



WOLKITE UNIVERSTY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTEMNT OF ACCOUNTING AND FINANCE

**CHALLENGES AND PROSPECTS OF IMPLIMENTATION OF STOCK MARKET IN
ETHIOPIA**

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List of Acronyms

GDP - Gross Domestic Product

SPSS - Statistical Package for the Social Sciences

OECD - Organization for Economic Cooperation and Development

IPO - Initial Public Offering

ATM - Automated Teller Machine

ICT - Information and Communication Technology

ETF - Exchange-Traded Fund

SEC - Securities and Exchange Commission

GDP - Gross Domestic Product

SME - Small and Medium-sized Enterprises

ABSTRACT

The study assessed the prospect and challenges of implementation stock market in Ethiopia. To do so, descriptive analysis is utilized and data were gathered from both primary sources as well as secondary sources. Accordingly, Primary data collected Ministry of Finance and Economic Cooperation, National Bank of Ethiopia, Private Banks, Insurance Companies, Audit firms, Accounting institutions in Wolkite , shareholders, and managers of share company and other credible sources through interview, online survey and also refer secondary data at large. The result revealed that the reluctance of the government, inadequate laws and regulations, insufficient technological infrastructure, and low level of public awareness as a challenge of establish stock market in Ethiopia. Also the prospects include the economic growth of the country, the agenda of poverty reduction, privatization effort and unexploited resources, thus the government need to take real pragmatic measures to establish stock market and further reforming the legal, institutional and the accounting and reporting requirements is necessary. Also the media should be seen reporting more on the advantage of Stock market.

DECLARATION

I hereby declare that this proposal is my original work and has not been presented for degrees in any other university, and all sources of materials used for the thesis/dissertation have been properly acknowledged.

DECLARED BY

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APPROVAL SHEET

This thesis has been submitted with my approval as university college advisor.

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Date_____

Certification

I certify that **MILKESA GUTU**, has conducted her research proposal entitled “**CHALLENGES AND PROSPECTS OF IMPLIMENTATION OF STOCK MARKET IN ETHIOPIA**” and the work completed with good evaluation of Advisor and others as per the requirement of the University.

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EXAMINER

SIGNATURE

Chapter One

Introduction

1.1 Background of the Study

Ethiopia, one of Africa's most populous countries, has experienced significant economic growth and development over the past few decades. With a population exceeding 110 million and a Gross Domestic Product (GDP) growth rate averaging around 9% annually, Ethiopia has emerged as one of the fastest-growing economies on the African continent (World Bank, 2021). This growth has been driven by factors such as government-led infrastructure investments, agricultural modernization, and increased foreign direct investment (FDI) inflows (UNCTAD, 2021).

Despite these positive developments, Ethiopia's financial sector has lagged behind its economic progress. For decades, the absence of a well-functioning stock market stood out as a significant gap in the country's financial infrastructure. This limited the ability of domestic and international investors to access alternative financial instruments and diversify their portfolios. However, the recent establishment of the Ethiopian Securities Exchange marks a pivotal milestone in addressing this gap and providing a centralized platform for trading securities, issuing stocks and bonds, and facilitating investment transactions (Ethiopian Investment Commission, 2023).

The operationalization of this stock market comes with immense opportunities but also significant challenges. Firstly, as Ethiopia's economy continues to expand and diversify, there is a growing demand for efficient financial markets to mobilize capital and support private-sector-led growth. A functioning stock market can provide Ethiopian companies with access to a broader pool of capital, enabling them to fund expansion projects, undertake strategic investments, and foster innovation.

Secondly, the stock market offers a pathway to enhance financial inclusion and promote wealth creation among Ethiopia's middle class. By enabling individuals to invest in publicly traded companies, the market can serve as a catalyst for broader-based socioeconomic development (African Development Bank, 2022). Furthermore, a robust stock market aligns with Ethiopia's broader policy objectives of fostering investor confidence, improving regulatory transparency, and encouraging private-sector development.

However, realizing the full potential of the Ethiopian Securities Exchange requires addressing critical operational challenges. These include developing robust regulatory frameworks, ensuring sufficient investor education, and addressing infrastructural and technological barriers. Without careful planning and execution, these challenges could hinder the market's ability to attract local and foreign investors and fulfil its transformative role in the economy.

In this context, the study focuses on the potential barriers and opportunities in the operationalization of Ethiopia's stock market. By examining these factors, the research aims to contribute to the discourse on how Ethiopia can effectively leverage its stock market to achieve sustainable economic growth and financial inclusion.

The country does not have securities market currently. It has created only an agricultural commodity market which is owned fully by the government and operated outside the financial market. For more than forty years, Ethiopia has been trying to have its own financial market but didn't succeed. The need for stock exchange market development has, however, been continually discussed by various groups/stakeholders and academics. Accordingly, various studies have been carried out by these groups to initiate the establishment of capital market in the country.

For example, Professor Asrat Tessema conducted a research entitled "Prospects and Challenges for Developing Securities Markets in Ethiopia: An Analytical Review" in 2003. In his study he tries to point out from the literature the benefits which can get from well-functioning securities markets; costs and environmental requirements for securities markets development and environment for developing securities markets in Ethiopia which includes the challenges and prospects for the development of securities market in Ethiopia. Additionally, Abebe (2006) also conducts a research by focusing in stock exchanges role in relation to an alternate to term-loan financing and its development dubious. And in that specific article, entitled "An alternate to term-loan financing on the horizon, its development dubious: securities market, the missing link", Abebe tried to cover the benefits, the history of stock exchange in our country, its role in economic growth and the environment at that time.

Likewise, the other researchers Ruecker (2011) also showed National Bank of Ethiopia under took a study on the "Feasibility of Establishing Securities Exchange Market in Ethiopia" and prepared a draft Securities and Exchange proclamation which is awaiting endorsement. Furthermore, the Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA) had produced a research on the stock Market and recommend for establishing and still awaiting approval of the government.

Besides, different seminars and studies were undertaken by different scholars which emphasized on the need to establish stock market in Ethiopia. In 1995, a group of entrepreneurs organized as the Ethiopian Share Dealing Group under the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) and initiated a share dealing group similar to the former Addis Ababa Share Dealing Group of 1974. The group initiated the development of a Stock Exchange rules and regulations as well as bylaws of a share dealing group, and commissioned Ernst & Young to develop an international standard rules and regulations manual (Ruecker 2011).

In 2008, the NBE launched a capital market infrastructural development study by international consultants under the Financial Sector Capacity Building Project which was financed by the World Bank (WB) based on the potential interest of the government of Ethiopia which is under review by the concerned government body (Ruecker, 2011).

Beyond the studies conducted to initiate the need for stock market development, draft Proclamation was submitted to the government through the initiation made by the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) and commissioned to Justice and Law Systems Research Institute (JLSRI) in December 2001 named Monetary Instruments and Share Market proclamation. However, the proclamation was not endorsed by the government.

Consequently, the Addis Ababa Chamber of Commerce and Sectoral Association (AACCSA) conducted a study on Position of the Business Community on the Revision of the Commercial Code of Ethiopia (AACCSA, 2008). Further, Justice and Law Systems Research Institute (JLSRI) started to revise the Commercial Code of Ethiopia (1960) to make it compatible to the existing domestic and international business environment (JLSRI, 2012). However, this study was

attempted to assess the comprehensive prospect and challenges of stock market establishment in Ethiopia by focusing on the role of accounting and auditing institution.

1.2 Statement of the Problem

While Ethiopia has made significant strides in economic development, the recent establishment of the Ethiopian Securities Exchange marks a critical step toward addressing longstanding gaps in the country's financial infrastructure. However, as the stock market transitions into its operational phase, several challenges could hinder its effectiveness and potential impact. These challenges include limited public awareness and understanding of how stock markets function, which may affect participation by domestic investors. Additionally, the regulatory framework required to ensure market efficiency, transparency, and investor protection remains underdeveloped, posing risks to market stability. Technological and infrastructural limitations could further impede smooth operations, making it difficult to attract foreign and institutional investors. Moreover, without sufficient measures to integrate the stock market with the broader financial system, there is a risk that the exchange may fail to fully channel domestic savings into productive investments or provide businesses with meaningful access to capital. Addressing these barriers is critical to ensuring that the Ethiopian stock market becomes a transformative tool for financial inclusion, economic diversification, and wealth creation. In light of these challenges, this study seeks to identify and analyse the potential barriers to the effective operation of the Ethiopian stock market, as well as the opportunities it presents for fostering economic growth and development.

In Ethiopia, several studies were conducted to assess the infrastructural development required to establish stock market by different institutions, scholars, associations and consultants including NBE (1995), Asrat (2003), EASC (1995,1999), Ruecker (2011), PFEA (2012) have recommended to establish stock market upon fulfilling requirements required to establish stock market. Previous studies including Goldsmith (1969), McKinnon (1973), Shaw (1973), Fry (1988) and more recently, King and Levine (1993) have ascertained that financial development is a prerequisite for economic growth. However, previous studies of Stock market focused on establishment and post establishment, with particular emphasis on its impact on the growth of a country economy, but offered only few insights into the accounting and auditing institution role.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study is to examine the challenges and opportunities associated with the operationalization of the Ethiopian Securities Exchange and to provide insights into its potential impact on the country's economic development.

1.3.2 Specific Objectives

The specific objectives of this study are:-

- To evaluate the awareness and understanding of stock market operations among the Ethiopian population and its implications for effective participation.
- To identify key regulatory, technological, and institutional barriers to the efficient operation of Ethiopia's stock market and propose actionable policy recommendations to address these barriers.

- To explore the potential benefits of a functioning stock market for Ethiopian businesses, investors, and the broader economy, particularly in terms of capital mobilization and financial inclusion.
- To analyse the experiences of other African countries with established stock markets and draw lessons applicable to the operationalization of the Ethiopian Securities Exchange.

1.4 Basic Research Questions

These are some basic research questions that could be explored regarding the implementation of a stock market in Ethiopia:

- What is the level of public awareness and understanding of stock market operations in Ethiopia, and how does it affect market participation?
- What are the key regulatory, technological, and institutional barriers to the efficient operation of the Ethiopian Securities Exchange?
- What are the potential benefits of a functioning stock market for Ethiopian businesses, investors, and the broader economy?
- What lessons can Ethiopia draw from the operational experiences of other African countries with established stock markets?
- How can the Ethiopian government and other stakeholders incentivize companies to list on the stock exchange and attract both domestic and foreign investors?

1.5 Significance of the Study

This study is significant as it provides insights into the potential challenges and opportunities surrounding the operationalization of the Ethiopian Securities Exchange. By identifying key barriers to a well-functioning stock market, the research will inform policymakers, regulatory bodies, and financial institutions on the necessary steps to create a conducive environment for market operation. The findings will contribute to the academic literature on stock market development in emerging economies, particularly in Ethiopia, and may serve as a basis for future studies on financial market reforms. Furthermore, this research will offer valuable recommendations for enhancing investor participation, confidence, and overall market stability in Ethiopia's evolving financial sector.

1.6 Delimitation of the Study

This study is specifically focused on the challenges and opportunities associated with the operationalization of the Ethiopian Securities Exchange. It does not extend to broader aspects of financial market development such as banking sector reforms, monetary policy, or fiscal policies. The research is confined to examining factors that affect the operation of the stock market in Ethiopia, with particular attention to regulatory, institutional, and macroeconomic factors. While the study references global and African stock market experiences, it primarily addresses Ethiopia's unique political, economic, and social context, ensuring that the findings are relevant to the country's specific conditions.

A. Structural and Regulatory Challenges

- **Absence of a Legal Framework:** Ethiopia lacks comprehensive securities laws and regulations to govern stock market operations.

- **Weak Financial Infrastructure:** Limited banking sector sophistication, lack of electronic trading systems, and underdeveloped clearing and settlement mechanisms.
- **Limited Investor Protection:** Inadequate corporate governance standards and weak regulatory enforcement could deter investor confidence.

B. Economic and Market-Related Challenges

- **Low Financial Literacy:** Many potential investors and businesses lack knowledge about stock markets.
- **Underdeveloped Private Sector:** The economy is dominated by state-owned enterprises (SOEs), limiting the number of companies eligible for listing.
- **Foreign Exchange Restrictions:** Strict capital controls may discourage foreign portfolio investments.

C. Political and Institutional Challenges

- **Government Dominance in the Economy:** Heavy state involvement in key sectors may discourage private sector participation.
- **Political Instability:** Regional conflicts and policy unpredictability could deter long-term investments.

1.7 Operational Definitions of Terms

Stock Market: A marketplace where securities, such as stocks and bonds, are bought and sold. It enables companies to raise capital and offers investors opportunities to diversify their portfolios and potentially earn returns.

Operationalization: The process of implementing and establishing the systems, regulations, and structures necessary for the functioning of a stock market, including trading platforms, regulatory frameworks, and institutional mechanisms.

Regulatory Framework: A set of rules, policies, and laws that govern the operation of the stock market, ensuring fair practices, investor protection, and market integrity.

Financial Inclusion: The availability and accessibility of financial services, including the ability to invest in financial markets, for all individuals, particularly underserved populations.

Investor Confidence: The trust that investors have in the financial market's ability to provide fair, transparent, and profitable investment opportunities.

Macroeconomic Factors: Broad economic factors that affect the overall economic environment of a country, such as inflation rates, GDP growth, employment, and political stability, which can influence the operation of a stock market.

Market Liquidity: The ease with which assets can be bought or sold in the market without causing a significant impact on their price.

Institutional Barriers: Obstacles created by the existing organizational structures, such as government institutions, financial institutions, and regulations, that hinder the efficient operation of the stock market.

Securities Exchange: A regulated marketplace where securities (stocks, bonds, etc.) are listed and traded, providing liquidity and transparency for investors and companies.

1.8. Organization of the study

Chapter Two

Literature Review

2.1 Introduction

The literature review serves as a cornerstone in understanding the complexities surrounding stock market implementation in Ethiopia. This comprehensive review delves into the theoretical frameworks and empirical evidence underpinning stock market development, shedding light on its multifaceted nature and implications for economic progress.

2.2 Theoretical Framework

2.2.1 Historical Evolution of Stock Markets

Tracing the historical evolution of stock markets unveils a rich tapestry of economic progress and societal transformation. By exploring seminal works dating back to Max Weber and the inception of the London Stock Exchange in 1773, this section elucidates the foundational principles and evolutionary trajectories that have shaped modern-day stock market dynamics.

Stock exchanges are formal organizations that are made up of members that use the facilities to exchange certain common stock (Fabozzi and Modigliani, 1996). According to Avadhani (2002), Stock Exchange means anybody or individuals whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities; it is an association of member brokers for the purpose of self-regulation and protecting the interests of its members. Stock exchanges are the most perfect type of market for securities whether of government, semi-government bodies or other public bodies as well as for shares and debentures issued by the joint-stock companies. Likewise, Businessdictionary.com (www.businessdictionary.com) defines stock market as an organized and regulated financial markets where securities (bonds, notes, shares) are bought and sold at prices governed by the forces of demand and supply.

Stock exchanges basically serve as primary markets where corporations, governments, municipalities, and other incorporated bodies can raise capital by channeling savings of the investors into productive ventures; and secondary markets where investors can sell their securities to other investors for cash, thus reducing the risk of investment and maintaining liquidity in the system. Stock exchanges impose stringent rules, listing requirements, and statutory requirements that are binding on all listed and trading parties. ⁸ In primary markets, new business can start by obtaining funds directly from households in which new stocks are sold to investors via the mechanism of under writing. The selling

of common stock to the public through Initial Public Offering (IPO) in the primary market is an instance whereby widely held share companies under formation offer new shares to the investors. It is vital not to lose sight of the fact that secondary markets play an important role in the regulation of initial public offering of shares through the listing standards, subject to the discretion of stock exchanges. (Jetu, 2014)

On the other hand, in the secondary market, existing stocks are sold and bought among investors or traders in the stock market through stock exchange. Furthermore, secondary market could be either auction market or dealer market. While the stock market is part of an auction market, over the counter (OTC) is part of the dealer market. The difference between stock market and OTC is that the former exchange market operates in a structured manner and physical facility with a trading floor to which all stock transactions are supposed to be directed. However, OTC market traditionally operates in unstructured manner without any physical facility in which any qualified firm freely engages in the transactions of stocks.(Jetu, 2014)

2.2The role of Stock Markets

There are various literature written on the role of stock market. This may include the following:

Enhanced saving mobilization and risk management: Stock issues serve to increase the national savings rate by creating incentives to invest. Since securities are risky investments, they generally earn higher returns than more secure instruments such as bank savings deposits. They also offer investors the option to diversify across industries, thus improving their risk/return tradeoff.

Offering Liquidity to Investments: Stock markets provide comparatively higher returns without losing the liquidity of an investment desired most by investors. Liquidity in turn affects economic growth positively by increasing incentive to invest and save. Levine (1996) found those countries with well-developed financial sector and a liquid capital market experience faster rates of capital accumulation and greater productivity gains. As liquidity increases, firms gain increased assurance that they will be able to exit from long-term investments. They therefore become more willing to make the permanent investments critical to development. Simultaneously, local consumers are more willing to mobilize domestic savings. However, Yartey and Adjaski(2007) say, increased stock market liquidity may have an adverse effect on the rate of economic growth by reducing the need for precautionary savings.

Redistribution of wealth facilitated by diffused ownership: Stock markets give many people (especially the poor) a chance to buy shares of listed companies and become part owners of profitable enterprises. Many people sharing the profits of businesses in turn help to reduce large income inequalities. (Etienne and Vincent, 2008) Wider distribution of corporate profits develops a general sense of ownership and an assumption of responsibility on the part of the citizen. People will be united by their common defense of their business interests and ethnic and religious differences would gradually dissipate.

Improved Corporate Governance: Self and external regulation of the stock exchange helps to ensure that the market is working efficiently, fairly and transparently. Over the decades, the stock exchange has been raising requirements for

new corporations seeking listing. These requirements relate to the submission of all financial information regarding companies whose securities are sold on the stock exchange. Such requirements exercise a control on a company management; keep its malpractice in check; and improve corporate governance. (Etienne and Vincent, 2008)

Efficient Resource Allocation: In a market economy, issues of securities help raise capital for projects whose outputs are in the highest demand by society, and those enterprises which are most capable of raising productivity. Thus, efficient enterprise management is rewarded by access to investment funds. (Tessema,2003) Without securities markets, companies must rely on internal resources (retained earnings) for investment funds, on bank financing or on government grants or subsidies. Such forced reliance on self-finance penalizes young companies whose products may have greater future demand. These new and growing enterprises often have little in the way of retained earnings. Bank lending to certain specified sectors (referred as priority sectors) leads to inefficient resource allocation and widespread loan delinquencies. The prevalence of these problems reduces the level of investments, productivity of capital and the volume of savings. Even if government grants and subsidies are available, they tend to introduce market imperfections that contribute to the distortion of financial prices. These imperfections subvert the positive allocation role of securities markets. Securities markets create better opportunities for small emerging companies to raise funds in the venture capital market since venture capitalists would be more comfortable investing in new ventures with the knowledge that possible future divestment can take place through a public offering at a potentially substantial profit.

Competent and vibrant Financial System: Securities markets break the oligopoly that would be enjoyed by the banks in the absence of securities markets. Securities markets provide impetus for the establishment of financial prices based on scarcity values rather than on administrative fiat. Such market determined financial prices and investment options, in turn, attract more savings, creating a virtual circle of innovation and mobilization that contributes to the overall efficiency of the financial system.

Investor Education: Stock markets through the brokerage community, investment advisers, security analysts, and well-developed financial journalists serve to educate the investing public. Such institutions are critical to an economy. (Etienne and Vincent, 2008) Such educated investors will help in reducing unfair trade practices in securities markets. Efforts of stock brokers to accumulate wealth by speculation and short selling can be mitigated through investor education.

Barometer of the Economy: At the stock exchange, shares rise and fall depending, largely, on market forces. Share prices tend to rise or remain stable when companies and the economy in general show sign of stability. Therefore, the movement of share prices can be an indicator of the general trend in the economy. (Etienne and Vincent, 2008)

Alternative to Taxation: The Government and even local authorities may decide to borrow money in order to finance huge infrastructure projects by selling another category of securities known as bonds. These bonds can be raised through the bond markets whereby members of the public buy them. When the Government or the local authority gets this alternative source of funds, it no longer has the need to overtax the people in order to finance development. (Etienne and Vincent, 2008)

2.3 Conceptual Models of Stock Market Development

In recent years exploring what determines stock market development has become a prominent area of research. Generally, the existing literature outlines two sets of factors affecting the development of stock / financial markets: “macroeconomic factors” and “institutional factors”.

Macroeconomic factors include economic development level, inflation and capital flows, etc., while institutional factors include variables that reflect the state of regulatory and supervisory institutions, such as legal frameworks and the protection of property rights. It is worth mentioning that these two sets of variables are interrelated. For instance, the evolution of the institutional environment is directly reflected in macroeconomic conditions and, by the same token, a favorable macroeconomic environment facilitates the development of institutions. Consequently, the mentioned division in the literature is, in the view of many, provisional, and does not imply alternative views on the determinants of stock/financial market development (Adarov and Tchaidze, 2011).

2.4 Empirical Evidence on Stock Market Development

2.4.1 Global Perspectives on Stock Market Development

A panoramic view of global stock market dynamics uncovers a myriad of insights into their impact on economic growth and stability. Drawing on extensive research by UNCTAD, the World Federation of Exchanges, and other reputable institutions, this section elucidates the mechanisms through which stock markets catalyze capital mobilization, foster corporate governance, and drive sustainable development.

2.4.2 Regional Experiences in Africa

Over a decade, Africa has been receiving a growing attention and investment opportunity from foreign investors to invest in Africa but still there are challenges which hinder sustainable economic growth and development (Senbet L., Otchere I., 2008). Some of the challenges may be one of the factors which affect also the sustainable growth of capital markets as well as stock exchange markets in Africa. However, the increase in the number of stock exchange in Africa has been derived from the expansion and reformation of financial sector undertaken by African countries to improve the economic environment. This process of reformation has been undergone different measures on restructuring and privatization of state owned banks, promotion and development of capital markets, interest rate liberalization and credit ceilings. In addition, globalization has been part of the process which accompanied and stimulated by technology and innovation as a result of the integration between Africa and the rest of the globe.

According to Levine (1997), the past two decades, stock exchange market liquidity has been a catalyst for long run growth in developing countries. He further argued that without a liquid stock market, many profitable long term investments would not be undertaken because savers would be reluctant to tie up their investments for long periods of time. In

contrast, a liquid equity market allows savers to sell their shares easily, thereby permitting firms to raise equity capital on favorable terms. By facilitating longer term, more profitable investments, liquid market improves the allocation of capital and enhances prospects for long-term economic growth. However, the increase in the number of stock exchange markets in Africa has been derived from the expansion and reformation of financial sector undertaken by African countries to improve economic environment and stimulate economic growth. This process of reformation has been undergone different measures on restructuring and privatization of state owned banks, promotion and development of capital markets, interest rate liberalization and credit ceilings. In addition, globalization has been part of the process which accompanied and stimulated by technology and innovation as a result of the integration between Africa and the rest of the globe. Despite that Africa has been receiving a growing attention and investment opportunity from foreign investors to invest in Africa but still there are challenges which hinder sustainable economic growth and development (Senbet L., Otchere I., 2008).

The research paper conducted by Ziorklui, (2001) on capital market development and growth in Sub-Saharan Africa on the case of Tanzania which is funded by United States Agency for International Development Bureau for Africa office of sustainable development with the objective of examining the various problems that constrain the development of functioning capital markets in Sub-Saharan Africa countries in general and Tanzania in particular. That study shows as there is the linkage between capital market development and the real sector growth, regional integration and globalization of the capital market with policy implications and as the change in policy have an impact on equity and poverty alleviation in Tanzania. To this end, Tanzania achieved her capital market development with the establishment of the Dares Salaam Stock Exchange (DSE) in 1998 for the purpose of deployment and distribution of long-term capital to the private sector and hence, both the policy changes and various relevant reform laws have had positive influence and challenges on the capital market development in Tanzania. To that extent, with establishing her capital market, Tanzania benefited largely because even after one year of its establishment, four companies were listed on DSE and three of them have raised a combined equity capital of US \$35.71 million in the primary capital market and the remained company which is the East African Development Bank has raised an amount of US \$12.5 million by issuing a four-year corporate bond. According to that study however, though this country have largely benefited from the capital market development, this is not without some difficulties because there were different side effects such as decline of credit to the private sector that can be emanated on the reduction in growth potential and poverty alleviation due to slow stride of rearranging the misshapen banking sector, shortage of rivalry among the financial segment, infancy of the capital market structure which can be expressed on the illiquidity, infrequent trading, and fewer listings of private companies, the devaluations of country's currency and sneaking inflation were the common problems among Tanzania.

Another study conducted by Wilson, (2012) on the current status and future potential of capital market development in North Africa considering the stock exchanges in Cairo, Casablanca, Tunis and Tripoli and analyzing the trading volumes and price trends reveals as capital market development in North Africa have a long history though the limited breadth and depth are the common but they have been marginal to the region's development. Hence, according to this study, there is under-development of both sovereign and corporate bonds in North Africa nevertheless they complement equity financing since raising equity finance plays a crucial role for the expanding and flourishing the private sector. The study also shows there were adequate legal and regulatory provisions, but both domestic and foreign investors lack confidence on such market and there is adverse influence of the global financial crisis and the Arab Spring on the North African capital markets.

The book chapter published from the national, regional and international challenges of Africa in the World economy by Kitabire, (2005) with the title of capital market development for Uganda's experience shows that the greatest trouble challenged by the governments of developing countries was their inability to borrow abroad in domestic currency and borrowing at home with long term maturity periods in order to finance their fiscal deficits. To that extent, the development of bond market enables them to close such wide gap and smoothies the well-functioning of capital infrastructure development. But the author recommends that for the priorities of the Uganda's development of capital market, bond market development should not be considered as urgency, so long as long term bonds are not needed to finance the fiscal deficit. So, such primacies for capital market development would be given to pension sector reform and expansion of micro finance provision.

The African Economic Policy discussion paper conducted by Ziorklui, (2001), on the development of capital markets and growth in Sub-Saharan Africa with special reference to Ghana reveals as the establishment of the Ghana Stock Exchange (GSE) has provided an opportunity for corporations to raise long-term capital of \$125.8 million from 1991 to December 1998 and given opportunities for investor diversification since the number of listed companies from 11 in 1989 increased to during the same period though both the financial institutions and the capital markets were underdeveloped due to institutional, and structural weaknesses and the challenges of regionalizing and globalizing capital markets itself. However, from the period of 1997-2000, the lack of sustained capital investment becomes the major obstacle to sustainable growth in Ghana. Hence, the development of capital market supported by policy environment enables and helps the Ghana's government to finance their fiscal deficits. Therefore, the paper recommends that the value-added tax (VAT) exemption from stock transaction applications since that period's tax regime favors short-term investments in Ghana.

The article published on spyghana by Anzagra, (2014) entitled emerging opportunities for Africa's development financing through the capital market reveals as the development of capital market becomes a vital and feasible substitute to that of traditional financing sources of Africa's development and it is also the most energetic means of nourishing its present growth thrust by yielding better returns. In addition to that, market intelligence provides as much more countries of the world have commissioned to the international capital markets especially after the recent world financial crises of 2007/08 and superfluous countries has shown their interest and some are planned to join such market.

The study of Gup, (2005) and some other recent economic research shows as large, efficient capital markets promote rapid economic growth and they have documented a direct link between capital market development and economic growth. Due to the context of globalizations, launching of multinational corporations or companies and the effort of technological advancement in the future, the existence of international capital market becomes the reason for the existences of the world countries as a whole without the favor of their development level. This can be reasoned out that the economy of both developing and that of developed country can be highly influenced by such large multinational companies no matter where their continent or country was. For instance, by 1990 which means only two and half decades ago, the combined sales of multinational corporations these ranked above 200 from the world's corporations have largely influenced and shaped the world economy by yielding about 28.3% of the world GDP. Hence, for the matter of their presence, to generate capital and maintain their own sustainable growth, more developing countries especially these of African countries will need to enter into such international capital markets.

2.4.3 Stock Market in Ethiopia

In the Ethiopian context, the historical development of stock market traces its roots back to the Imperial period. In 1897 Emperor Menelik II sold share in France to raise part of the 40 million francs needed to build the Ethio - Djibouti railways line. In 1906 the first bank in Ethiopia, Abyssinia Bank, floated its share in Addis Ababa, New York, Paris, London and Vienna.

From 1960 to 1974 share companies were flourishing and share were traded by the National Bank of Ethiopia through the Addis Ababa share Dealing Group. Addis Ababa Bank, Ethiopia abattoirs, Bottling Company of Ethiopia, Indo – Ethiopian Textiles, HVA Ethiopia, and Tendaho plantations were some of the share companies whose share were publicly traded during that time. All the companies were nationalized in the 1974/75 socialist revolution that shattered the private sector led economy. After the change of the socialist government in 1991, attempts were made to re-establish stock exchange market in Ethiopia by interested parties like the Addis Ababa Chamber of Commerce and Sectorial Associations. According to Ruecker (2011), in 1995, the National Bank of Ethiopia undertook a study on the Feasibility of Establishing of Securities Exchange Market in Ethiopia and also prepared a draft securities and exchange proclamation which are awaiting government endorsement.

Different seminars and studies were undertaken by different scholars which emphasized on the necessity of having capital market in Ethiopia. In 1995, a group of entrepreneurs organized as the Ethiopian Share Dealing Group under the Addis Ababa Chamber of Commerce and Sectorial Associations initiated a share dealing group similar to the former Addis Ababa Share Dealing Group of 1974. The group initiated the development of a Stock Exchange rules and regulations as well as bylaws of a share dealing group, and commissioned Ernst & Young to develop an international standard rules and regulations manual. (Ruecker 2011)

In 2008, the NBE launched a capital market infrastructural development study by international consultants under the Financial Sector Capacity Building Project. The study included capital market infrastructure development in Ethiopia. This initiative was financed by the World Bank (WB) based on the potential interest of the government of Ethiopia. According to the WB Ethiopia Office and the Project Unit at NBE, the study is under review by the concerned government body. (Ruecker, 2011) Despite the attempts described in the previous paragraphs, Ethiopia does not have a stock exchange market nor does it allow companies to be listed in foreign countries until now. Due to this, share trading has been carried out through various means like part-time brokers or through the invested companies or the seller has to find buyers by him, exposing the seller to unfair prices and delays. This is not because of the lack of buyers and sellers in the market; rather, it is because of the lack of the proper institutions that could facilitate the trade. (Tsegaye, 2007)

2.5 Prospects and challenges of Share markets in Ethiopia

While reviewing the literatures in relation to the prospects and challenges for establishment of stock exchange in Ethiopia, the study made by Tessema (2003)

indicated that many prospects (opportunities) for developing securities markets exist in Ethiopia. The prospects mentioned include: Ethiopia has considerable unexploited resources and is considered as one of the largest potential markets in Africa; Ethiopia's process of transition from a centrally planned to a market oriented economic system and the process of economic liberalization underway is encouraging; the privatization efforts going on would help with the supply problems, particularly if a public offering of shares is used as the method of privatization; the existence of many profitable companies, which can potentially benefit from floating shares to the public; the existence of institutions like the country's pension fund, insurance companies, credit unions, etc., with large sums of money. If allowed to invest, they would boost the demand for securities; the gradual improvements of the incentive packages in the successive investment proclamations help attract new investors including Ethiopians with foreign passports. Similarly, Teklay (2011) stated prospects as including the current scenario in share buying is a testimony of the existence of demand and supply sufficient to begin the long journey: the government has consistently maintained that the macroeconomic situation is reasonably stable and there are already some legal pronouncements, which can be reinforced a little more for a start.

Further on the issue of opportunities, Reucker (2011) has identified the following in his study:-

The agenda of poverty eradication turned into a national growth and transformation plan Macro-economic development is positive Economic growth and human development is increasing consistently Capital market provides services to the economy that are crucial for long-term economic development. Ongoing and future privatizations stipulate additional capital needs Efficient stock pricing through competition and market Capital market promotes Private Sector Development, which is seen to be crucial for the economic development. De-concentration of ownership could be seen as a democratic measure by the Government of Ethiopia Accession to World Trade Organization Capital market increases liquidity by supporting the placement of government bonds Capital market mobilizes local savings Capital market could increase remittances as an additional capital to FDI

Capital market leads to transparency

Additionally, Teklehaimanot (2014), after studying the potential beddings and constraints in the establishment of stock exchange markets in Ethiopia, has indicated economic growth, privatization scale-up, increasing capital inflow, negative real interest rate, inclination to incorporated enterprises, the establishment of Ethiopian Commodity Exchange (ECX) and energy expansion as some of the motivating matters for the establishment of stock exchanges in Ethiopia.

Challenges are also highlighted by different writers. Solomon (2011) stated Ethiopia currently faces the following problems and the creation of securities market is justified by its potential to solve these problems.

Bank loans are usually given on short term basis and most private companies suffer from high leverage, less access to finance as banks usually require huge collaterals due to high NPLs of banks. The securities market can fill the gap by allowing direct formation of equity and debt capital.

The country has limited share of foreign capital investment which forces the utilization of domestic resources to finance investments. The securities market can facilitate the mobilization of domestic resources to meet the need.

Both the government and a large number of private companies have already issued securities to the public and these have lacked market for secondary trading. The issuance, transferability, liquidity and proprietary value of all these securities has, however, become severely weak due to absence of securities market.

Excess liquidity and reserve of banks are kept idle which could have been invested in securities markets. The securities market can help the banks and the NBE to mop up and manage their idle fund during this situation.

The country's financial market is limited being dominated by banks, MFIs and insurance (Edir and equib). It lacks investment banks, mutual funds, private pension companies, and venture capital companies that can pool and share risk and offer alternative channels for saving and investment as institutional savers and investors which remained to be informal and piecemeal.

Most of the business organizations in the country suffer from narrow ownership base and inability or lack of motivation to go public. The majority of the business organizations have also suffered from non-separation of ownership and management as a result of their narrow ownership base and inability or lack of motivation to go public. Creation of the market can curb the problem by encouraging the business organizations to go public and stimulating competition.

The flow of information and corporate management, accounting and control is severely limited. Most business firms do not keep operational reports and formal books of accounts. Creation of the securities market can change the situation by stimulating competition and increasing the need for enhancement of corporate governance by at least those which want to raise finance through it.

Individuals and businesses have limited source of income and investment options. The securities market can assist the country to curb the problem by serving as alternative investment channel. Solving the problem will also be in line with the poverty reduction goal of the country

Although the country has privatized several state owned enterprises, the privatization has been made through direct sales to individual buyers. Creation of the market is necessary to facilitate future privatization. However, lessons learnt from many countries as a late comer and the current economic and social development in Ethiopia will prove the betterment of opportunities than the effect of threats.

Chapter Three

Research Methodology

3.1 Introduction

The research methodology serves as the compass that navigates the expedition into the uncharted territory of studying stock market implementation in Ethiopia. This chapter delineates the methodological framework, data collection techniques, and analytical approaches employed to unravel the complexities and nuances inherent in the research endeavor.

3.2 Research Design

3.2.1 Mixed-Methods Approach

Embracing the ethos of methodological pluralism, this study adopts a mixed-methods approach that synergistically integrates quantitative and qualitative methodologies. By harnessing the strengths of both paradigms, this research design enables a comprehensive exploration of the multifaceted dimensions of stock market implementation, enriching the analysis with diverse perspectives and empirical insights.

3.3 Data Collection Methods

3.3.1 Quantitative Data Collection

Surveys and Questionnaires

A questionnaire has been distributed to business people residing in Gubrye and olkite area and bank professionals in the areas of business and economics.

3.3.2 Qualitative Data Collection

In-Depth Interviews

Semi-structured interviews will be conducted with key stakeholders, including the management of share companies, academicians, accounting and auditing firms, other stakeholders, and merchants. These interviews will gather nuanced perspectives on the challenges, opportunities, and policy implications surrounding stock market implementation in Ethiopia. The interviews will either be face-to-face or virtual, allowing for in-depth exploration of responses. The findings from these interviews will complement the data collected from the questionnaires.

Focus Group Discussions

In addition to the questionnaires, focus group discussions will be held with participants from the same categories: management of share companies, academicians, accounting and auditing firms, other stakeholders, and merchants. These discussions will encourage interactive dialogue and collective sense-making, helping to uncover shared beliefs, social norms, and latent concerns related to stock market development. The group dynamics will support a deeper understanding of the responses gathered from the questionnaires.

3.4 Data Analysis Techniques

3.4.1 Quantitative Data Analysis

Descriptive Statistics

Quantitative data collected through surveys will be subjected to descriptive statistical analysis to elucidate key trends, patterns, and distributions pertaining to financial literacy levels, investment preferences, and attitudes towards stock market participation among the study participants.

3.4.2 Qualitative Data Analysis

Thematic Analysis

Qualitative data derived from interviews and focus group discussions were analyzed using thematic analysis techniques to identify recurring themes, extract meaningful insights, and construct conceptual frameworks that elucidate the underlying drivers and barriers to stock market implementation in Ethiopia.

3.5 Ethical Considerations

3.5.1 Informed Consent

Prior to data collection, informed consent will be obtained from all participants, ensuring voluntary participation and respect for individual autonomy. Participants were informed about the purpose, scope, and confidentiality measures associated with the study, and their consent were obtained in accordance with ethical guidelines.

3.6 Limitations of the Study

3.6.1 Scope and Generalizability

While every effort will be made to ensure the representativeness and validity of findings, it is essential to acknowledge the inherent limitations of the study, including the constraints of sample size, geographical coverage, and the dynamic nature of stock market dynamics.

3.6.2 Data Reliability and Validity

Despite rigorous methodological approaches, the reliability and validity of data may be influenced by factors such as response bias, social desirability, and measurement error. Mitigating these threats to data quality will require robust validation procedures and triangulation of multiple data sources.

In summary the research methodology chapter lays the groundwork for a rigorous and comprehensive investigation into the complexities of stock market implementation in Ethiopia. By embracing a mixed-methods approach, employing diverse data collection techniques, and upholding ethical principles, this study endeavors to generate nuanced insights and actionable recommendations that contribute to scholarly discourse and policy formulation in the realm of financial market development.

Chapter Four

Data Representation and Analysis

The results from the analysis of data obtained from the survey are presented in this chapter. The data collected through survey questionnaire and interview was analyzed using descriptive statistics. Thus, percentage, mean and standard deviation are used in the analysis. Accordingly, the percentages show the frequency distribution of the variables, the composite mean value shows the average of all respondents' perceptions on a certain questions. While, standard deviation shows how diverse are the perceptions of respondents for a given questions.

4.1 Result of the survey

In this study, the population comprises the management of share companies (10), academicians (10), Accounting and Auditing firms (5), other stake holders (12) and merchants(23) summing up to a total of 60 respondents as represented by the Table 1 below.

Table4.1. the Selection of the Sample

Classification of sample	Sample size	Response received	Response rate
Share company managers	10	7	70
Academicians	10	8	80
Accounting and audit firms	5	3	60
Other stake holders	12	8	66.6
Merchants	23	19	82.6
Total	60	45	75

Source Questioner, 2025

From Table 1, Share company managers questionnaires were 10 but 7 questionnaires

were received given a response rate of 70%, in the case of the Academician 10 questionnaires were given out and 8 were received representing 80 % response rate, Accounting and Auditing firm were 5 of which 3 responses were received indicating a response rate of 60%, in case of other stake holders 12 questionnaires were given and 8 with response rate of 66.6% were received and share stakeholder questionnaires were 23 of which 19 questioners were received given a response rate of 82.6%. A total of 60 questionnaires were distributed and 45(75%) questionnaires were received.

4.2 General information of the respondent

In this section the researcher tries to include age, sex, and educational level of the respondents. Table2. Depict the age, sex and educational level.

Description		No of respondent	Percentage
Age	Below 25 Years	-	0%
	26-30 years old	15	33.33%
	31-40 years old	21	46.67%
	More than 40 years old	9	20%
sex	Male	39	86.67%
	Female	6	13.33%
Educational level back ground	Illiterate	0	0%
	High school	0	0%
	Diploma	8	17.77%
	Bachelor degree	15	33.33%

	Masters or higher	22	48.89%
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Source Questioner, 2025

As we can see from the above table there is no respondent in the age category below 25 years, 33.33%(15)of the respondents are between 21 and 30years old,46.67%(26) between 31 and 40years old and the remaining 20%(9)respondents are above 40 years old. In terms of sex of , 86.66% are male while 13.33% are female. In terms of educational back ground, there are no respondents who are illiterate, 0% of the respondents are high school complete, 17.77% have diploma, 33.33%hold bachelor degree and 48.89% have masters or higher qualification.

Table 4.3The source of financial information and investment

Financial News Websites	4	8.9%
Social Media	27	60%
Friends/Family	9	20%
Financial Advisors	5	11.11%
Government or Regulatory Sources	0	-
total	45	100%

Source, questionnaire,2025

From those respondents the highest population aware financial information social media60%(27)of the respondent; from financial news website8.9%(4);from friends/family 20%(9) and from financial Advisor 11.11%(5) and none from government or regulatory source.

Table 4.4 Respondent view on Benefits of establishing stock exchange to Ethiopia

To analyzed respondents view on the benefit of stock market, the study provide 12 related questions using five types of likert scale the scale indicated 1 for strong disagreement, and 5 for strong agreement) the rest 2, 3, and 4 at the middle, agreement, neutrality and disagreement the responses are summarized in the following table.

Potential Advantages	N	Strongly Agree	N	Agree	N	Neutral	N	Disagree	N	Strongly Disagree
It provides a ready market for investors to buy and sell their shares	12	26.66%	27	60%	6	13.33%	0	-	0	-
It serve as an alternate source of finance	13	28.88%	22	48.88%	10	22.22%	0	-	0	-
It builds public trust/confidence to invest in share companies	8	17.7%	26	57.77%	10	22.22%	1	2%	0	-

It provides protection for investors which stems from sets of rules of regulators	8	17.7%	23	51.11%	14	31.11%	0	-	0	-
It contributes to country's economic development	15	33.33%	28	62.22%	2	4.4%	0	-	0	-
It necessitates the determination of true/fair price of shares of companies	13	28.88%	18	40%	9	20%	5	11.11%	0	-
It helps to attract more domestic and foreign investors	11	24.44%	19	42.22%	15	33.33%	0	-	0	-
Promote efficient financial system	16	35.55%	19	42.22%	10	22.22%	0	-	0	-
Allow de concentration of ownership	18	40%	20	44.44%	7	15.55%	0	-	0	-
Improve accounting and auditing standards	16	35.55%	26	57.77%	3	6%	0	-	0	-
provide effective tools for monetary and fiscal policy	9	20%	22	48.88%	11	24.44%	3	6%	0	-
Help privatization efforts by the government	11	24.44%	16	35.55%	9	20%	9	20%	0	-

Source Questioner, 2025

From those respondents 86.61% (39) respond that it provides a ready market for investors to buy and sell their shares; 77.76% (35) of them said it serve as an alternate source of finance; 75.47% (34) select it builds public trust/confidence to invest in share companies; 68.81% (31) reflect that it provides protection for investors which stems from sets of rules of regulators; 95.55% (43) of them said it contributes to the economic growth of the country; 68.88% (31) select it necessitates the determination of true/fair price of shares of companies; 66.66% (30) reflects that it helps to attract more domestic and foreign investors; 77.77% (35) respond that promote efficient financial system; 84.44% (38) respondent selects allow de-concentration of ownership; 93.32% (42) select improve accounting and auditing standards; 68.88% (21) respond provide effective tools for monetary and fiscal policy and 59.99% (27) selects help privatization efforts by the government. This implies that most of the respective respondents believe that establishment of stock exchange in our country at this time helps to easily sell and buy shares and it contributes to the economic growth of the country. And also in terms of building public trust, determining true/fair price of shares, providing protection for investors, attracting more domestic and foreign investors, providing effective tools for monetary and fiscal policy, promoting efficient financial system, improving accounting and auditing standards and helping privatization efforts by the government significant level of agreement was obtained from respondents as the benefit of stock exchange markets.

Table 4.5 Respondents view on the Prerequisites to Establish Stock market

Factor Affecting Stock market Establishment	N	Mean	Standard Deviation
Inadequate legal and regulatory institution	45	4.188525	.764198
Lack of efficient and independent judicial system	45	3.631148	.899088
Lack of financial literacy	45	3.606557	1.152391
Macro-economic situation of the country	45	3.45082	1.114165
Corruption and lack of good governance	45	4.434426	.842936
Low level of corporate governance	45	3.803279	1.088173
Lack of technology	45	3.877049	.755999
Low awareness level of the society about stock exchange	45	3.45082	1.54806
Prevalence of family – owned companies	45	3.852459	.789101
The Government lack of commitment	45	4.172131	1.083463

Source Questioner, 2025

confirmed by respondents in the above table with the highest mean score 4.188525 there is no an independent regulatory institutions that could facilitate stock market in Ethiopia; respondents of this study also as implied by 3.631148 mean value respondents of efficient and independent judiciary system ; the respondents of financial literacy average mean value of 3.606557. respondent implies the macro economic situation of country agreement at a mean score 3.45082. Accordingly respondent agreed on the lack of good governance and the existence of corruption at a mean value of 4.434426, and also supported by scholars. Low level of corporate governance the research with a mean value of 3.803279 response rate. As indicated in the table the respondent's agree with lack of technology to establish the stock market in Ethiopia with a mean value of 3.877049. On the level of public awareness of stock markets, 53.28% with mean value of 3.54082 and

standard deviation 1.54806 agreed on the idea that the public awareness is low. Regarding this issue respondents agree with a mean value of 3.852459 and Standard deviation 0.789101. respondents have recognized the lack of government's interest as one reason which impacts the successful establishment of stock market in Ethiopia at the mean value of 4.172131.

Table 4.6 Confidence in Regulatory Effectiveness of the Ethiopian Government

Response Option	Frequency	Percentage (%)
Very Confident	18	40.00%
Confident	22	48.89%
Neutral	3	6.67%
Not Confident.	2	4.44%
Not at All Confident.	0	0.00%

Total	45	100%
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High Confidence Levels: 88.89% of respondents (combined "Very Confident" + "Confident") trust the government's regulatory capabilities. Only 4.44% expressed skepticism ("Not Confident"). Neutral Minority: A small fraction 6.67% remained neutral, possibly indicating uncertainty or lack of strong opinions. No Extreme Pessimism: 0% selected "Not at All confident," suggesting minimal outright distrust.

Table 4.7 Respondent on businesses and investors with the establishment of a stock market

Potential Benefit	Frequency	Percentage %
Increased access to funding for businesses	12	26.7%
Higher economic growth and job creation	10	22.2%
More investment opportunities for individuals	8	17.8%
Increased foreign investment in Ethiopia	9	20.0%
Improved corporate governance and transparency	6	13.3%
Total	45	100%

The respondent of the total sums increase funding for business(26.7) believe the primary advantage of stock market is to improve financial access for business, higher economic growth and job creation (22.2%) indicate strong belief that stock market can stimulate the economy and create employment, increased foreign investment in Ethiopia (20%) respondent expect a stock market to attractive international investor , more investment opportunities for individual suggest that individual investment in seen as significant but slightly less critical benefit, improved corporate governance and transparency (13.3)

Table 4.8 Respondent on how optimistic about the long term success of stock market

People reaction	Description	Frequency	percentage
	Very optimistic	9	20%
	Optimistic	13	28.88%
	Neutral	15	33.33%
	Pessimistic	5	11.11%
	Very pessimistic	3	6%
	total	45	100%

Source Questioner, 2025

From the above table of respondent response indicate that the20%(9) is very optimistic ;28.88%(13)are optimistic ,33.33%(15)neutral,11.11%(5)are pessimistic, and 6%(3) very pessimistic.

Chapter Five

Conclusion and Recommendation

Based on the results obtained from the respondents the following conclusions and recommendations are drawn.

5.1 Conclusion

The current realities of the Ethiopian economy have many favorable conditions (opportunities) that can pave the way for stock market development. This includes favorable macroeconomic and social conditions, increased interest of foreign investors, the growth and transformation Plan (GTP), financial sector development, increased private sector participation and high enthusiasm among stakeholders.

- ✓ Though it is highly laudable, the launch of stock market is not without challenges. Some of the major challenges include: inadequate institutional and legal frame work, Low Quality and Quantity of Financial Services, scarcity in Communication Network, Policy Measures Impetus, Gaps in Accounting, Auditing and Legal Infrastructure, Low level of saving and financial literacy, Inadequacies in skilled manpower, and Forms of Business Organizations.
- ✓ Implementation stock market, among other things, allows the “de-concentration of ownership, improve accounting and auditing standards, provide effective tools for monetary and fiscal policy and help privatization efforts”. In addition the finding also implied that, the establishment of stock market in Ethiopia could contribute to economic growth, since it encourages investment by helping traders buy and sell stocks quickly and efficiently. Beside, Existence of the financial markets help to mobilize local savings, enhance competition among financial institutions, increases remittances, lead to improved corporate governance, provide for sources of project financing on short and long term bases. Hence, absence of stock market in Ethiopia may cause illiquidity of assets as holders of stocks may find it difficult to sell same at a fair market price.
- ✓ Despite the acclaimed benefits, a well-functioning financial system requires strong institutions and a sound legal framework. Among others consumer and property rights protection, contract enforcement laws and corporate governance can be considered as the key elements for creating deep and vibrant financial markets and creating an enabling business environment. Establishing Stock market in Ethiopia is not a task that can be achieved over-night. Since, it is affected by several environmental factors emanating from different sources, and some of these pre requisites are not currently in place in the country. For instance:-
 - There is no institutional, legal and policy framework for any secondary financial market activity in the country.

- Pertaining to the adequacy of the judiciary system, the 1960 commercial code is outdated and there is no system of civil courts where securities cases can be prosecuted by a dedicated governmental authority.
- Corporate governance is not fully developed and the governing laws on corporate governance are not up-to-date. However, the recent activity of revising the commercial code of Ethiopia is on progress.
 - Technological infrastructure of the country is in its development stage, which needs to be further improved to facilitate smooth transaction settlement and flow of information.
 - Even if the country has agreed to adopt international financial reporting standards in the country it is on its infancy stage.
 - The awareness level of the public is not high as there is no stock market in the country. 58
- ✓ Regarding the demand of stock market the finding implied that individuals and institutional savers have limited choice how to hold their savings. Therefore, the establishment of a well-functioning stock market will satisfy their rate of return need and protection of their asset, avoid the traditional forms of asset holding practice, cope up with challenges of inflation and reduce the mismatch between low interest rate for deposit and high interest rate for borrowing.
- ✓ Currently there is high rate of Shareholding Company's establishment. Without any capital market for share trading in Ethiopia there are more than 60,000 shareholders this imply that there is high share illiquidity. If this illiquidity persists, the existing shareholders tend to frustrate and new shareholders will be discouraged to get into share company business which in effect hinders the growth of investment and private sector involvement in the Economy. This is one of the implications of high demand of stock market establishment is needed in the country.
- ✓ The government stand is good opportunity to the potential investors to participate in the privatization of government owned companies.
- ✓ Addis Ababa 10th Jan 2025: The Ethiopian Securities Exchange (ESX) was officially launched today at an event officiated by Prime Minister Dr. Abiy Ahmed. The exchange, established by the country's sovereign wealth fund, Ethiopia Investment Holdings (EIH) in partnership with the Ministry of Finance with support from FSD Africa and FSD Ethiopia, marks a historic milestone in Ethiopia's economic development.
- ✓ Licensed by the Ethiopian Capital Market Authority in December 2024 to operate as a Securities Exchange and Over the Counter (OTC) market, ESX is set to revolutionize the nation's capital markets. By providing equitable access to capital and enhancing liquidity, it aims to support private sector growth in Ethiopia, the second most populous country in Africa and one of the fastest growing economies globally, with projected GDP growth of 6.5 in 2025. For decades Ethiopia's financial sector has lacked a strong mechanism for equitable access to capital and liquidity for the private sector. In particular, the lack of an interbank trading platform has meant banks could not effectively lend to one another. This resulted in high interest rates to borrowers and significant inefficiencies in bank liquidity

management which has in turn constrained businesses, particularly small and medium sized enterprises (SMEs).

- ✓ The new exchange is already addressing this challenge. An interbank trading platform, which is part of the exchange, is optimizing liquidity and improving credit flow in the banking system. Since its pilot in late October 2024, the platform has facilitated trades exceeding ETB 135 billion (USD 1.1 billion), demonstrating robust uptake by the banking sector. By enhancing price transparency and reducing transaction costs, the platform is already improving credit accessibility for businesses, enabling them to grow, innovate, and drive economic activity.
- ✓ ESX's state-of-the-art multi-asset Electronic Trading Platform, which is integrated with a modern Central Securities Depository for post-trade settlement and clearing, will also support more efficient issuance and trading of financial instruments such as Equities, Treasury Bills and Bonds, Corporate Bonds, Commercial Papers, Repos, and Derivatives. This is expected to attract both domestic and international investors, further strengthening Ethiopia's financial markets.

5.2 Recommendation

According to the information from the prime Minister office the government was planning to establish a capital market by 2020. However the formation and evolution of stock markets and its institutions is certainly a process, influenced by a large number of factors and complex relationships between these. It is not an easy task to the government since, the fact that the stock market provision most importantly required appropriate studies and lay-down legal foundation to promoting, regulating and facilitating the participation of the players. However, the following essential recommendations to fulfill in establishment of stock market are forwarded to the Government of Ethiopia as prerequisites:

- Before establishment of the market finalizing the revision of the Country's Commercial Code related to Accounting and Auditing Registrations and develop a Corporate Governance Code, the revision and registration should be comprehensive leading towards the development of stock market in the country.
- Improving the legal framework by enacting a stock market law, embodying the basic principles and policies in clear and unequivocal standard.
- Developing stock market Standard operating procedures (SOPs) which clearly outline the stock market system. To enforce, SOPs will require routine and consistent supervision at all levels. IT-controlled stock market management systems are required move closer to players that will eventually be optimized information networks and decisions in the ongoing operations. The IT development requires huge investments to improve the capacity of stock market management. Suitable training programs directed towards different user groups accompanied by hands-on manual to ensure compatibility and commitment critically fundamental.
- Establishing Stock market and other related institutions with the technical assistance (training, manuals, expertise service, etc) of International Finance Corporation and World Bank.

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Appendix

WOLKITE UNIVERSITY

DEPARTMENT OF ACCOUNTING AND FINANCE

QUESTIONNAIRE

This questionnaire is designed primarily to collect information for a senior essay titled 'Challenges and Prospects of Implementing a Stock Market in Ethiopia.' Your participation is highly appreciated as it contributes significantly to the success of this study. The final results may be available upon request and could serve as valuable information regarding the topic being researched. Thank you in advance for your cooperation.

Section 1: Demographic Information

1. Sex: Male Female

2. Age: Under 18 18-25 26-35 36-45 46-55 Over 55

3. Educational Background:

Less than High School

High School Graduate

Bachelor's Degree

Master's Degree or Higher

4. Employment Status:

Employed Unemployed Self-employed Student Retired

5. Income Level:

Below Average Average Above Average

Section 2: Financial Literacy and Investment Knowledge

6. What sources do you typically rely on for financial information and investment advice? (Select all that apply)

Financial News Websites

Social Media

Friends/Family

- Financial Advisors
- Government or Regulatory Sources
- Other (please specify)_____

Section 3: Perceptions and Attitudes towards Stock Market Implementation

7. Do you believe that establishing a stock market in Ethiopia would be beneficial for the country's economic development?

- It provides a ready market for investors to buy and sell their shares
 - It serve as an alternate source of finance
 - It builds public trust/confidence to invest in share companies
 - It provides protection for investors which stems from sets of rules of regulators
 - It contributes to country's economic development
 - It necessitates the determination of true/fair price of shares of companies
 - It helps to attract more domestic and foreign investors
 - Promote efficient financial system
 - Allow de concentration of ownership
 - Improve accounting and auditing standards
 - provide effective tools for monetary and fiscal policy
 - Help privatization efforts by the government
- Strongly Agree
 Agree
 Neutral
 Disagree
 Strongly Disagree

8. What do you think are the main challenges to the successful implementation of a stock market and Factor Affecting Stock market Establishment? (yes ,no options)

- Inadequate legal and regulatory institution
- Lack of efficient and independent judicial system
- Lack of financial literacy
- Macro-economic situation of the country

- Corruption and lack of good governance
- Low level of corporate governance
- Lack of technology
- Low awareness level of the society about stock exchange
- Prevalence of family – owned companies
- The Government lack of commitment
- Other (please specify)_____

9. How can the government encourage more Ethiopians to participate in the stock market? (Select all that apply)

- Provide educational programs on investing
- Offer tax incentives for investors
- Strengthen regulatory measures to build trust
- Improve access to online trading platforms
- Encourage financial institutions to promote investment opportunities
- Other (please specify)_____

Section 4: Regulatory Framework and Investor Protection

10. How confident are you in the ability of the Ethiopian government to regulate and oversee a stock market effectively?

- Very Confident Confident Neutral Not Confident Not at all

11. What measures do you believe are necessary to ensure investor protection in the Ethiopian stock market? (Select all that apply)

- Stronger laws against fraud and market manipulation
- Independent regulatory body for market oversight
- Transparent financial reporting by listed companies
- Investor education programs
- Insurance or compensation schemes for investors

Section 5: Future Outlook and Expectations

12. What potential benefits do you foresee for Ethiopian businesses and investors with the establishment of a stock market? (Select up to 3 options)

- Increased access to funding for businesses
- Higher economic growth and job creation
- More investment opportunities for individuals
- Increased foreign investment in Ethiopia
- Improved corporate governance and transparency

13. How optimistic are you about the long-term success of a stock market in Ethiopia?

- Very Optimistic Optimistic Neutral Pessimistic Very Pessimistic

Section 6: Additional Comments

14. Do you have any other thoughts on the implementation of a stock market in Ethiopia?

- No additional comments
- Yes, please specify: _____

Thank you for participating in this survey. Your input is valuable for our research.