in O’Donnell e. al. 2001:91). In social science, nodes are referred to as actors, individuals or groups, and connections are social relationships or ties.

There are different types of networks such as strong or weak, direct or indirect, formal or informal and the attributes of actors. According to Burt (2000:29) there are two different types of network. These are 'Network closure' and 'Structural holes'. The former is a network in which all connections and interactions occur inside a group and the latter is a network in which at least one actor has the connection/s outside the group. The term 'hole' is any connection between separated groups. In other words, network closure and structural holes refers to intra-and inter-relationships or connections between groups respectively.

Regarding diversity, individual's networks often do not have noteworthy diversity and are homogenous with regard to key elements such as race, age, sex or language. This means that individuals with similar backgrounds and interests are more likely to associate with one another, rather than with people with dissimilar backgrounds (Kim and Aldrich, 2005:130). From the business point of view, the center of networks includes forming entrepreneurial teams, investment syndicates, and other collective commercial activities (ibid).

Business networking is the process of establishing a mutually beneficial relationship with other business people and potential clients or customers. According to O'Donnell (2004:85) 'marketing networks' comprises the following groups of people; customers (both potential and existing), suppliers, competitors (both inside and outside the firm's initial market), business friends and colleagues, government and business agencies or associations and finally employees (inside the business as the internal network).

Networks can offer certain benefits to people involved in various business activities such as rotating credits, social security, skilled labor, market information and tacit knowledge (Adobor, 2006; Mackinnon et al., 2004; Ahuja, 2000; Weidenbaum and Hughes, 1996:54). Business networking benefits are the intangible gains made by communicating with other professionals in or relating to your industry (Dini 2009:10). Links can be of various kind (e.g., trade, family, information sharing) and of various strength (e.g., trade amount, closeness of family relationship).

Links can be unidirectional, as when one individual knows another but the reverse is not true (e.g., a movie star) (Fafchamps, 1999:76). Networks put a business in the position to gain access to larger global markets, to benefit from economies of scale and to compete with the best large

businesses across the world (Lipnack & Stamps, 1993:5). Dini (2009:12) also noted that passing on information is one example of exchanging economic benefits through the relationship between actors inside a network. This is one reason why networking has become so popular among entrepreneurs in particular and business people in general. However, the existence of business networks also has some less desirable consequences.

Global business network operations in essence utilize four networks, namely (1) internal relations and networks that are connected to the (2) dynamic networks of external businesses through (3) parallel and flexible linkages with a shared set of collective outcomes and supported by a (4) cost-efficient information technology infrastructure network (Desanctis & Fulk, 1999:7). Business networks in Africa are shown to play a variety of functions and to take many shapes. Pre-existing network affiliation such as lineage or co residence seldom form the basis for market exchange, but can serve for non-market exchange too. Sharing a common religion or ethnicity often facilitates trust building and exchange but it cannot be considered as entirely exogenous to the market formation process (Fafchamps, 1999:10).

2.1.3. Embeddedness

Karl Polanyi's work is where the concept of economic embeddedness comes from (Polanyi 1957:180). Actual, substantive economic processes, according to Polanyi, are inextricably intertwined with wider societal institutions. Polanyi's work served as a springboard for the economic anthropology movement known as substantivism. Substantivists aimed to create a new foundation for understanding economic interaction, rejecting the legitimacy of formal economics. The contemporary meaning of the term embeddedness, on the other hand, is entirely different. Rather than dismissing the legitimacy of formal economic techniques outright, embeddedness research aims to develop a unified paradigm for understanding socio-economic process (Polanyi 1957:180). This study also uses Polanyi's concept of embeddedness as its theoretical departure in the process of explicating the impact of ethnic networking on business activities.

2.2. Ethnicity Theories

Although definition presupposes theorizing, this section will explore how theories concerned with ethnicity emerged from theoretical paradigms. I will focus on only three such paradigms

namely: primordialism, constructionism, and instrumentalism. In what follows, I have gone through each of the approaches, and tried to present the main idea and contextualize them to my study.

2.2.1. Primordialism

Primordialism is a commonsensical assumption of ethnic identity (Chandra, 2001). Based on this paradigm, ethnicity is fixed at birth and ethnic identification is based on deep, ‘primordial’ attachments to a group or culture. Primordial attachments are viewed as coercive; people are thus just passive agents and there is no option for individual sentiments. The critics of primordialism termed the theory as deterministic, descriptive, and circular (Cohen, 1974, as cited in Seol, 2008:104). Primordialist business people trust their blood related family more than any others. Hence, in their business most of the employees are from same family.

Some business networking systems seem to be raw examples of this theory as businesses and other kind of partnerships are becoming so much linked with ethnic identity that focuses on kinship and blood relation. In other words, ethnicity is becoming a means by which, some individuals get job, be promoted to higher positions/ posts, gain ID cards to the membership of an association/organization, which is a means to get resources such as land particularly in urban areas, etc.

2.2.2. Social Constructivism

A more comprehensive approach to ethnicity articulated in the 1970s is the constructivist perspective, which sees ethnic identities as ‘socially constructed through cultural, historical, and/or political processes’ (Hempel, 2004:89). The constructive stance, particularly, advocates a definition of ethnicity based on a person’s subjective beliefs, perceptions, understanding, and identification (Brubaker et.al., 2004:41). Ethnicity, based on people’s “historical” and “symbolic” memory, is something created, used and exploited by leaders and others in the pragmatic pursuit of their own interests.

Both internal and external forces are at play in the social construction of ethnicity (Nagel, 1994, 1996, as cited in Yang, 2000:32). The internal pressures are the ethnic groups’ re-demarcation, restructuring, and negotiation of ethnic boundaries, while the external forces are societal pressures, economic power, and political practices (Yang, 2000:32). The main drawback of this

perspective is its inability to see primordial ties as a means for mobilization and consequent action (Seol, 2008:77).

2.2.3. Instrumentalism

This theory emphasizes that ethnic identity is not something people “possess” but something they “construct” in specific social and historical contexts to further their own interests. The instrumentalist approach to ethnicity, prevalent in most schools of thought, means that an individual makes a conscious decision to be a member of an ethnic group in order to access the net benefits (Hempel, 2004:156).

The most extreme form of instrumentalism views ethnicity as determined by interests which result in an ephemeral ethnic affiliation (Yang, 2000:147). However, Bell (1975 as cited in Yang, 2000:150) argued that interest can be associated with affective ties. Furthermore, the rational choice theory proposes that people choose an ethnic group over another group for the benefits they gain and do not associate with other groups for the disadvantages it can bring forth (Yang, 2000:152). The theory’s limitations are obvious, for example, some people cannot reject their ethnic background, because it is defined by others. Furthermore, the idea that people make egotistic, logical, and money-orientated choices is overstated: Some individuals’ choices can be more symbolic and not selfish (Gans, 1979, as cited in Yang, 2000:157).

In the past (during the EPRDF regime) some Ethiopians have been deliberately identifying themselves to particular ethnic group for the sake of business opportunity, an act that can be taken as a practical expression of this theory. Association with the ethnic group which is favored by the ruling party was crucial to participate in most kinds of businesses. So people intentionally became members of one ethnic group to gain economic advantages. In this regard, what is most important for them is not their blood or culture but the benefit they get out of the network of the ethnic group.

2.3. Social Network Theory

Social network refers to “a social structure made up of individuals (or organizations) called ‘nodes’, which are tied (connected) by one or more specific types of interdependency, such as friendship, kinship, common interest, financial exchange, dislike, sexual relationships, or relationships of beliefs, knowledge or prestige” (Social Network Analysis Theory and

Applications 2011:23). Social network theory was originally used by J. A. Barnes in 1954, to denote patterns of ties, encompassing concepts traditionally used by the public and those used by social scientists: bounded groups (e.g., tribes, families) and social categories (e.g., gender, ethnicity).

Social network theory is guided by a set of instruments and techniques for investigating social relationships (Wasserman, 1994:111). In this case, social capital is often operationalized through the identification of networks and network relationships, sometimes defined by the strength of ties, repetitive group activity such as the frequency of meetings and other formal interactions, as well as informal gatherings and other social activities, and social and family relationships (Urban 2011:98). The network consists of a set of actors or nodes along with a set of ties of a specified type (such as friendship) that link them. The ties interconnect through shared end points to form paths that indirectly link nodes that are not directly tied. Thus, researchers should define a network by choosing a set of nodes and a type of ties (Borgatti and Halgin 2011: 67).

According to Granovetter, 1973, 1985) ethnic ties and networking have a great role for business performance. In addition, research in a number of academic fields has shown that social networks operate on many levels, from families up to the level of nations, and play a critical role in determining the way problems are solved, organizations are run, and the degree to which individuals succeed in achieving their goals (Social Network Analysis Theory and Applications 2011:5).

The Gurage, for instance, use ethnic networks to mobilize resources and opportunities, which in turn contributes to their success in the business (Tebarek 2014:31). They cooperate in order to meet their social and/or business needs. They cooperate in joint purchase of raw materials, borrowing machinery, the exchange of information on daily business routines, marketing and undertaking jobs/contracts together. This takes place during social gatherings, fundraising and self-help development schemes (Tebarek 2014:31). Therefore, in this study, it was found crucial to consider shared markers of ethnicity such as language, religion, common geographic territory, etc that have connections with business/trade activities (selling and buying; benefiting and harming, etc.). For this reason, I have used this theory (social network theory) to support this

study. Because, ethnic based business is conducted based on ethnic networks which is part of social networking.

2.4. Empirical Literature

2.4.1. Overview of Ethnicity and Business activity in Pre and Post 1991 Ethiopia

It is believed by many historians, that the year 1957 is a critical point in Ethiopian history of economic development. What made this specific time significant is the launch of the first five-year plan (FFYP) by the Ethiopian imperial government. It was the time that the Imperial Government had begun to assume considerable responsibilities for investment. The FFYP indicates, that “about half of total investments were financed by government. This type of investment must undoubtedly play an increasingly important role in the country’s economic development” (1957:201). According to Eshtu (2004:51):

... there is not much evidence of commercial capital being invested in industry. This type of capital which is in the hands of foreigners tends to remain in the field of commerce, while, in the main, savings and profits are remitted abroad. The problem is all the more intensified by the fact that a national middle class has yet to be developed to enter the field of commerce and invest capital in productive enterprises (Eshtu, 2004:51).

The reviewed literatures revealed no evidence as to the existence or non-existence of ethnic based business networking during the imperial region.

When the monarchy was overthrown by the military regime, (1974-1991) the power base of the land aristocracy was lost by a sweeping act of land nationalization. Central planning was introduced first in the form of what was then referred to as National Revolutionary Development Campaigns (1978-1984) and subsequently in the form of a Ten-Year Perspective Plan (1984/85 – 1993/94). The goals of the socialistically inclined military regime, by way of its Ten-Year Perspective Plan (TYPP), was to ultimately build a socialist economy. The last paragraph of the forward to the Ten-Year Perspective Plan reads as follows:

The Perspective plan, which defines national development priorities, objectives, strategies and targets is a revolutionary appeal extended to the working people of Ethiopia to participate actively in the many development ventures planned for the various

sectors of the economy. Conscious that this national economic development endeavor is arduous and complex... an appeal is made to every worker and to every individual in a position of responsibility, to rearm himself with Marxism-Leninism, to redouble his effort and join in a united force to face the challenges of socialist economic construction. (TYPP, 1984: 19)

One striking and puzzling economic consequence of both the Imperial and Socialist State tributarism, according to Berhanu (2004:321) is “the negligible impact on farm productivity – a source that internationally accounts for half the growth of agricultural output”. This, it is believed, is the main cause for the stagnation of the living standards under the military regime, even though the war is also to take its share of the blame for the economic stagnation. Eshetu (2004: 119-120) for instance argues that:

Expert opinion is unanimous that the policy environment of the day seriously undermined the prospects for growth of the Ethiopian economy. The most basic question in this regard is the role of the state in the economy. Put simply, the state over extended itself, attempted centralized guidance of an economy not amenable to such guidance, pursued strategies that were inimical to growth, stifled private initiative and in general created an environment that seriously undermined the country’s prospects for growth.

The Economic Reform Program (of 1990) exhibited a stated orientation towards a market economy. It accepted profitability to be a guiding principle of all types of enterprises (i.e. state, cooperative and private). It intended to give state enterprises management autonomy from government corporations controlling them; private investment including foreign investment was actively encouraged in all sectors except few (Eshetu 2004: 125). It further eliminated state controls on the operation of the private sector (in terms of capital ceilings and area of operation etc...). It restructured public enterprises management towards competitiveness and profitability.

In the agricultural sector, it abolished the Agricultural Marketing Corporation and with it the quota levies; it lifted inter-regional grain movement controls; it allowed the private sector to operate in grain marketing in a free market environment; security of land tenure was accepted, trees and other investments on land was granted; and the voluntary formation and/or dissolution of cooperatives was allowed (Eshetu 2004: 125). Generally, the Ethiopian business and economy

before 1991 was under the government control. Private business sectors were not so much expounded. Hence, it is possible to conclude that there was no economic development.

When the EPRDF government came to power in 1991, its declared economic policy orientation was to undertake a transition from the earlier system of command economy and effect a transition towards market economy. The Ethiopian Privatization Agency (EPA) was established as an autonomous agency in February of 1994. In accordance with proclamation No. 110/1995 and its amendment proclamation No.193/2000, the agency is accountable to the Ministry of Trade and Industry.

Ethnicity is functional for the politician who wants to survive or to conceal exploitative practices by building solidarities across ethnic lines. Many ordinary people who give their primary loyalty to the local community or the ethnic group do so for very good reasons (Ake, 1993:46). It is believed by many that EPRDF created a powerful ethnic empire in the name of privatization, and transformed the formerly state-owned public enterprises into party owned monopolies. This process to some extent the movement of private capital, and as a result, at present, the Ethiopian private sector is dominated by small and fragmented service-oriented enterprises (Ethiopian Review2007:9).

Sheik Al-Amudi, who is the first investor in his kind created a wide range of new companies and also bought up already existing state-owned ones which were auctioned off by the government. Within a few years he, thus, created a business empire with more than 50 large groups of enterprises in all of the major sectors of the economy (Assefa, 1996:11). He first established his business in association with a few Ethiopian business partners and later relied more on his brothers and cousins.

Sheik Al-Amudi also has extensive business interests outside Ethiopia. According to the Anonymous Document (1996:7-8), in 1995 he was allegedly said to have bought a major part of the Swedish ABVROCK, which he reorganized as MIDROC Scandinavia AB (MIDROC stands for Mohamed International Development and Research Orientated Company).

Genuine private investment was seen only in light manufacturing like bakery, textiles and foot wear, metal and wooden furniture, medium size hotels and services and lately flower production. Even in this sector, EPRDF was moving in under the cover of private investment.

The relatively ‘heavier’ manufacturing sector, large import/export, and whole sale trade, large scale transport ‘private’ banking and insurance and services with very few exceptions, is shared between TPLF/EPRDF’s group of companies under EFFORT (The Endowment Fund for the Rehabilitation of Tigray) and the Ethio-Saudi al-Amudi family group of companies under the holding company, Midrock– Ethiopia (Assefa,1996:12).

As publicly known, business in Tigray is completely closed to non-Tigreans, and all walks of Tigrean businesses were exclusively owned by EFFORT or the local Tigrean government. For example, the trading company GUNA had an ear monopoly in wholesale trade in Tigray, whereas TRANS Ethiopia carried all goods designated as relief (Vaughan & Gebremichael, 2011:45-46). The TPLF also benefited EFFORT by ordering free transfer of funds from government accounts, often under a bogus claim of services that TPLF institutions offered to the public. It allowed free flow of goods in the name of EFFORT, without customs and taxes, but EFFORT was also allowed to compete with private businesses of the country through its tentacle bureaus. (Ibid, 45-46).

In line with its ethnic politics, the government encouraged the formation of ethnic banks owned by EPRDF, and managed by EPRDF affiliated ethnic parties and mass organizations. Accordingly, banks and credit associations have been established by the Oromo, Amhara, Tigre ethnic groups and the Southern ‘nations and nationalities’ of Ethiopia. The regime’s banking policy, like its other economic policies, was conceived, formulated, and implemented with only one objective: the enrichment of TPLF’s supporters, cadres, and leaders. The regime had extensively used Ethiopia’s banking system to establish its own companies, to facilitate the transfer of wealth to supporters of EPRDF and to stash away money obtained thorough fraud, bribes, and embezzlement in foreign bank accounts (Ethiopian Register, August 1997 cited by Tessema 2012:15).

Though not that much dominant as Effort business company founded by TPLF (Tigriyan Peoples Libration Front) in Tigray, other three dominant sister political parties also had ethnic based business companies: Tiret by the Amhara National Democratic Movement (ANDM), in Amhra; Wendo by the South Ethiopian Peoples' Democratic Front in SNNPR: and Tumsa by the Oromo Peoples Democratic Organization in Oromia.

By way of concluding this overview it can be said that the Ethiopian business and economy before 1991 was entirely under the government control and private business sectors were not encouraged creating no room for the country's economic growth. On the other hand the post 1991 Ethiopian economy is dominated by privatization and the dominance on one political party/ethnic group. Regarding case studies related to the current study, I searched for research papers that deal with ethnic networking and its influence on business in Ethiopia. However, I have found none and to the best of my knowledge this study is the first research conducted in the area.

Chapter Three

Merkato, Its Business, and the Role of Ethnic Alliances

3.1. Description of the Study Area (Merkato)

The name Merkato, is an adapted name, during the attempted occupation of the Italians, meaning ‘giant market’. Its development as open air market is mainly related with Italian occupation and Italians interest to make the area for market place for indigenous community. They established Merkato (Quarteri Indigeno or Addis Kätäma, the New Town for the indigenous population) (Mia, 1988, in Shimelis, 2012). It used to be known by the name Merkato Indigino (market of the indigenous). Meanwhile, with the intention of making their stay in Addis comfortable, the Italians tried to establish their separate market center in Piazza, the old commercial hub of Addis Ababa known by the name Arada, which was exclusively Italian (or European) center of business, culture, and entertainment.

The city dwellers and people living in the surrounding towns, without any direct influence from those in power started getting together just west of the Italians’ Piazza to exchange their produces. As a living testimony to the unlimited potential of the free market, Merkato flourished both in size and variety of supplies right under the eyes of the doomed occupiers from different parts of the country and different ethnic groups. (Yonas, 2014:12).

Geographically, the adventurous open-air market, Merkato is located in the northern side of western Addis Ababa, a city administration, which is organized into 11 sub-cities and 116 Woredas that are the lowest administrative unit of the government. The city covers a total land area of about 540 square kilo meters (AACA, 2011:2). Demographically, according to 2007 population census conducted by Central Statistical Agency of Ethiopia, Addis Ababa has the total population of 2,739,551 of which the number of female has greater proportion, 52 percent (CSA, 2007). The city administration is one of the most densely populated areas in the country, where the non-stopping rural-urban migration is the main contributor.

From the total population of the city, 124,898 male and 130,474 female or a total of 255,372 people live in Addis ketema sub-city, where Merkato is situated. This market covers a large area of the sub-city and is bordered on the south by Black Lion specialized hospital, on the north by Mesalmia area and on the east by Piazza. The area is administered by two Woreda

administrative, Woreda 1 and Woreda 8, in the sub-city. Merkato employs countless people in 7,100 business entities. There are over 150 stores and four massive shopping centers with 75 stores. Previously it used to be dominated by Arab tradesmen until local merchants took over the market back in the 1960s giving it entirely a local flavor (Yonas 2014:14).

As the largest wholesale market in Africa, Merkato offers more than just a shopping experience allowing the experience of different cultures meeting traders who work around the clock. The dilapidated and crowded shops in Merkato are the predominant image of the marketplace. The market is always filled with shoppers, carrying bags full of items, seemingly oblivious to the crowd. The environment is abuzz with the sound of buyers and sellers negotiating prices. Music's across the street, blaring various native themed music, adds to the adventure of the place. Donkeys and other livestock run around freely, ISUZU trucks load and unload countless bundles of supplies, and shoppers explore the streets looking for the best deals. It's a place where people talk at the same time and understand each other (Africa Business 2016:6).

Merkato is home to many salespersons, including blacksmiths, potters, carpenters and weavers. The colorful market is organized based on neighborhoods (*tära* in Amharic) where similar products are found on the same neighborhood. The major *Täras* in Merkato include, *Saten Tära*, *Shera Tära*, *Mesob Tära*, *Worke Tära*, *Chöd Tära*, *Menalesh Tära*, *Dubai Tära*, *Military Tära*, *Bomb Tära*, *Shata Tära*, *Mentaf Tära*, *Frash Tära* and *Sidamo Tära*. In Merkato, there is no limit on the items available. From the exclusive Ethiopian garment to jewelries the market is full of items. It's easier to find just about anything. On the sidewalks coffee and sambusa sellers provide cheaper roadside snacks treating sellers and buyers with fresh bites (Africa Business 2016:7).

According to Yonas (2015:55), the names of the *Täras* (neighborhoods), have mainly explained the special current and traditional features of the area. For instance, "Goma *Tära*" refers to an area in which a "chain of stores for vehicle tires" are found. In the same way "Atikilt *Tära*", refers to an area where variety of fruits and vegetables are sold.

In contrary to the name of the areas that are helpfully locating commodities in the specific area, some areas' names and the meaning does not have a direct relationship, and is, sometimes, deceiving. For example "Bomb *Tära*" has nothing close to weaponry bombs in its current nature;

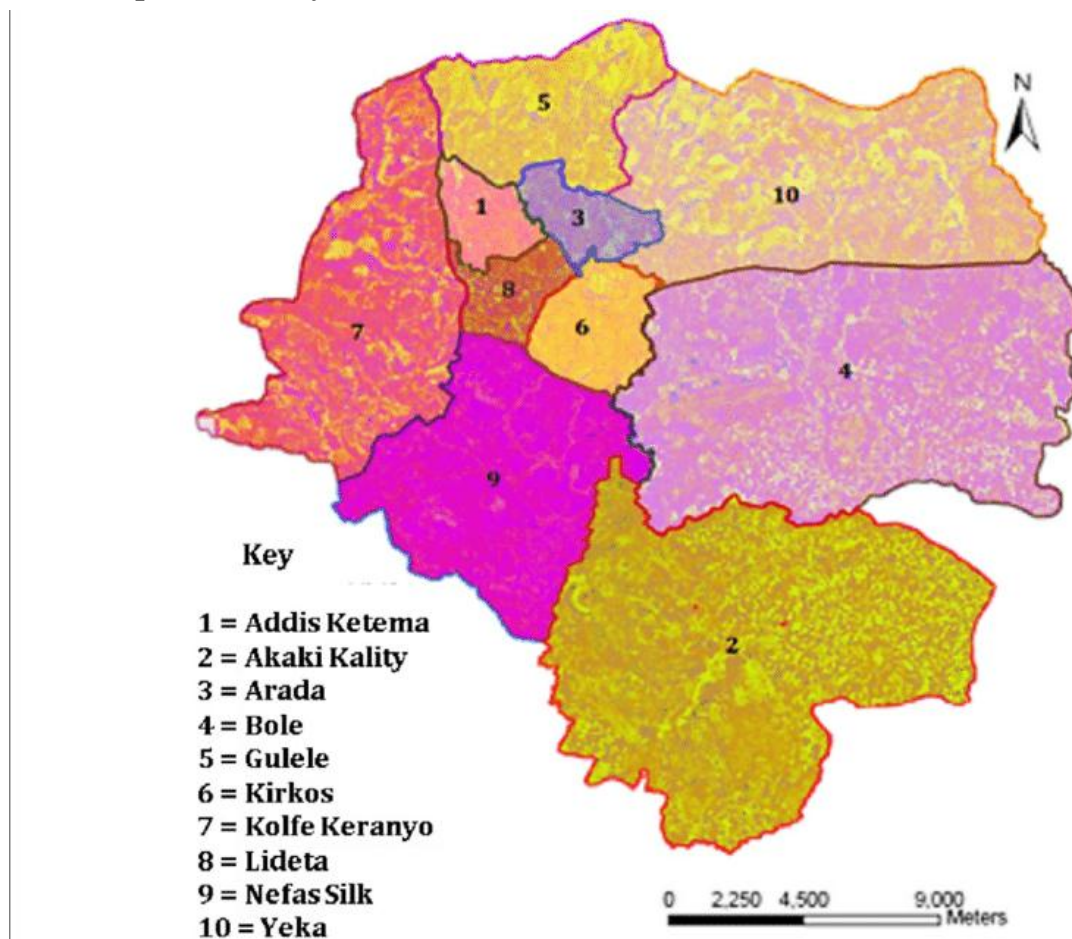
rather it indicates an area where consumer goods are available at wholesale price. The area gains its name from its past when it used to sell guns and ammunition.

Min Aläsh Tära is the specialty of the marketplace, which is known as the place where anyone can buy anything. It is an area in which products that have outlived their use are collected from all over the city to be recycled into something useful. Nothing is thrown away in Min Alesh Terra. One can get different things like, cars spare parts, housing items and clothing at cheaper price. The people the researcher has talked with described 'Min Aläsh Tära' as a place where anyone can buy almost anything except a human being. The other chain of stores in Merkato is the infamous "Somali Tära" or sometimes called "the slaughter house of cars", which used to sell car parts and accused of being behind many thefts of vehicles and vehicle parts around the city.

Merkato is the nerve center of Ethiopia's trade and commerce activities. People say, easily, goods and services worth millions of birr changes hands every day. In fact, Merkato might as well be the single largest market place in Ethiopia in terms of the volume of cash-based transacting activities (Global Ethical Banking, 2019:5). It is also a place where huge amounts of financial dealings are made solely based on trust and social networks. Every day, a staggering amount of short term business-to-business loans and financing decisions are made in Merkato; and most of it is truly based on trust and social networks, posing a serious challenge to tax administration and trade regulation (Global Ethical Banking, 2019:6).

Although fast change is evident in the rest of the city, one thing is certain, that the daily people who flow to Merkato in large crowds will continue to do so and benefit from its blessings so long as Merkato continues to be what it has been for the past 70 years or so; the most convenient venue for the contemporary value hunter and anyone else who wishes to be part of its grandeur.

3.1.1. Map of the Study Area



Source: Google map

3.2. Ethnicity and Other Factors of Market Networking in Post 1991 Merkato

Businesses engage in networking relationships on different levels, for instance on industry level, on a group level and then within the business on their own level of connections (De Man, 2004:118-129). Networks can also occur within a business or between businesses and combinations of these networks may differ in terms of the flow and/or sharing of products, services or resources and the relationships between the businesses (Grandori, 1999:92). Street and Cameron (2007) note that characteristics of small business external relationships, such as relationship strength, network size, network structure, relationship type, goal compatibility and existing trust, represent the largest area of research regarding antecedents of relationships. Business/market networking in Merkato is created on the basis of strong connections through

ethnic identity, religious and political affiliation, kinship (consanguineal, affinal, and other fictive ties).

During the interview, one of the informants explained that,

During the Derg regime the economic system was command economy (socialism) which totally discouraged free market and business competition. The trade system of Ethiopia since 1991 has been the replica of the political system, ethnic federalism, which systematically pushes people to be restricted within their ethnic group. Though the economy under this regime has been liberalized, there was a one ethnic group (Tigray) monopoly in different business activities. Most of the business activities that took place under this regime are made through recommendations on the basis of ethnicity, political affiliation, personal bonds, religious backgrounds and often through giving commissions. The main reason for ethnic and religious based business networking is the ethnic based federal government system, which promotes the separation of people based on ethnicity and alienate unfavoured others from the economy. Establishing connections based on blood relation, affinal relationship, fictive ties, political affiliation, religion and ethnicity is not a bad thing by itself as long as fair market competition is practiced and the trade rules and regulations of the country are respected.¹

This situation was persistent for 27 years (1991-2018), before the political dynamics since 2018 has began to bring some changes. As a result it was very difficult for traders to penetrate such a strong network developed over many years and join potential businesses such as construction materials (metal and cement) and electronics and accessories, which are business sectors highly dominated by TPLF affiliated traders². Clearly, such discriminatory system of running businesses has a negative impact on the country's economic development.

Another informant also states that, since Ethiopia is a developing country it is engaged in extensive infrastructure construction, such as road construction, buildings, real estates, dams,

¹Key Informant from revenue office at Addis ketema sub city

² Ibid

etc., which makes construction material trade a very big business in the country. Therefore, TPLF affiliated people also controlled this area of business and invested on importing and producing construction materials like cement and metal, which have a wide demand and better profit.

Informants reiterated that most business activities in the country have been done through ethnic and political connections. Officially, the system is not discriminatory and no one is prohibited from investing on businesses as long as he/she has the capital and license. However, the individuals are systematically discouraged out of the business through unfair taxation, prohibition of adequate foreign currency, limitation of working space and credit access. This kind of unfair treatment, in turn, forces the unfavoured traders not to give receipts while selling products so as to compensate their loss through paying the minimum amount of tax possible, which further affects the country's economy.

Economy and politics are interdependent on each other in developing countries like Ethiopia. Dictator governments often control the economy through their ethnic lines and or supporters to maintain their political power by discouraging opponents economically. The EFFORT companies are established in a similar manner and become profitable through unfair competitions backed by political powers and ethnic connections. The government itself is a business organ that has been monopolizing the economy through its political power control³. As a result, there are many businesses (banks, insurances, construction materials producing companies, bakery, garment, electronics and accessories, transport, commodities, etc) established based on ethnicity.

Ethiopian trade system is very traditional which lacks technological support that helps to control corruption, artificial inflation, discrimination, monopoly, etc. which contributes for ethnic based business networking. As bankers pointed out during the focus group discussion sessions, the country's trading system is not regulated by economic principles (demand and supply) rather it is based on ethnic and social networks such as religious, marital and fictive ties. Moreover, professionalism is not taken in to account among most of Ethiopian entrepreneurs engaged in

³Trader informant

different business activities. Most wealthy people in Ethiopia are uneducated and do not know the market principles, customer attraction mechanisms, etc instead they simply collaborate with their kins and ethnic group members and control/monopolize businesses. These problems have added to the already complicated trade system of the country.

In addition to this, although not all, most employees and officials working at the revenue, custom, and trade offices favour some traders based on corruptive relationships, ethnicity, religion and other relationships (blood, marital and fictive ties). The discrimination can be in terms of reducing /increasing taxes, providing or hindering working places, facilitating or delaying services, granting or denying foreign currency, license, credit access, etc. An informant from the revenue office said, “Knowingly or unknowingly, I myself may have discriminated or favoured people due to friendships, and other connections, while providing services.”⁴

In general, for the past 27 years, the government has been working deliberately to make business networks in Merkato to be based on traders’ ethnic background, attracting supporters and followers which further helps to strengthen and extend its political power. Furthermore, the case has also influenced traders not belonging to the favoured ethnic group to incline towards those who are speaking their language and follow their religion while making business deals.

3.3. Types of Market Networking in Post 1991 Merkato

Networks cannot be separated from the concept of relationships (consisting of togetherness, long-term character, nature of processes, the context of dependency) and marketing models (consisting of business people, resources, and human beings who are interconnected in business) (Holmlund and Törnroos 1997). Based on the data gathered the following are found to be major market networking forms in Merkato.

3.3.1 Ethnicity

In Ethiopia, politics, ethnicity and business are interlinked and most businesses are run through ethnic connections. According to informants, business recommendations are usually made based on ethnic backgrounds rather than actual capacities, skills and personal qualities. Moreover, Business transactions are greatly affected by ethnicity that they, almost always, took place

⁴According to an informant from the revenue office

through favouring some and discriminating others. Hence, most business connections are made through ethnic lines. The Gurage, the Tigrean, the Amharas, the Oromo, etc all form business connections based on their ethnic backgrounds. Even their employees are from the company owners' ethnic line. Relatively, the Amhara are better in networking with people other than their own ethnic group.

People from the same ethnic group usually come together to open a certain share company, because it creates mutual trust, sense of belongingness and intimacy. For instance, almost all security firms are controlled by Tigrians who have been wounded during the Ethio-Eritria war. Similarly, banks are also founded based on ethnic lines; Oromia International Bank (for Oromo), Debub Global Bank (for people from Southern Nations, Nationalities, and Peoples Regional State), Wogagen and Anbesa Banks (mainly by Tigreans), Abyssinia Bank (mainly by Amhara), Nib Bank (by Gurages), etc. and currently, Hosana Bank, Amhara Bank, etc are under formation. In actuality, all kinds of people are invited to buy shares from these banks, however, the board members, founders and those who have lion's share are from the respective ethnic groups.

Accordingly, these banks favour or discriminate or customers/traders, based on ethnic backgrounds, by simply manipulating the bank system. For instance, the board members can order the bank manager to allow or deny requests for foreign currencies and credits. The other thing is corruption. Therefore, those who have lion's share and deposited much money in the banks and their blood relations are most benefited from this ethnic based banking system. One informant explained the ethnic based market networking in Merkato as follows:

I am from Amhara ethnic background. I am a metal roof importer. I went to China for exhibition and met people producing metal roof and exchanged ideas with them. Then I started importing such materials and distributing it in local market. The business is profitable, however there is a shortage of foreign currency. I have around 25 employees who are working on contractual bases. They are from Gurage, Amhara and SNNPR ethnic groups. Since the work needs physical strength all of them are men. I hire employees based on their interest and capacity not their religion and ethnicity. This business had been fully dominated by Tigreans for the past 27 years, but now other people from different backgrounds are being involved, following the 2018 political shift in the country.

However, the metal business in Merkato is still entirely dominated by the Tigrians, because they have established a strong business network using their previous political domination. It is difficult to break this network since this area of business, from importing to retailing, is held by members of this ethnic group. When an outsider joins the business they indirectly force the individual out of the market by deliberately decreasing price and increasing supply.

Likewise, another informant said that:

In bidding, winners are inevitably from the same ethnic group as that of individuals in charge of the bid. If the people in charge are Oromos then the winners are Oromos and the same is true for other ethnic groups. Unless they are attracted by good commissions this seems to be the norm that biddings take place. For instance I showed the best performance in my assigned task of condominium house construction and even completed the task early unlike other contractors. However, the concerned officials did not invite me for the next site's construction. When I asked the lower employees of the office for the reason behind this unfairness, they told me that I should have talked to the main official in Oromiffa, and that he may not have realized that I am an Oromo.

Unlike others, those who grew up in the capital city Addis Ababa and not identify themselves with any ethnic group have particularly been victims of various ethnic based discriminations. One of the informants stressed the case as follows.

Initially it took me around 4 years to get a job I could not be identified with any ethnic group. It is mainly difficult for traders who grew up in Addis Ababa since there is no any institution or business company organized on behalf of Addis Ababa people, such as the ethnic based banks established by the Oromos, Gurages, Tigrians, Amharans, etc. There is no bank known as "Addis Ababa Bank" (established by groups having "Addis Ababan sentiment").

The ethnic based business network can be both intra-ethnic and inter-ethnic since those who have similar political, religious and ethnic consciousness lives within and in different ethnic groups. People may create networks with those who do not belong to their ethnic group as long as they

find them to be profitable and when they are unable to find options from within their blood line. For instance, as a business man, I the researcher myself, previously, had Tigrian customers or established business network with them. They are smart in identifying business areas that do not require much effort. They simply engage in businesses that generate better profit with low effort. Thus, they did not want to engage in furniture production so that most of them were buying from me and sold them with profits.

Foreign companies, mostly, are not involved in such ethnic based business networking. An informant from a foreign company said:

I am a sales woman for a foreign company (Indian) working on metal roofing. Since they are foreigners they do not take ethnicity and religion in to account while recruiting employees, buying and selling products. Most of the business connections are made through word of mouth (those who are satisfied in the products recommend others), advertisements (using both mainstream medias and social medias). We may give priority only for those regular customers and take mass products.

In general, in the past regime businesses in Merkato were highly influenced by ethnic networking and especially favouring one specific ethnic group while discriminating others. Currently, some changes are being observed following the 2018 political power shift from Tigreans to Oromos. Before Abiy Ahmed came to power, the economy was controlled by the Tigreans and now it is shifted to the Oromos, which makes no difference in the actual economic development of the country. All the follies committed by the Tigreans are now being repeated by the Oromos. Despite this fact, it is still very difficult to break and penetrate the previously well established Tigrean business networks, especially in business areas like metal and electronics.

3.3.2. Religion

After the Derg was ousted in 1991 and the EPRDF regime consolidated its power, Ethiopia saw an unprecedented introduction of religious liberties. The promotion of religious plurality and diversity dovetailed nicely with the new governing philosophy of multinational federalism (Østebø, et.al., 2021:11).

For instance, Abuna Paulos, and to a lesser extent his successor Abuna Mathias, have been seen as puppets of the EPRDF during times of unrest, mainly on account of their Tigray ethnicity and their failure to criticize the government (ibid, 13). On the other hand, the Ethiopian Evangelical Church Mekane Yesus, found it hard to balance its long-standing advocacy of Oromo rights (and its own internal arguments about Oromo rights) against accusations of sympathizing with or even supporting the separatist cause of Oromo Liberation Front (OLF) (ibid, 13).

On the bases of this relation and ethnicity, religion has become another type of networking in business relations of post 1991 Merkato. Religious institutions, such as churches, synagogues, mosques, and temples, can provide a forum for people with shared values or beliefs to gather together. Shared values, by extension, lead to trust and behavioral norms within the group as well as relationships that are the basis of support networks. Trust and behavioral norms combined with the networks that arise out of regular meetings for worship, and other purposes such as volunteering for community service, provide the key elements of social capital (Halstead and Deller, 2015).

According to focus group discussion participants, religion can create networks of trust and familiarity that facilitates economic transactions between fellow religious adherents. Also, it facilitates cooperation as religion provides the bases for ethical behavior. Therefore governments, individuals and organizations can trust others whose religious bases are strong, which implies that they are ethical and appropriate partners for business relations.

Mainly Muslims and Protestants make business networking through their religion. For instance, one can easily notice that most shops, bakeries and other businesses are closed during Islamic holidays. Moreover, entrepreneurs make networking through their religious connections. Compared to Christians most Muslims are traders and create business networks with their fellow Muslims rather than their ethnic group members.

According to one Muslim informant, “Islam teaches its followers to mutually encourage one another in goodness and advise against evil and build up a sense of togetherness to help one another. He said that

“Allah Al-Mighty said ‘And those who believed and do righteous deeds, they will surely be included in the group of righteous people.’ (QS. 29; 9). ‘Indeed,

Mankind is in the loss. Except for those who believed and done the righteous deed and advised each other to the truth and advised each other to patience.’ (QS. 103; 1-3). And elsewhere, ‘And the believers, men, and women are protecting friends one of another; they enjoin the right and forbid the wrong, and they establish worship and they pay the poor-due, and they obey Allah and His messenger. As for these, Allah will have mercy on them. Lo! Allah is Mighty, Wise.’ (QS. 9; 71).”

Once business networks are established on such religious foundations, it is unlikely for other people to join and become successful because all the importers/producers, wholesalers, and retailers are from the same religious group who are committed to help and collaborate with their fellow religious man/woman. Another informant from Protestant religion said, “My customers are government projects and individuals and since I am a Protestant those who have been recommending me are Protestants”. He further explained:

Price and quality of the products are the main criteria that I usually consider while buying things. However, if the price and quality of the product is similar everywhere and I prefer to buy from Protestant Christians because I belong in this religious group and it gives me satisfaction because it enables me to establish relationships. Besides, I believe that Protestants don’t lie and don’t sell me less quality products. For instance, I bought a house a few years ago from a non-protestant believer since I couldn’t find a protestant house seller at the time. In general, I prefer to make business and other networking through my religion and not my ethnic lines.

An Orthodox Christian informant also explained that,

I and most Orthodox Christians don’t buy and sell goods and commodities through religious lines. However, most of the Orthodox Christians prefer to eat and buy meat related foods from the Orthodox Christians butcheries and restaurants. But it doesn’t mean that all orthodox religion believers don’t make networking through their religious lines and they don’t eat at restaurants of other religious followers.

3.3.3. Corruption

Corruption is “the transgression of formal rules governing the allocation of public resources by officials in response to offers of financial gain or political support” (Khan & Sundaram, 2000:8). Yehoue (2007:13), argued that ethnicity is a reason for “rent-extracting technology” in a democratic society where democracy is at the early stage but it will phase out when democracy matures. For years, Ethiopia’s business community was a victim of taxation and coercion when not in line with TPLF’s agenda. Farmers were stripped from their fertile lands and evicted from their villages forcefully. Ethiopians, including the people of Tigray, have gradually come to the realization that the TPLF does not represent the best interest of the nation after witnessing serious threats to the very existence of the nation by the sheer size of land that is being sold to multinationals (Information For Ethiopia, 2012:4).

The predominance of party-owned companies, referred to as parastatals, that controlled the strategic income generating sectors such as agriculture, industry, banking, mining, import-export, transport, construction, insurance, and communications are bitterly resented by private entrepreneurs as well as the general population which views them as a deliberate ethnic based and systemic economic exploitation. Since 1995, TPLF has been using the parastatals under EFFORT as a “cash cow” to accumulate immense amounts of wealth to pursue its ethnically motivated political and economic domination of Ethiopia (Information For Ethiopia, 2012). “...the dominance of state in the economic arena, paves the way for elites to transfer public property for private purposes. For example a report organized by Inter Press Service shows how EFFORT (Endowment Fund for Rehabilitation of Tigray) is manipulated by TPLF to transfer public resources to the political elites’ pocket. (Asnake, 2014:71)

Although privatization was initiated early on and a competitive policy and trade practice commissions were developed, they did not have significant impact, since the process was discriminatory and highly politicized — plagued with nepotism, insider information, and other political considerations. The business community complains that the system of taxation is aggressive and targets those who do not have political connection, or those who are not linked to party parastatals. Some business people have protested that heavy taxes have been used as a tactic of pressurizing and settling scores on those suspected of supporting oppositions. For example, Commercial Bank of Ethiopia (CBE), the dominant market player, faced financial

meltdown a few years ago as its level of non-performing loans (NPLs) passed the 50% mark, due to unregulated lending to state-owned companies, parastatals, and to private individuals with political or personal connections with bank officials⁵.

Furthermore, Altenburg (2010:6) notes that the companies run by the EPRDF are not audited since their establishment; there is no transparency about their management structures and financial matters; they use also excessive credit facilities from the state owned Commercial Bank of Ethiopia. If there is no auditing, transparency about management and financial matters as well as credit limitation from public financial institutions, it is possible to presume that corruption is inevitable in the corporations.

The TPLF has clearly been engaged in such massive corruption and unethical business practices by national or international business rules and practices since it came to power. As a ruling party, it not only owns strategic sectors of the economy and engages in commercial and trading activities, it also puts competing private sectors in a hopeless no-win situation. This preponderant economic dominance is also used as a political weapon to harass, incarcerate, dominate, weaken and control opposition forces in order to stay in power indefinitely⁶.

Under these untenable circumstances, it is a moral imperative for the Ethiopian people to continue the struggle against the total economic and political domination of the Tigray ethnic minority regime, that hails from one of the poorest regions of Ethiopia and produces no exportable commodity, yet, parasitically exploits the natural resources of the country for its sole benefit. The economic hegemony of the TPLF coupled with its gross mismanagement of the nation's resources and the massive systemic corruption that has infected the body politics of the nation is the ticking time bomb that may very well destroy the fabric of the Ethiopian society (Information For Ethiopia, 2012). According to one key informant:

When a certain business opportunity is announced by the government or any private investor it primarily seems to invite all concerned bodies to participate and benefit from the opportunity. However, the communication is entirely based on give and take. The concerned officials give away the business opportunity through recommendation, commission, relationship (blood, affinal fictive), etc. For

⁵Key informant 5

⁶ibid

instance, I got most business opportunities through recommendations and commissions. Unless you give something you don't get anything. They have chain of corruption and no one is afraid of asking money for bidding opportunities. There is no equal opportunity for all legitimate and potential applicants.

Focus group participants also elaborate this idea as follows:

Banks give priority for their ethnic group members to get access to credit and foreign currency. For instance, Oromia International Bank and Awash Bank favour the Oromo, Abyssinia Bank the Amhara, Wogagen and Anbesa Banks the Tigreans and the managers and directors of the Commercial Bank of Ethiopia and Development Bank similarly favour people from their ethnic group and those who gives them commission.

On a similar note, one of the key informants from a Bank said, “those who are better affiliated with the board members, board directors and managers of both government and private banks are more benefited in accessing adequate credits and foreign currencies. For instance the development Bank of Ethiopia has been benefiting Tigrean investors at large”. Another key informant also notes:

I usually get most of the work opportunities through recommendations taking my previous experiences into account. However, most of the bidding processes are for the sake of formality and mostly the bid winners are predetermined. The winners are selected based on their ethnic background and those who are able to offer better commissions.

A contractor informant further supports this idea as follows:

I got one of my business opportunities from an office led by an Oromo using my Oromo best friend. He connected me with the officer and I paid him money for giving me the opportunity. However it is hasty to conclude that all business connections are formed through benefit connections and ethnic backgrounds. Some business connections are still formed based on performance, providing

quality products with fair price, etc. For instance, a Tigrean officer gave me a contract job taking into account my previous performance at the Jemo 1 condominium site construction.

Apart from this, most people working at service providing institutions such as revenue office do not treat traders fairly. There is no equal tax for equal income. One of the informants states, “I encountered problems from the service provider offices such as ELPA, Customs office, trade office, revenue bureau, banks, etc. Currently, all these offices are controlled by one ethnic group Oromo who are discriminating me and make bureaucratic red tape because of my ethnic background, which is different from theirs”.

By and large, since 1991, businesses have been run and networks formed in Merkato through corrupted practices. As the above analysis of information gathered from informants indicates, many are being victims of the corrupted system. Clearly, the country’s economy also is not immune to this corrupted system and thus is being affected by it as well.

3.3.4. Political Affiliation

Ethnicism seems to define Ethiopian politics. It is a common denominator to the ruling party and the opposition. Ethnic politics in reality has its roots in the now Tigray People’s Liberation Front (TPLF). The founders of this party happened to champion the interest of the Tigray people. After the 17 year protracted war with the Derg, with strong support from the West and with a little bit of luck, they managed to emerge victorious. At the eve of the victory, ‘sister’ political parties were formed representing major ethnic groups such as the Amharas, Oromos, and lately the Southern Nationalities. That fabric metamorphosed into ethnic federalism, which defines current Ethiopian politics (Teklu, 2015:84).

Most of the trade related discriminations, monopolies and sabotages have been taking place through state sponsored contrabandists. For instance, in 2005-2006 E.C. (after the late prime minister Meles Zenawi’s death) a coordinated TPLF officials from different offices like security, police, customs, etc both at the federal and regional levels, imported contraband electronics (mainly mobile phones and accessories) and distributed it to organized Tigrians at Merkato. Then, since 2006 E.C. it has been the Tigrians who have controlled the mobile phone and accessory business at Merkato and elsewhere. Since these organized Tigrians did not pay tax for

the government, they started to sale the items in relatively low prices compared to those who have paid tax while importing from abroad. Then, systematically, the genuine traders were forced out of the market which enabled the illegal Tigrians to dominate this business till this very day (FGD participants, March 2021).

An official from revenue office said that,

It is not a bad thing to form connections using blood relationships, affinal relationship, fictive ties, political affiliation, religion and ethnicity so long as fair market competition is followed and the country's trade rules and regulations are respected. Nevertheless, controlling the economy and discriminating others using political affiliations and other networks is harmful to the trade system. Such trend has been deeply rooted for the past 27 years and remained in position until today. Because the network has been established through connections and relationships that took over many years now it is very difficult for traders to penetrate that network and join potential businesses such as producing and importing construction materials and electronics and accessories, which are businesses that are highly dominated by Tigrians.

Diaspora opposition's websites listed out the top 10 richest Ethiopians in 2013. Many of them, except the Saudi- Ethiopian billionaire Mohammed Al Amoudi, are all from a single ethnic group (Tigray) and active in the state-party business affairs (Asnake, 2014:73). The ethnic and political affiliation of business companies and their preferential treatment by the ruling parity forced the private investment to be low even by African standards (ibid, 57).

By way of concluding this chapter, it is necessary to reaffirm that, in post 1991 Merkato, most business networks are formed based on ethnicity, religion and political affiliation, where corruption plays a fundamental role in these all. The development of the country's economy, which is being greatly affected by it, is also a major concern that calls for attention.

Chapter Four

Ethnic Based Networking in Business of Post 1991 Merkato

This chapter deals with the positive and negative effects of ethnic based market networking on business activities in Merkato.

4.1 Positive Effects of Ethnic Based Market Networking

Networking has a crucial role in business processes. According to Aldrich and Zimmer (1986:33) entrepreneurs are able to recognize opportunities by using their personal networks and business networks. The use of business networks appears to be dependent upon an entrepreneur's personal network as well as the entrepreneur's personal attributes.

Advantages of business networking include a wide and balanced relationship network basis, repeated transactions, results beyond the abilities of the single business, job creation and access to information and opportunities (Baker, 2000:78). In this regard, informants say that, networks help, individuals and businesses alike, to save money, as well as create income.

In addition to this, ethnicity can be a source of social capital. So, even though, the condition of business networking in our country is mainly based on ethnicity it still benefits those in the network. In this regard Greene and Chaganti (2004:98) stated that there is a correlation between the level of human capital and the level of involvement in the co-ethnic community as social capital for ethnic based business men/women. The reasons behind people entering and participating in business networks are (a) to receive some kinds of help and support which are the initial expectations of social obligation behaviour (b) the 'mutually beneficial transactions' factor to keep the relationships of members with network/s better and stronger based on balanced reciprocity (Witt 2004:71).

Furthermore, 'trust' has a vital role in network outcomes; 'in the presence of a trusting environment network goals are more likely to be achieved' (Smith and Holmes 1997:66). According to Nijkamp (2003:17) social bonds and kinship relationships are crucial for business networking. Likewise, Menzies and colleagues (2000) noted that ethnic based business networking is crucial in accessing 'Co-ethnic markets', 'Co-ethnic suppliers', 'Co-ethnic employees', and 'Finance' for ethnic member business owners.

Trust is established through networks, which enable important brokering functions, finance access, and the mobilization of needed resources. (Light 1972; Bonacich and Modell 1980; Light 1994; Bonacich, Chin et al.2000:51). It helps the entrepreneur to easily access employees, suppliers, customers and finance from potential members of his/her ethnic group. However, Nijkamp (2003:46) noted that networking may encourage uniformity, which may contradict the entrepreneurial spirit.

The existence of ethnic-based social networks also play a major role in mobilizing resources, opportunities, building trust and social capital, all which can promote business (Mackinnon et al., 2004;Gulati, 1998; Basu, 1998; Light and Bonacich 1988; Johnson, 2000; Wilson and Portes, 1980 among many others).

Party enterprises, much like many state enterprises, can be growth-enhancing in a low-income economy under some circumstances. Political security for the ruling regime (through a skillful combination of treats and patronage) and enlightened self-interest may allow for shared growth with some room for rent seeking. ... Party-linked enterprises accomplish win-win outcomes by reducing coordination failures in investment, training, marketing; raising investible resources via rent seeking (government contracts, state policy, differential enforcement of laws and regulations); and entering into high-risk, high-return sunrise industries (Berhanu, 2011:47).

In the Ethiopian context, business networks, even if they are mainly formed through ethnic connections, they still positively affect those in the network. Accordingly, informants explained that traders do benefit from business networks as they open the way for mutual trust, generate income and achieve results beyond the reach of a single trader.

In general proponents of the ethnicity vs. economic development asserted that ethnic diversity has positive role on a nation economic development because it create a stable, non-coercive, development-oriented state through bargaining/ intensive public dialogue; it minimizes the incident of civil war; it improve varied productivity and innovation and lays a foundation for better private sector performance (Asnake 2014:73).

4.2 Negative Effects of Ethnic Based Market Networking

Alesina & La Ferrara (2003:1) believed that ethnic diversification can be sometimes an engine for productivity and innovation since different ethnic groups have different productive skills that complement each other. They said that “an ethnic mix also brings about variety in abilities, experiences, cultures which may be productive and may lead to innovation and creativity”. However, business networking based on ethnic lines, political affiliation etc. has disadvantages over the whole market system by monopolizing and controlling the market which leads to inflation, less quality services, commodities and materials in the market. It creates economic disparity between ethnic groups in a country by creating one ethnic economic monopoly, lack of free market, lack of free competition, inflation, economic conspiracy, etc.

When ethnic and personal attachments are the governing principle rather than the rule of law, public institutions capacity will likely deteriorate. Those ethnic politicians will develop a rent seeking behavior rather than adding value to the national economy and “use their positions and access to resources to plunder the national economy through graft, corruption, and extortion and to participate in private business activities” (Holsti, 2000:251 as cited on Nafziger&Auvinen., 2003:34). The EPRDF on mega businesses can be a remarkable example of this.

Ake (1993:40) argues that:

Ethnicity is phenomenally problematic in Africa. It is held partly responsible for the 'irrationalities' of the development project, for political instability and weak national identity. It has been blamed for outmoded values and regressive consciousness, for fostering corruption and destructive conflict. And now there is some concern that the ongoing process of democratization in Africa may release the politically disintegrative potentialities of ethnicity (Ake 1993:41).

Ethnic networks may also constrain traders from accessing outside information and placing heavy obligations on business persons that divert resources away from current and potential investments (Adobor, 2006; Putnam, 1993; Gambetta, 1993). Berhanu further argues that:

On the negative side of the ledger, it can be argued that politically sheltered businesses undermine security of property, blur the boundary between the legal and the illegal, divert entrepreneurial energy toward wealth redistribution rather

than wealth creation, undermine confidence in the integrity public enterprises (especially pertaining to privatization and government contracts, stripping away government revenue sources, and denting regulatory reputation and capacity). (2011:50)

Ethnic business owners may face many challenges and discriminations while they are looking for resources from outside their groups to start up their businesses, particularly in regards to finance. Getting customers and suppliers from outside their group is also another problem. Ethnic diversity reduces social capital and trust since people have a tendency to “associate with, socialize with, and be more comfortable with people who appear similar to themselves” (Dincer & Wang, 2011:3). In connection with this, Mitchell (2003:15) stated that, ethnic based entrepreneurs rely heavily on ethnic community networks, especially the networks of family and friends to develop their businesses.

FGD participants also shared during the discussion that, “though it is good to create job opportunity for the family and co-ethnic members, unskilled, careless and less qualified workers may join and harm the company”. Concerning the negative consequences of ethnic based networking, informants explained that:

In this globalized world, where people are competing internationally, being limited within a specific group will affect the country. When a certain business is controlled by a certain group, people will encounter with shortages and inflations if that group stops providing products for different reasons. For instance, the supply of cement and metal has been decreased and the price increased since the TPLF was overthrown from its political power. Similarly, most of the commodity shops are closed during Muslim holidays.

Customer informants also note that “ethnic based networking fragmentize people rather than bringing them together. It affects the politics, economy, religion, education, etc. All in all it affects the country’s unity and strength”. Similarly, an informant from a foreign business company stated that “those businesses established based on political affiliation, ethnic and religious relationships though may get temporary benefits, they do not last long. Because once that affiliation bond is broken due to different reasons, the business will immediately collapse”.

Almost all informants agreed that, ethnic based business networking affects the market system. It creates huge disparity between traders, business communities, the poor and riches etc. that leads to conflict and instability as well as affects the growth and development of the country.

Likewise, according to an informant, who is a construction material importer, “ethnic based business networking dilutes the free market economy that creates inequalities which further creates conflicts”. In this regard Ake (1993) stated that conflicts arising from the construction of ethnicity to conceal exploitation by building solidarity across class lines, conflicts arising from appeal to ethnic support in the face of vanishing political legitimacy and from the manipulation of ethnicity to divide colonized people, are not ethnic problems but problems of a particular political dynamics which just happens to be pinned on ethnicity. Solution to these problems is addressing ethnic based governance, not ethnicity.

In general, ethnic based business networking discourages inter-ethnic trade and cooperation; discourages business unity and cooperation that will help the country develop faster. Thus, in any measurements the disadvantages of ethnic based business networking surpasses the advantages which is the case in post 1991 Merkato’s trade system.

Chapter Five

Conclusion and Recommendation

5.1. Conclusion

This thesis began by introducing a problem that focuses on ethnic network and its impact on business activities in post 1991 Merkato. Accordingly, the case was introduced as a complex problem in the first chapter. Apart from this background information the study's problem statement, objectives, method, scope and significance are presented in this chapter. The second chapter reviews concepts and theories that are found to be relevant to the study and frame the analysis. Framed by these two previous chapters, the analysis and discussion of data is presented in chapters three and four. The final chapter summarizes the findings and concludes the study.

The findings of this study reveal that business/market networking, in post 1991 Merkato, is mainly created through political and ethnic affiliations as well as corruption. Following this, ethnic networking has become the main feature of the market center. Main trade sectors and areas in this large market center are mainly controlled by people belonging to one ethnic group (Tigreans).

Even though such networking mechanisms create a more trusting and cooperative environment, they can, as the same time, lead to the collapse of the economy by limiting business transaction within a limited group of people. Informants strongly believe that the current ethnic based business networking is creating economic disparity among ethnic groups of Ethiopia as it led the economy to one ethnic group monopoly, lack of free market and competition, inflation and economic conspiracy.

The findings also reveal that, in order to avoid such unfair business competitions and economic inequalities it is better to withdraw from the ethnic based federal government system, which guides all the policies and strategies designed and implemented in the country. This may be done through amendment of the constitution. Federalism, not ethnic, if appropriately applied, might be an effective method of bringing about political stability and order but in the Ethiopian case, the politicization of ethnic identity by self-seeking political leaders causes political instability.

Moreover, establishing strong economic institutions and using innovative technologies that enable the government to control discriminations and crimes in the business can also provide a way out of this complex problem. Apart from this, strong policies and strategies should be designed and appropriate measures should be taken on those who sabotage the business.

While the research process has some limitations, this thesis is believed to have made a contribution which develops the understanding of business networking in Ethiopia. In conclusion, to further validate or revise the findings of this study, researches, using larger samples and better frameworks, are called forth. Hopefully this minor contribution will be of use in other efforts to understand this specific subject.

5.2. Recommendations

The findings of this study indicates that ethnicity has played some role in the businesses. However, being limited to the ethnic economy and using ethnic networks tended to hinder success. Therefore, based on the findings of this study, the possible solutions that help to hamper the down sides of negative effects of ethnic based networking, it is better to eradicate the ethnic based federal government system that further paves the road to unfair business competitions and economic inequalities.

The ethnic based federal government system should be changed, because all the policies and strategies have been designed and implemented from the context of this system. It is possible to say that economic disparities among citizens are results of this system. Abolish the ethnic based federalism through amending the constitution, awareness raising for the wider public and socializing children against biases of a person's ethnic and religious as well as political background/affiliation.

With government impartiality, market should be based on networking that benefits all. Strong follow up and measurement should also be taken on those affecting the free market systems in order to avoid sabotages. Besides this, establishing strong economic institutions and using innovative technologies (digital technologies in online businesses and government services) that will enable the government to control discriminations and crimes in business sectors, is crucial.

The digital economy, which enables to trace every economic transaction in the country, should be developed as soon as possible. For this to happen, banking technologies should be developed

and the policies and strategies should be designed and implemented from this context. In addition to this, strong policies and strategies that allow appropriate measures to be taken on business related criminals should be designed and implemented properly. Unfair economic competitions can be solved if and only if the market system becomes digitalized and thus transparent for all. The digital economy will help to overcome the problem of taxation, inflation, competitiveness, black market and paper money exchange, which creates conducive environment not to pay taxes (one may not have that much money in his/her bank account but he/she has millions of money transacted without receipts).

Furthermore, establishing strong market system led by strong people and implementing the laws properly will help to create transparency both from traders and trade related service providing institutions. All professionals working in these institutions should also be qualified professionals and bidding must be carried out on the basis of performance, capacity, etc. of bidders. Apart from this, awareness creation and raising trainings should be given using religious institutions, schools, the media, etc, for the wider public regarding the disadvantages of ethnic, political and religious based business networking.

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Appendices

Appendix I: Interview Guide Questions

My Name Eyosiyas Getachew. I am a Graduate Student in Addis Ababa University. I am doing a Research for my MA research about ethnic networking and its impacts on trade business activities in Merkato in the **post 1991**. Therefore these are question about the issue under study. I promise that I use the data obtained from the interview for the thesis only.

Thank you for your Cooperation!

1.1. Interview Guiding Questions for Business Owners working in Merkato since 1991 in Merkato

Personal Information

1. Nick Name.....
2. Age.....
3. Sex
5. Religion.....
6. Level of Education.....
7. Ethnic background.....
4. Place of interview.....

1. How did you start this business? How did you fund it?
2. How many employees do you have? What are their demographics (ethnicity, gender, age)?
3. How long have you been in this business?
4. How did you get involved in it?
5. What type of market networking have you observed in Merkato? Can you give me an example or examples? (intra-ethnic, intra-ethnic, religious....?)
6. Who are the majority of your customers (in terms of religion, ethnicity, geographic proximity, political affiliation etc.)? Why?
7. From whom do you often receive commodities (in terms of religion, ethnicity, geographic proximity, political affiliation)? Why?
8. What are the main factors of networking in your business area?

9. What major obstacles have you faced in your business career so far?
10. Do you think that ethnicity has an impact on trade business activities?
11. How does ethnic networking affects (positively and negatively) your trade business activity?
12. What are the major problems you faced because of your ethnicity in your trading activities?
13. In which areas of trade activities have you been affected due to your ethnic background?
14. Why people favor their ethnic groups in business activities?
15. In your opinion, what should be done to overcome problems related to ethnic networking in the business sector?

1.2. Interview Guide: People from Trade and Industry Bureau, revenue/custom office, and Banks at Addis Ketemasub city, where Merkato is located

Personal Information

1. Nick Name.....
2. Age.....
3. Sex
5. Religion.....
6. Level of Education.....
7. Ethnic background.....
4. Place of interview.....

1. How do you explain the trade system in Merkato since 1991? How do traders make networking to buy and sale goods and services (based on religion, language, blood relationship, type of trade business activity, geographic proximity, etc)?
2. Which ethnic group is dominantly engaged in big businesses in Merkato since 1991? Why?
3. Do you think that traders are favored or discriminated because of their ethnic background in the process of accessing governmental service (fair taxation, working place, capital, license, etc)?
4. In what conditions they have discriminated or favored? In which Business areas?
5. Have you ever favored/discriminated your ethnic groups in giving service (such as in providing license, working place, capital, tax reduction,)?

6. What changes have you seen in the trade systems in Merkato since 1991? Why?
7. In your opinion, what should be done to overcome problems related to ethnic networking in the business sector?

1.3. Interview Guide: randomly selected customers

Personal Information

1. Nick Name.....
2. Age.....
3. Sex
5. Religion.....
6. Level of Education.....
7. Ethnic background.....
4. Place of interview.....

1. From whom you are purchasing goods in Merkato? When did you start buying from him/her? Why are you buying from him/her (similarity in religion, ethnicity, type of business, blood relationship, etc.)?
2. Do you think that ethnic networking is important for business? Why?
3. What are the advantages and disadvantages of ethnic networking in business activities?
4. In your opinion, what should be done to overcome problems related to ethnic networking in the business sector?

Appendix 2: FGD Guide Questions for Traders

My Name Eyosiyas Getachew. I am a Graduate Student in Addis Ababa University. I am doing my MA research about ethnic networking and its impacts on trade business activities. Hence these are focus group discussion (FGD) question about the issue. I promise that I use the data obtained from the interview for the thesis only.

Thank you for your Cooperation!

Personal Information

1. **Nick Name**.....
2. **Age**.....
3. **Sex**
5. **Religion**.....
6. **Level of Education**.....
7. **Ethnic background**.....
4. **Place of interview**.....

1. How do people build business relationship/networking (language, religion, politics...)?
2. What are the main types of market networking in your business area since 1991? Do they change depending on some circumstances? How?
3. Do you think that ethnicity have an impact (positive and negative) on trade business activities? Why or why not?
4. What are the major business areas individuals unfairly treated because of their ethnic background?
5. Who are discriminated due to their ethnic affiliation (taxation, access to working place, access to credit, biding, etc.)?
6. Who (from which ethnic group) are benefited more due to their ethnic background (taxation, access to working place, access to credit, biding, etc.)?
7. What are the prone and cons of trading through ethnic lines?
8. How is it possible to minimize the negative impact of ethnic networking on trade business activities?

Appendix 3: Observation Checklists

1. Place of observation

2. Date of observation

1. How does business relationship/networking is expressed in the day to day activities of business men and business women in merkato ?
2. Who are buying from whom?
3. Who are discriminated due to their ethnic affiliation (taxation, access to working place, access to credit, biding, etc.)?
4. Who are benefited more due to their ethnic background (taxation, access to working place, access to credit, biding, etc.)?
5. Which business areas are mainly affected (positively and negatively) due to ethnic afflation?