

CHALLENGES AND OPPORTUNITIES OF ESTABLISHING STOCK MARKET IN ETHIOPIA

**A RESEARCH PAPER SUBMITTED TO DEPARTMENT OF
ACCOUNTING AND FINANCE FOR PARTIAL FULFILMENT OF
BACHELOR OF ART (BA) DEGREE IN ACCOUNTING AND FINANCE**

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DEPARTMENT OF ACCOUNTING AND FINANCE

WOLKITE, ETHIOPIA

JANUARY, 2021

ACKNOWLEDGEMENT

I would first like to express my gratitude to God Almighty for giving me power, patience and strength during study. Many thanks go to my advisor Mr.Delelegn for his constructive comments and valuable advices from onset to the completion of this research paper. I would like to thank my parents for supporting me emotionally and fulfilling all my necessities to achieve my goals. My special thanks to Employees and managers of national bank of Ethiopia for filling Questioners and providing the necessary documents for the preparation of this work.

ABSTRACT

Stock exchanges have played a great role in the investment process in developed countries such as the United States, the United Kingdom, Japan, and so many others and have contributed to their development. this study assessed the challenges and opportunities of establishing stock market in Ethiopia. the study used descriptive and cross sectional research design to obtain the intended information. the research approach used was mixed approach. the sample size is 10 and it was selected purposively which means the sampling technique used was purposive sampling technique. both primary and secondary data were used. primary data were gathered from the employees and managers of national bank of Ethiopia. secondary data were also gathered from publication of scholars from academia ,financial institution, articles posted in different websites ,related arguments of scholars, forums reports ,different countries experience ,books, reports and websites were referred. Though the stock exchange market is necessary to the economic growth of Ethiopia. Its implementation will face many challenges that need to be addressed such as a low savings rate, macroeconomic instability , low level of public awareness absence of adequate accounting and auditing system , a small economy and the structure of companies that are family owned and the absence of financial intermediaries, financial advisory services, investment banks and so on. The study explained the role and opportunities of stock exchange such as foreign direct investment, prompting the financial system, market monitoring, source of capital and liquidity function are some of the opportunity assessed by the study. Based on the findings the researcher forwarded recommendations such as the complicated bureaucracy of the government should be advanced in order to establish stock market in the easy way the government should also encourage family owned companies to go public. the institutional capacity of the regulating body should be sufficient and strong in order to establish stock market in Ethiopia.

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LIST OF ACRONYMS

NSE	National Stock Exchange
NYSE	New York Stock Exchange
NBE	National Bank of Ethiopia
AACCSA	Addis Ababa Chamber Of Commerce And Sectorial Association
GDP	Gross Domestic Product
IPO	Initial Public Offering
ECX	Ethiopia Commodity Exchange
FDI	Foreign Direct investment
WB	World Bank
USE	Uganda Security Exchange
CMA	Capital Market Authority

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Financial market is a place where financial assets are traded. Financial markets can be classified according to the nature of the claim as debt market and equity market. Financial markets in which debt instruments are traded are called debt or generally bond markets whereas Financial markets in which equity instruments are traded, stock or equity markets (pruser, 2019).

A stock market is the aggregation of buyers and sellers, of stock which represent ownership claims on businesses; these may include *securities* listed on a public stock exchange, as well as stock that is only traded privately, such as shares of private companies which are sold to investor through equity crowd funding platforms (Amadeo, 2019).

The world's first stock markets are generally linked back to Belgium. Bruges, Flanders, Ghent, and Rotterdam in the Netherlands all hosted their own "stock" market systems in the 1400s and 1500s. However, it's generally accepted that Antwerp had the world's first stock market system. Antwerp was the commercial center of Belgium and it was home to the influential Van der Beurze family. As a result, early stock markets were typically called Beurzen. All of these early stock markets had one thing missing: stocks. Although the infrastructure and institutions resembled today's stock markets, nobody was actually trading shares of a company. Instead, the markets dealt with the affairs of government, businesses, and individual debt. The system and organization was similar, although the actual properties being traded were different (Rose, 2001).

The world's first publically traded company The East India Company is widely recognized as the world's first publically traded company. There was one simple reason why the East India Company became the first publically traded company: risk. Put simply, sailing to the far corners of the planet was too risky for any single company. When the East Indies were first discovered to be a haven of riches and trade opportunities, explorers sailed there in droves. Unfortunately, few of these voyages ever made it home. Ships were lost, fortunes were squandered, and financiers

realized they had to do something to mitigate all that risk. As a result, a unique corporation was formed in 1600 called “Governor and Company of Merchants of London trading with the East Indies”. This was the famous East India Company and it was the first company to use a limited liability formula. Investors realized that putting all their “eggs into one basket” was not a smart way to approach investment in East Indies trading. Let’s say that a ship returning from the East Indies had a 33% chance of being seized by pirates. Instead of investing in one voyage and risking the loss of all invested money, investors could purchase shares in multiple companies. Even if one ship was lost out of 3 or 4 invested companies, the investor would still make a profit. The formula proved to be very successful. Within a decade, similar charters had been granted to other businesses throughout England, France, Belgium, and the Netherlands. In 1602, the Dutch East India Company officially became the world’s first publically traded company when it released shares of the company on the Amsterdam Stock Exchange. Stocks and bonds were issued to investors and each investor was entitled to a fixed percentage of East India Company's profits (Maxwell, 2010).

Selling stocks in coffee shops

Before investors yelled across trade floors and threw order forms into the air, they conducted business in coffee shops. Early stocks were handwritten on sheets of paper, and investors traded these stocks with other investors in coffee shops. In other words, coffee shops were the first real stock markets due to the fact that investors would visit these markets to buy and sell stocks. Before long, somebody realized that the entire business world would be more efficient if somebody made a dedicated marketplace where businessmen could trade stocks without having to order a coffee or yell across a crowded café (maxwell,2010).

The first stock market bubble

Nobody really understood the importance of the stock market in those early days. People realized it was powerful and valuable, but nobody truly understood exactly what it would become. That’s why the early days of the stock market were like the Wild West. In London, businesses would open up overnight and issue stocks and shares of some crazy new venture. In many cases, companies were able to make thousands of pounds before a single ship had ever left harbor. There was no regulation and few ways to distinguish legitimate companies from illegitimate

companies. As a result, the bubble quickly burst. Companies stopped paying dividends to investors and the government of England banned the issuing of shares until 1825.

The first stock exchange

Despite the ban on issuing shares, the London Stock Exchange was officially formed in 1801. Since companies were not allowed to issue shares until 1825, this was an extremely limited exchange. This prevented the London Stock Exchange from preventing a true global superpower. That's why the creation of the New York Stock Exchange (NYSE) in 1817 was such an important moment in history. The NYSE has traded stocks since its very first day. Contrary to what some may think, the NYSE wasn't the first stock exchange in the United States. The Philadelphia Stock Exchange holds that title. However, the NYSE soon became the most powerful stock exchange in the country due to the lack of any type of domestic competition and its positioning at the centre of U.S. trade and economics in New York. The London Stock Exchange was the main stock market for Europe, while the New York Stock Exchange was the main exchange for America and the world.

Modern stock markets

Today, virtually every country in the world has its own stock market. In the developed world, major stock markets typically emerged in the 19th and 20th centuries soon after the London Stock Exchange and New York Stock Exchange were first created. From Switzerland to Japan, all of the world's major economic powers have highly-developed stock markets which are still active today.

On the other hand, African countries have established stock markets to trade in shares. In Kenya, there are stock markets and stock exchange used to sell shares in secondary market which is recognized as an overseas Stock Exchange by the London Stock Exchange in 1953 (NSE, 2006). Similarly, Uganda establishes Securities Exchange in 1996 and use stock market as an avenue for privatization and treasury issues.

Tanzania had also established stock market following the establishment of Tanzania Capital Markets and Securities Authority in 1996. Likewise, emerging countries established stock

markets to mobilize substantial amount of capital for the rapid industrialization whereas developed countries establish stock market as a source of corporate finance.

According to Mohammed (2010), Ethiopia's brief history of stock exchange showed there were share and bond dealings under the sponsorship of the National Bank of Ethiopia (NBE) starting in March 1965. Later, the Addis Ababa Share Dealing Group was set up to trade in shares and Government bonds with share dealings of 15 listed companies and four government bonds, and the number of listed companies were 17 by 1966. Ruecker (2011), since the abolition of the Addis Ababa Share Dealing Group in 1974 by the military government ruling Ethiopia at the time, no stock market has been in place in Ethiopia. Additionally, Ruecker (2011) showed National Bank of Ethiopia undertook a study on the —"Feasibility of Establishing Securities Exchange Market in Ethiopia" and prepared a draft Securities and Exchange proclamation which is awaiting government 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. Lastly the Ethiopian government is prepared to set up the country's first stock market by 2020 (Yonnas 2019).

The background of the study tried to explain the Economy benefit one country can get by establishing stock market. Therefore, this paper will try to investigate the benefits and challenges of Ethiopia could face from establishing stock market by comparing and constructing several countries experience and scholars Argument.

1.2. Statement of the problem

The stock market is an important element of development in the emerging economies as stock exchanges facilitate efficient resource mobilization and allocation to the corporate sectors in the economy. To shed light on how these emerging economies can develop their stock markets, it is important to see how other stock markets around the world have developed, what factors have driven their general development and which can be applied to develop the emerging economy (Guiso&Jappelli, 2005).

With the recent situation in our country ,selling shares of companies will take a while and also it needs energy even though the seller is in need of cash. And when dealers get involved in the selling buying process they will increase the price of the share without the knowing of the share companies and the investors. The absence of stock market is banning individual investors from

investing in profitable ventures so they may prefer to save their money in account of banks for a nominal interest rate in consideration of the opportunity cost. On the other hand the absence of stock market is causing high illiquidity of shares. if this illiquidity continues, the existing shareholders tends to frustrate and new shareholders will be discouraged to get into share company business which effect hinders the growth of investment and private sector investment in the economy(Mohammed2010).

The establishment of a stock market in Ethiopia will be one of the major initiatives taken by the Government in improving the national economic growth. Though the stock exchange market is necessary to the economic growth of Ethiopia , its implementation will face many challenges that need to be addressed such as a low savings rate, a complex tax regime, a small economy and the structure of companies that are family owned and the absence of financial intermediaries, financial advisory services, investment banks and so on. based on this the study will assess the challenges and benefits Ethiopia can get from establishing a stock market.

1.3. BASIC RESEARCH QUESTIONS

This study focuses on investigating challenges and opportunities of establishing stock market in the country, thereby, determines the need for establishing the stock market. Thus, the research questions in the study entertained as follows.

1. What is the challenge to establish stock market in Ethiopia?
2. What are the prerequisites to establish stock markets in Ethiopia?
3. What are the opportunities of establishing stock markets in Ethiopia?
4. Is a legal and regulatory infrastructure in Ethiopia sufficient to establish stock market?
5. How is the government stand point and commitment towards stock market Development?

1.4. Objective of the study

1.4.1 General Objective:

The overall objective of this study is to obtain an understanding of challenges and opportunities of establishing stock market in Ethiopia

1.4.2. Specific objectives are:

- To investigate the challenges of establishment of stock market in Ethiopia.

- To assess the fundamentals to establish stock markets in Ethiopia.
- To examine the opportunities of establishing stock markets in Ethiopia.
- To assess if the legal and regulatory infrastructure in Ethiopia is sufficient to establish stock market.
- To investigate the government stands point and commitment towards stock market development.

1.5 Significance of the Study

The study is an addition to the pre-existing literature on the stock exchange markets, and provides a better understanding to individuals in business and other fields, which are not familiar with the financial sector serve as a reference material for further studies, is important for policy makers as a reference material, It helped the researcher to understand related theoretical knowledge with that of practical world , and recommendations are helpful to the upcoming stock exchanges in Ethiopia .

1.6. Scope and limitation of the study

This study gave justification on the challenges and opportunities of establishing stock market in Ethiopia. In this regard the study discussed two major related areas such as, opportunities such as foreign direct investment, market monitoring, source of capital etc. Challenges including low domestic saving, macroeconomic instability, absence of financial intermediaries and so on. as well as environmental foundation such as, political ideology regarding with stock market, infrastructural factors, regulatory of stock markets, technological availability, and so forth. Accordingly the study extended its scope on the primary material(questioner)that were gathered from national bank of Ethiopia employees and commercial bank managers and secondary materials such as, related arguments of scholars, forums reports, different countries experience etc. In this regard both the primary and secondary data were analyzed by mixing to provide relevant justification. the limitation faced by the researcher was lack of information. this is caused by lack of scholars on the area and lack of literacy on financial sector.

1.7 Organization of the Research

This paper contains five chapters. In the first chapter the introductory part of the paper includes: the background of study, statement of the problem, objective of the study, significant of the study, scope of the study, organization of the paper. In the second chapter the literature review and review of related literature, in the third chapter research design and methodology of the study. The fourth chapter includes data analysis and interpretation finally the fifth chapter which is the last part of the study contains conclusion and recommendation. This is all about the paper.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 INTRODUCTION

The preceding chapter deals on the introductory part of the study i.e. the motive behind conducting this study. The purpose of this chapter is to review the existing literatures concerning on the area of stock market establishment, the challenges and opportunities during establishment and overall concepts. The current chapter has five sections and organized as follows. The first section (2.2) the theoretical literature (2.3.) opportunities of establishing stock market (2.4) challenges of establishing stock market (2.5) Empirical evidence (2.6) summary and literature gap.

2.2. THEORETICAL LITERATURE

There are growing literatures on establishment of stock market by different scholars and institutions in different times and places. The establishment of stock markets in Africa is expected to boost domestic savings and increase the quantity and quality of investment. More generally, stock markets are seen as enhancing the operations of the domestic financial system in general and the capital market in particular (Kenny and Moss, 1998). Critics, however, argue that the stock market might not perform efficiently in developing countries and that it may not be feasible for all African markets to promote stock markets given the huge costs and the poor financial structures (Singh, 1999).

2.2.1 What is stock exchange

Stock Exchange or Stock Market is an organized market for the trading of stocks, bonds and other securities. It provides a mechanism through which companies can raise capital for

expansion purposes by selling and issuing securities (stocks and bonds). 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.

2.2.2. The role of stock exchange

Stock exchanges play a vital role in the functioning of the economy by providing the backbone to a modern nation's economic infrastructure. Stock exchanges help companies raise money to expand. They also provide individuals the ability to invest in companies. Stock exchanges provide order and impose regulations for the trading of stocks. Finally, stock exchanges and all of the companies that are associated with the stock exchanges provide hundreds of thousands of jobs (Scott,2019).

2.2.2.1 Business Expansion

Stock exchanges provide companies the ability to raise capital to expand their businesses. When a company needs to raise money they can sell shares of the company to the public. They accomplish this by listing their shares on a stock exchange. Investors are able to buy shares of public offerings and the money that is raised from the investors is used by the company to expand operations, buy another company or hire additional workers. All of this leads to increased economic activity which helps drive the economy.

2.2.2.2 Widespread Investing

Stock exchanges allow any person to invest in the greatest companies in the world. Investors, both large and small, use the stock exchanges to buy into a company's future. Investing would not be possible for the average person if there was not a centralized place to trade stocks. The ability for the average person to invest in these companies leads to increased wealth for the investors. This increased wealth then leads to additional economic activity when the investors spend their money

2.2.2.3 Increased Investor Class

The stock exchanges provide order and regulation to the process of stock trading. Without the regulations and the shareholder protections that the stock exchanges provide few people would be willing to invest in stocks. Because of the oversight of the stock exchanges the average person has the confidence to invest in stocks and this leads to more people become a part of the investor class. The investors' wealth grows over time, which allows them to contribute more to the economy.

2.2.2.4 Direct Jobs

The stock exchanges and all of the companies that serve the stock exchanges such a brokerage firms, investment banks and financial news organizations employ hundreds of thousands of people. Most of the jobs related to stock exchanges are well paying and career orientated jobs. As a result, the employees of these firms are able to help spur economic activity.

2.2.2.5 Warning

If the stock exchanges do not fully carry out their duty of overseeing the stock trading process the investing public will lose faith in the fairness and safety of the stock market. If this happens then all of the economic activity that the stock exchanges create will decrease and this will lead to an overall drop in economic activity. The stock exchanges must be sure that investors are not taken advantage of and that investors continue to have confidence in the system the stock exchanges created.

2.2.3. Factor Affecting Efficiency of Stock Exchange

While the performance of an individual company varies in the stock market due to news about its performance, such as earnings reports and acquisition announcements, there are outside influences that will affect stocks and the market as a whole. These factors include, but aren't limited to: economics, politics, natural disasters, man-made disasters and market psychology(Marks,2019).

2.2.3.1 Economics

Macro-economic factors such as interest rates, inflation, unemployment and economic growth often move stock markets. Stock markets are always rooting for more economic growth, because it usually means more profits for companies, and more profits tend to grow the value of stocks.

Declining interest rates often send markets higher, because they are seen as a harbinger of economic growth. High inflation has the opposite effect, because it signals that interest rates will be rising in the immediate or near future, thus slowing economic growth. Rising unemployment foreshadows lower economic growth, and falling unemployment tells stock investors that growth is on the way. When these data are reported, they can move stocks, but they may not if the numbers are more or less what investors expected. Nevertheless, if you're investing in stocks, it's important to keep an eye on these numbers. They can often predict whether the market as a whole will go up or down.

2.2.3.2 Politics

A belief by investors that control of the government by one party or the other will hurt or benefit them can move the market as whole. This is especially true in times of intense domestic turmoil. Significant developments abroad also can affect U.S. markets. An election involving one of our major trading partners that brings to power an avowedly hostile government can push markets lower. However, the converse is also true. The election of a friendly foreign government can move markets higher. These are scenarios we might see in trading partners with democracies. In non-democratic countries with which we trade, coups, general strikes and revolutions may be more likely. The positive or negative effect on the stock market would depend on the country and the circumstances, but uncertainty generally moves markets lower.

2.2.3.3 Natural and Man-Made Disasters

Natural or man-made disasters with economic consequences also affect stock markets. If an earthquake happens in a bustling city where there's lots of economic activity, markets will move down as investors fear a negative impact on economic growth. Similarly, if there's a disaster at a man-made facility of economic importance, such as an oil refinery blowing up, it can put downward pressure on stock prices.

2.2.3.4 Market Psychology

At the end of the day, swings in the stock market are caused by human beings. There are boom periods in a rising market when everyone wants to buy. Alternatively, there are also periods of panic when almost every investor is scrambling to sell.

2.2.3.5 Stability

Stock markets dislike shocks that could threaten economic stability and future growth. Therefore, they will tend to fall on news of terrorist attacks or spikes in the price of oil. They will also dislike political instability which may make it difficult to pursue strong economic policies (*pettinger,2017*).

2.2.3.6 Confidence and expectations

A key factor is the mood of investors. If they receive economic news that gives optimism then they are more likely to buy shares. If they receive bad news they will sell. This is why in the depth of a recession; stock markets can start to rise. Investors are always trying to predict the future. Therefore if they feel the worst is over – the stock market can rally – even when economic fundamentals remain poor (*pettinger,2017*).

2.2.3.7 Bandwagon effect

At times the stock market seems to over-react to certain events. For example, in 1987, relatively little bad news caused the stock market to fall 25%. Even today it remains a little mystery why the stock market fell so much – there was no economic problem. In fact, the stock market soon recovered its lost ground. Part of the issue is that people follow the mood. When prices fall, people may feel the need to follow suit and get out of the market(*pettinger,2017*).

2.2.3.8 Related markets

Often investors have choices. For example, rather than investing in stock market, they could buy government bonds or commodities. If investors feel government bonds are overpriced and likely to fall, then the stock market can benefit as people move into shares(*pettinger,2017*).

2.2.3.9 Price to earnings ratios

Some investors and economists, such as Robert Shiller feel the best guide to the long-term performance of shares is their price to earnings ratios. If share prices rise significantly above historical averages, then this is a sign that shares are becoming overvalued and are due a correction at some point in the future (*pettinger,2017*).

2.2.3.10 Legal infrastructure

For an efficient market to operate there has to be a well-founded, clear, transparent and enforceable legal environment. As per the principles of financial market infrastructures issued by

the Technical Committee of the International Organization of Securities Commissions (IOSCO) various points were indicated as key considerations in the legal infrastructure of stock exchanges for their efficient operation. These are

- The legal framework should provide a high degree of certainty for each material aspect of the activities of the market in all relevant jurisdictions.
- It has to have sets of rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.
- There should be an articulated legal basis for its activities to relevant authorities, participants, and, where relevant, participants’ customers, in a clear and understandable way.
- There should be clear rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the market infrastructure under such rules and procedures will not be voided, reversed, or subject to stays.

2.2.3.11 Technological infrastructure

Information and communication technology (ICT) has become a powerful tool for development extending its role from improving education and health system to widening business opportunities. For actors in the capital market, ICT is vital to communicate and exchange information swiftly; hence, make capital markets more efficient by including all information in Stock prices. (Teklehaimanot, 2014)Automation helps to speed up operations and activities of exchanges and reduces cost associated with manual systems. In addition, automation makes it easier to extend trading days and hours due to less cumbersome procedures. Automated trading also eliminates the need for trade intermediation since investors can log onto systems to monitor markets and also trade on markets, thus bypassing the use of brokers. (Yartey and Adjasi, 2007)

2.2.4. Stock Exchange in Ethiopia

Ethiopia, one of the fastest growing economies in Africa, does not have a stock market. Twenty nine of the 54 African countries have stock markets. For more than 20 years Ethiopian scholars, business leaders, consultants and government officials have been debating on the need to establish a stock exchange. But now the time is approaching for the establishment of the first

Addis Ababa Stock Exchange. A one page template issued by the Office of the Prime Minister recently indicated that the government was planning to establish a capital market by 2020. The paper cited poor financial infrastructure, limited financing and poor financial inclusiveness as the major impediments in the finance sector. The government plans to develop a road-map for introducing a trade financing instruments including capital market. Increasing loans to the private sector by 20 percent annually and ensure its fair disbursement and expanding credit registry to micro finance institutions are the key areas that will be addressed in 2019, according to the document. The targets set to be accomplished by 2020 are enhancing the use of modern financial technology, establish a system enabling e-commerce and digital financing and introduce capital market. Zemedeneh Negatu, Global Chairman of Fairfax Africa Fund, a strong advocate of establishing a stock market, is excited by the government's decision. "We are going to have a stock market this time. We have been on this path for 18 years. But now it is no more an academic discussion. We do need a capital market. We are part of the global economy," Zemedeneh told delegates of the third East Africa Finance Summit held this week in Addis Ababa. Zemedeneh, who made a presentation at the summit, stated that Ethiopia is by far the largest economy in the world today that does not have a stock market. "If we are part of the global economy, we should not be that unique. We are joining the World Trade Organization. We are doing a lot of things that we should have done a long time ago. We are going to join the global capital market club. We have a bigger GDP than Kenya, there are only two sub-Saharan African countries which have bigger GDP than us -- Nigeria and South Africa. I think it is time. We have companies ready to be listed in the stock exchange." According to Zemedeneh, there are a number of new institutions required for running a successful capital market. "We first need to set up a regulatory institution." He said that the stock exchange can be incorporated by the private sector but the regulation has to be done by the government. "We need to have stock brokerage firms and investment banks. Stock traders have to be trained and the local accounting and auditing firms have to build their capacity," Zemedeneh said. He also believes that financial media has to be established. "The financial media has to be established or the existing ones should extend their financial news coverage. Financial media is also the key component." According to Zemedeneh, there are 50 to 70 local companies which can be listed in the stock exchange. "All the banks and insurance companies, which are well regulated, can offer an IPO (Initial Public Offering) the day the Addis Ababa stock market is ready for launch," Zemedeneh

said. “The bottom line we are ready and it is timely,” he added. The veteran insurer and business community leader Eyessuswork Zafu is delighted with the government’s move to establish capital market. “Miracle is happening in this country. I can see the twinkling light at the end of the tunnel. Two years ago we were not able to discuss such matters openly,” he said. Eyessuswork said that the technical studies for the establishment of the Addis Ababa Stock Exchange were done by Ernst and Young twenty years ago. Some financial experts doubt if the planned Addis Ababa Stock Exchange can be realized by 2020. Abdelmenan Mohammed, a financial analyst, questions if the required financial and technological infrastructure can be built within two years. According to Zemedeneh, the World Bank is going to provide the Ethiopian government technical assistance on how to establish a stock market. “I hope they would be able to roll out these things quickly. Two years is a very short period of time. It could be at the end of 2020 or slide to 2021. All the infrastructure need to be prepared.” (*Bekele,2018*).

2.2.5 The Stock Market Development and Economic Growth

Over the last two decades, a large number of developing countries have witnessed a growing importance of the financial sector in the economic life accompanied by a rapid expansion in international capital flows, especially to those countries. More specifically, stock markets in emerging markets have seen considerable development since the early 1990s. For instance, market capitalization of emerging markets has more than doubled over the past decade, growing from less than \$2 trillion in 1995 to about \$5 trillion in 2005. Emerging markets have participated by more than 12 percent of the world market capitalization and they are steadily growing (Standard and Poor, 2005). This surge in the market capitalization of emerging countries' stock markets also reflects a sense by investors that those areas represent better investment opportunities compared to Western or industrialized nations. Add to that, recent years have witnessed a wave of liberalization of the financial sector in general and the stock market in particular. These trends raise two important questions for researchers and policymakers in developing countries. First, does the rapid development of stock markets in developing countries enhance their economic growth levels? Second, does liberalizing international portfolio flows enhance stock market development and promote long-run economic growth? The growing importance of stock markets in developing countries around the world over the last few decades has shifted the focus of researchers to explore the relationship between stock market development and economic growth (Deb and Mukherjee 2008).

There is a great debate among economists regarding the connection between financial development and economic growth. The idea that financial markets may be related with economic growth is not new. that financial markets affect economic development through enhancing physical capital accumulation. However, the relationship between financial markets and real output suffered from a lack of evidence until the 1970s when studies by Goldsmith (1969), Shaw (1973) and McKinnon (1973) found that development of financial markets was significantly correlated with the level of per capita income (Caporale et al, 2004). Although the debate about the linkage between financial markets and economic growth is not new, the evolution of stock markets especially in emerging economies and its potential impact on economic development represents a new scope of interest among researchers in recent years, and is yet relatively unexplored. (Rousseau and Sylla,2003) suggested that a well functioning securities market is one of the five important components of a good financial system that supports economic growth.

2.2.6 Does Ethiopia need to have financial market now?

The universal vision of governments is to become ‘strong’ through economic growth and modernization. This vision is realized when there is an increase in GNP, Per Capita income, national efficiency and employment. Contemporary literatures argue that stock markets provide services that boost economic growth and contribute to the achievement of these national goals. Some literatures also argue against importance of stock markets for economic growth. The popular researchers in the area, Levine and Zervos (1996) conducted an empirical study and found out that there is a strong positive correlation between stock market development and long-term economic growth. In countries like Ethiopia, bank loans are the most important source of capital, but are limited by the amount of deposits banks are able to mobilize. As a result, banks tend to be very conservative in their lending policies, thereby penalizing younger or emerging companies whose business risk is higher than those faced by established firms, and yet contribute to the dynamism and future growth potential of the economy through innovations. Thus, the role of the private sector is limited due to the banks unwillingness in granting loans to risky investments on long term basis. Since banks in emerging economies are also mostly owned and run by governments, they extend loans to priority sectors in response to government directives without due regard to quality, and often at interest rates below the bank’s cost of funds. This leads to inefficient resource allocation and widespread loan delinquencies. The prevalence of

these problems reduces the level of private investments, productivity of capital and the volume of savings (Asrat, 2003).

Excessive dependence on bank loan limits the growth of private investment which is considered as —the engine of economic growth. But if securities markets are established, they promote economic efficiency by channelling money from those who do not have an immediate productive use for it to those who do. A well-functioning financial market, coupled with a developed financial sector, is the main asset for every national economy since it promotes economic growth and supports the eradication of poverty (Elias, 1995). Securities markets also 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 (Asrat, 2003). Many scholars and researchers indicated that if countries establish a well-functioning securities market, it will provide substantial benefits for economic developments. More specifically, capital market and financial sector development promotes growth in different ways as identified by (Asrat, 2003; Applegath, 2004; Ruecker, 2011; Elias, 1995; Yishak, 2000; Kibuthu, 2005; Dahou, Omar and Pfister, 2009).

2.3 OPPORTUNITIES OF STOCK MARKETS ESTABLISHMENT

Stock exchange will encourage investments by enabling unused money and savings to become productive by bringing the borrowers and lenders of money together at a low cost. Specifically, the stock market will provide easy access to long term financing and allow the Ethiopian government and industry to raise long-term capital for financing new projects, and expanding and modernizing industrial or commercial companies. The Ethiopian stock market will furthermore attract investors, especially from East Africa, who wish to extend their shares by investing them in the new stock exchange (the journal of international management,2008).

2.3.1 Foreign Direct Investment

Attracting Foreign Direct Investment is an advantage to be gained by the upcoming Ethiopian Stock Exchange. The government of Ethiopia could use the capital markets to increase Foreign Direct Investment by allowing foreign strategic investors to acquire major shareholding through take-over in the stock market. The establishment of a stock exchange market in Ethiopia will generate an interest in the minds of foreign investors. The assumption is that the new market will

attract the Foreign Direct Investments due to the favourable Ethiopian environment which is justified by the macroeconomic stability. In addition, the new stock market will promote a good functioning of financial intermediaries to complement existing banks in terms of investments.

2.3.2 Market Monitoring

Stock exchange may play the role of market monitor to ensure that the said market is working efficiently, fairly and transparently. This will be done by setting up requirements related 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 and keep its malpractice in check thus improving corporate governance.

2.3.3 Source of Capital

The stock market will also provide capital to entrepreneurs. The stock market will enable government and industries to raise long-term capital for financing new projects, and expanding and modernizing industrial or commercial firms. It is in this regard that the Ethiopian stock market is expected to become a financing source for entrepreneurs who wish to run their projects in the country. Also, the creation of a stock market in Ethiopia will attract investors, especially from East Africa, who wish to extend their shares by investing them in the new stock exchange as Ethiopia is largely opening its doors to the East African Community.

2.3.4 Promotes efficient 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. (Tessema, 2003).

2.3.5 Promotes private sector Development

Public investments vastly exceed private investments in developing economies amongst which the Government of Ethiopia is one of the front liners in public investment and the last in terms of private investment (Yishak, 2000). Financial markets provide for access to and easy movement of financial resources which fundamentally influences the prospects for private sector growth in

developing country economies. Existence of financial markets enhances the extent that existing firms can borrow and grow, the ability of emerging firms to act entrepreneurially, their willingness to invest in assets, and the ability to allocate their assets freely. All these enhancements ultimately lead to economic growth. For instance, India and China are adding hundreds of companies in their stock exchange annually. The immediate benefit of the flourishing capital market activity in Asia is reflected in the sizeable increase in the momentum of private sector development (Applegarth, 2004).

2.3.6 Liquidity function

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.

2.4 CHALLENGES OF STOCK MARKETS ESTABLISHMENT

Stock exchanges facilitate trade in the stocks of companies by connecting people who seek money with those who can provide it. The major role of the stock market as a center of trading in securities is the raising of funds for investment in long term assets. People in Ethiopia have excess liquid cash at their disposal due to few investment opportunities available. A stock exchange market is one of the investment avenues yet to be developed in the country. The creation of a vibrant stock market has been accepted as a necessary concomitant to the development agenda of the country. Though the stock exchange market is necessary to improve the Ethiopia economy, its implementation may face many challenges such as:

2.4.1 Low Domestic Saving

The low domestic savings rate is probably due to poor saving culture ,weak saving capacity and low income (real GDP per capita is around US\$ 767.56) used rather for consumption than for saving and investing in stocks.

2.4.2 Macroeconomic instability

A stable macroeconomic environment is crucial for the development of the stock market. Macroeconomic volatility worsens the problem of informational asymmetries and becomes a source of vulnerability to the financial system. Low and predictable rates of inflation are more likely to contribute to stock market development and economic growth. Both domestic and foreign investors will be unwilling to invest in the stock market where there are expectations of high inflation. (Yartey and Adjasi, 2007) As per Garcia and Liu (1999), sound macroeconomic environments and sufficiently high income levels GDP per capita, domestic savings, and domestic investments are important determinants of stock market development

2.4.3 Absence of Financial Intermediaries:

Not only lack of financial intermediaries is an obstacle but also lack of merchant banks, financial advisory services and investment banks which are vital to the successful functioning of stock exchange markets. An investment bank is an institution that acts as an advisor to institutions which may wish to raise money from capital markets by way of shares or bonds. At the present time there are no strong investment banks in Ethiopia and therefore normal merchant banking services such as underwriting of equities and bonds, asset management and corporate advisory services do not exist. These need to be created in order to facilitate the upcoming Ethiopia Stock Exchange (the journal of international management, 2008).

2.4.4 Lack of Adequate Accounting and Auditing Systems:

The existence of a reliable financial accounting system is an important factor in the development of stock exchanges. The authorities are conscientious of the necessity to address deficiencies in accounting and auditing system. The most pressing issues that need to be addressed include setting appropriate accounting standards for different categories of companies operating in Ethiopia. One of the major requirements for any company wishing to list is that it will be required to provide a full disclosure of its financial and operating activities. Ethiopia companies should be encouraged to adopt international accounting standards and to agree to report along the

lines of international best practices if they wish to be listed on the stock exchange(the journal of international management,2008).

2.4.5 Family Owned Companies:

The structure of companies that are family owned is also an obstacle to the creation of a stock market in Ethiopia. Ethiopia has a large number of businesses that are family owned and which are likely to have enough resources to issue shares but whose managers may fear losing control by opening up their businesses to public ownership. Generally, the main factors limiting the supply of equities include the unwillingness of small, family-owned businesses to reduce ownership and the perception by many companies that the risks associated with additional disclosure are not adequately compensated by additional returns. Since banks do not require public disclosure like the stock market does, many firms would prefer to remain unlisted and source their capital from banks. As a result, these firms cannot be for any use to the stock market. The government should encourage privately owned companies to go public (the journal of international management, 2008).

2.4.6 Low Level of Public Awareness

Most of the Ethiopian public is not familiar with negotiable instruments. As the project of launching the stock exchange in Ethiopia is under study, many people do not know enough about the stock market. Generally, there is lack of information on the roles, functions and operations of the stock exchange. The lack of public awareness with stock markets is the major barrier to corporate participation in many African stock exchanges.

2.5. Empirical Evidence

Teklehaimanot (2014), after studying the potential beddings and constraints in the establishment of stock exchange markets in Ethiopia, had 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. He had also mentioned government's reluctance; the underdeveloped infrastructure, like the legal and regulatory

frameworks, media, ICT; immature financial sector, uninformed and small base investors and shortage of professionals were constraints to establish stock market.

To establish an efficiently operating stock exchange market in Ethiopia, the factors that need to get the necessary attention are government commitment, policies and laws; availability of market Participants; the legal and regulatory framework that protects the rights and interests of interests of shareholders; macroeconomic conditions such as GDP growth, FDI, inflation rate, devaluation of currency, the level of domestic savings; awareness and trust of the public towards stock markets; financial literacy, the development of accounting and auditing standards and infrastructural development should get due regard (Alemneh 2015).

Charles Amo Yarety et al (2007), should that sound macroeconomic environment, well developed banking sector, transparent and accountable institutions, and shareholder protection are some of the challenges stock markets in the Sub Saharan African countries. Recommendations like the need to increase automation, demutualization of exchanges, regional integration of exchanges, promotion of institutional investors, regulatory and supervisory improvements, involvement of foreigner investors, and educational programs were forwarded.

As per World Bank Report (WB, 2014) market Capitalization in the world shows substantial Movements in share market in all levels of the economy that include United State reached to \$18.7 trillion, Japan \$3.7 trillion, China \$3.7 trillion, United Kingdom \$3.02, Canada \$2.02, France \$1.8 trillion, German \$1.5 trillion, in India \$1.3 trillion. Whereas in Africa, many countries has a market capitalization of \$844.9 billion (ANNEX III) which include East African Countries like Kenya that has established stock market, stock exchange and capital market authority. Kenya has a market capitalization of \$14.8 billion. Similarly Uganda has established Stock Market, Uganda Security Exchange (USE) and Capital Market Authority (CMA) and accumulated a market capitalization amount of \$7.3 billion and further Tanzania has same stock market, Stock exchange and capital market authority and has a market capitalization amount of \$1.8 billion. But there is no securities market, other than government treasury bills and government bonds in the financial market in Ethiopia; rather there is a Commodity Exchange, Ethiopian Commodity Exchange (ECX) established in 2008 which is the first in Africa.

The study (Murinde V. 2006) indicates that the development of stock markets in Africa tends to show an evolutionary process with various stages characterized by type of regulatory system, trading method and the scope for market participation. In general, most of the main markets in Africa started with no formally laid- down rules and regulations; trading activities were based on interpersonal relationship. Formal markets were then established, driven either by the desire of traders to diversify sources of investment funds or by the need of governments to establish a formal market to float their debt stocks. Formalization and revitalization process saw changes in the regulatory framework, trading system and composition of market investors.

2.6 Summary and literature gap

Stock Exchange or Stock Market is an organized market for the trading of stocks, bonds and other securities. Some of the challenges of establishing stock market in Ethiopia are low domestic saving, tax regime, absence of financial intermediaries, lack of adequate accounting and auditing system, family owned companies, lack of information and infrastructure. There also opportunities like foreign direct investment, market monitoring, source of capital, commercial banks and education this are challenges and opportunities included in the literature review. so This research will focuses in identifying the challenges and opportunities of establishing stock market in Ethiopia. From the theoretical and empirical studies point view, there are contradicting conclusions existed between empirical studies about the challenges and opportunities of establishing stock market in Ethiopia. In line with this theories and empirical studies, the researcher observed that, establishing stock market has an opportunities and challenges. Therefore, identifying the challenges and opportunities of establishing stock market is important for all countries that do not have stock market, especially for developing African countries like Ethiopia.

There are some studies about the condition of stock market in Ethiopia. So far, as to the knowledge of the researcher, there are few studies directly linked with the opportunities and challenges. Even the existing studies focus on the same variable over and over again. But this study will examine by adding variables like education and market monitoring as opportunities and low domestic, family owned companies as a challenge. To this end, the researcher will fill these gaps.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter deals with the methodology that was used in order to conduct the study. It consists of the research design, population of the study, types of data to be collected, methods of data collection and data analysis methods.

3.2 Research Design and approach

To realize the objectives and to seek answer questions. The study used descriptive and cross sectional research design to obtain the intended information.

As per Creswell (2003) there are three approaches that were used in conducting a given research. These are quantitative, qualitative and mixed research approach. Quantitative research approach focuses primarily on the construction of quantitative data, and quantitative data is a systematic record that consists of numbers constructed by researcher utilizing the process of measurement and imposing structure (Kent, 2007). The quantitative research approach employ measurement that can be quantifiable while qualitative cannot be measured (Bryman and Bell, 2007). In mixed research approach inquirers draw liberally from both qualitative and quantitative assumptions (Creswell, 2009).

In this paper the researcher used mixed research approach; the rationale for combining both quantitative and qualitative data is to better understand a research problem by combining both numeric values from quantitative research and the detail of qualitative research and to neutralize limitations of applying any of a single approach. According to Creswell (2009) the mixed research approach uses separate quantitative and qualitative methods as a means to offset the weaknesses inherent within one method with the strengths of the other method.

3.3 population of the study and sampling technique

The target population of the study was national bank of Ethiopia . This helped the researcher to access the required data easily in an organized manner. The research focused on managers and employees of national bank of Ethiopia. The study used purposive sampling technique. This is because the researcher need to collect research sample respondents by convincing the research purpose, especially manager respondent and who have knowledge regarding the stock market issues and purposely selects sample respondents of, national bank of Ethiopia.

3.4Data type, source and methods of collection

3.4.1 Data type and source

For the study, both primary and secondary data source were used. Primary data collected from the employees and managers of national bank of Ethiopia. Also refered secondary data at large. These sources mainly included publications of scholars from academia, financial institutions, Addis Ababa Chamber of Commerce and Sectorial Association (AACCSA), articles posted in different websites, related arguments of scholars, forums reports, different countries experience books, reports, websites , Manuals etc.

3.4.2 Method of data collection

The primary data were collected using questionnaire. And the secondary data were collected from various secondary data sources. These sources include company profile, journal articles, different published books, previous research papers, reports, e-Books and other internet websites.

3.5Data analysis method

The collected data using structured questioner and others sources of secondary data were analyzed using mixed approach. The data that obtained through questionnaires were analyzed using percentage, frequency, using a tables and graphs. On the other hand secondary data also analyzed mixing with primary data to give further justification.

CHAPTER FOUR

4. Introduction

4.0 DATA ANALYSIS AND DISCUSSION OF RESULTS

This part of the research deals with the analysis and discussion of the data gathered from the questionnaire survey. The analysis and discussion were done with the understanding of research objectives.

4.1 respondent rates

The objective of this study was to justify the opportunities and challenges of establishing stock market in Ethiopia .The results of the study are presented by triangulating the analysis of the response on survey questionnaire. The survey questionnaire was administered in national bank of Ethiopia office employees. From the 10 questionnaires distributed all of them were collected filled and replied.

4.2 Demographic Characteristics of Respondents

The respondents demographic features include four key features which were: The respondent's gender, age, educational level and work experience.

Genders of the respondents were all males. The population was largely dominated by respondents of 31-40years age band (80%). followed by age group of 21-30 (10%). The rest of the respondents were 41-50 year age category was (10%). These results indicate that majority of respondents age fall under the experienced. Having the experienced group on is process is good because they can exert all their knowledge and experience on the establishment of stock market. Out of the total 10 respondents 7 respondents have master's degree and 3 respondents Bachelor Degree. Therefore, the result indicated the employees were qualified and has appropriate educational qualification to carry out the process. From the respondents, 5 of them have served 11 -15 years. The majority of the respondents have worked in banking between 6-10 years.

Therefore from the survey result we can learn that majority employees have enough years of services in the bank which is an advantage to get reliable information on the area

4.3 Responses to the Questionnaire

In this portion the researcher tried to discuss about the questions related to challenges and opportunities of establishing stock market and also about the response of national bank of Ethiopia employees regardless of the question raised.

4.3.1 Challenges of establishing stock market

Table 4.3.1.1

Question	SD	D	N	A	SA
	%	%	%	%	%
Low domestic saving rate has impact on stock market.	-	10	20	30	40
Where there is low stability of macroeconomic, investors will be unwilling to invest in the stock market.	-	10	-	40	50
Absence of Merchant banks ,financial advisors and investment banks has effect on the successful functioning of stock market	10	10	10	40	30
The existence of a reliable financial accounting system is an important factor in the development of stock market.	-	-	-	30	70
The structures of companies that are family owned are an obstacle to the creation of a stock market.	-	20	10	40	30
The lack of public awareness with stock market can be barrier to the implementation of stock market.		10	20	39.3	30.7

The first question says low domestic saving can be a major challenge for establishment of stock market and 10% of the respondent disagree,20% stayed neutral ,30% agreed and 50% strongly agreed. This leads as to majority of the respondents agree that low domestic saving rate has impact on stock market.

When we come to the second question, 10% of the respondent disagree, 40% agreed and 50% strongly agreed on macroeconomic instability can be a constraint for establishing stock market. This means 90% of the respondents agreed on change in the economy within short period of time can be a challenge for the development of stock market.

As we can see from the table above 10% of the respondent strongly disagreed, 10% disagreed, 10% stayed neutral, 40% agreed, and 30% strongly agreed on the statement that says absence of financial intermediary can be a challenge for establishing a stock market. generally 70% of the respondents agreed on the statement which means absence of merchant banks financial advisors and investment banks has effect on the successful functioning of stock market.

All of the respondents agreed on the absence of adequate accounting and auditing system can be challenge of establishing stock market. By 30% agreeing and 70% strongly agreeing not having strong, sufficient and reliable financing accounting system can hold back the establishment of stock market in our country.

The fifth question tried to assess the respondents stand point about company structure being a challenge for stock market establishment. 20% of the respondents disagreed, 10% stayed neutral, 40% agreed 30% strongly agreed which brings the researcher to conclude by saying company structure is a challenge for the establishment of stock market. For example when a company is family owned they don't sell the share of the company for public or they don't open their door for investors due to the fear of losing ownership control. Ethiopia has a large number of businesses that are family owned and which are likely to have enough resources to issue shares but whose managers may fear losing control by opening up their businesses to public ownership.

10% of the respondents disagreed, 20% undecided 39.3% agreed 30.7% strongly agreed on low level of public awareness being a challenge. So 70% of the respondent said low level of public awareness is a challenge for establishing stock market in Ethiopia. Generally, there is lack of information on the roles, functions and operations of the stock exchange this can be barrier to the implementation of stock market.

4.3.2 Opportunities of establishing stock market

Table 4.3.2.1

Question	SD	D	N	A	SA
	%	%	%	%	%
Establishing stock market in Ethiopia will generate an interest in the minds of foreign investors.	-	-	10	25.6	64.4
Stock market will play the role of market monitor to ensure that the said market is working efficiently, fairly and transparently	8.3	11.7	10	10	60
The stock market will provide capital to entrepreneurs	-	10	-	44.43	44.57
The stock market will enable government and industries to raise long-term capital for financing expanding and modernizing industrial or commercial firms.	-	20	10	50	20
Stock market creates competent and vibrant financial system	-	-	10	18.23	71.77
Stock market could break the oligopoly that would be enjoyed by the bank in the absence of stock market.	-	14.77	25.23	30	30
Existence of financial market enhances the extent that existing firms can borrow and grow.	-	10	10	30	50
Stock market enables security holders to easily convert their investment in security into cash.	-	-	13.75	45.8	40.25
Countries with liquid market experience faster rate of capital accumulation.	-	-	-	51.5	48.5

From total respondents 10% stayed neutral, 25.6% agreed, 64.4% strongly agreed on the first question from the table. 90% of the respondents agreed on establishing stock market will increase foreign investment of the country. Attracting Foreign Direct Investment is an advantage to be gained by the upcoming Ethiopian Stock Exchange.

Market monitoring is one advantage of establishing stock market. 8.3% of the respondents strongly disagreed, 11.7% disagreed, and 10% stayed neutral, 10% agreed, 60% strongly agreed. 70% of the respondents agreed on the stock market's ability to monitor the market.

When the stock market is established it can serve as source of capital. In this statement 10% of the respondents disagreed, 44.43% agreed, 44.57% strongly agreed. From total respondents 90% agreed on The stock market providing capital to entrepreneurs.

in addition to the above question respondents were asked if The stock market will enable government and industries to raise long-term capital for financing expanding and modernizing industrial or commercial firms. 20% disagreed 10% stayed neutral, 50% agreed, 20% strongly agreed. Which can be concluded by saying stock market can be one of the source of capital for the country.

As it can be seen from the table, 10% of the respondents stayed neutral, 18.23% agreed, 71.77% strongly agreed on promoting the financial system is opportunity of establishing stock market. Additional question was asked to the respondent regardless of promoting the financial system. Stock market could break the oligopoly that would be enjoyed by the bank in the absence of stock market. 14.77% disagreed 25.23% stayed neutral, 30% agreed, 30% strongly agreed. so promoting the financial system can be taken as the opportunity that can be gained from establishing stock market.

Existence of financial market enhances the extent that existing firms can borrow and grow. 10% of the respondents disagreed, 10% stayed neutral, 30% agreed, 50% strongly agreed on the question asked related to the growing of private companies through stock market.

Stock market enables security holders to easily convert their investment in security into cash. 13.75% stayed neutral 45.8% agreed, 40.25% strongly agreed on the above statement to strengthen the idea additional question were asked. the question was, Countries with liquid

market experience faster rate of capital accumulation. the 100% of the respondents agreed on the above statement. Liquidity function can be taken as the major opportunity of establishing stock market.

4.3.3 Fundamentals of establishing stock market

Table 4.3.3.1

Question	SD	D	N	A	SA
	%	%	%	%	%
Strong institutions and a well-functioning legal system are critical.	-	-	20	40	40
Use of state of the art technology is becoming a must to do efficient business and to operate stock market.	-	10	20	30	40
The government commitment towards establishment of stock market is essential.	-	-	13.78	19.55	66.67
Stock market reatest to the degree of stability, peace and internal security of a country and how well the government is functioning and is in control.	10	-	10	50	30
A stable macroeconomic environment is crucial for the development of the stock market.	-	-	-	50	50

As shown on the above table the prerequisites or the fundamentals of establishing stock market are well functioning legal system, technology infrastructure, government stand point towards stock market and macroeconomic condition are fundamental for establishment of stock market. As it can be observed from the table almost all the respondents agreed on the fundamentals of stock market establishment.

CHAPTER FIVE

5. Conclusion and Recommendation

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

5.1 conclusions

In spite of improved macroeconomic performance over the past decade, the economy of our country is still challenged by a high external debt burden, vulnerability in terms of trade shocks, and one of the lowest saving rates in Africa. The economy is relying heavily on foreign currency dominated aid inflows. The domestic financial sector still faces a poor environment with economic activity concentrated in few sectors and a weak credit culture. There are serious shortcomings in the accounting and auditing systems, the institutional and legal frameworks. The domestic financial system remains low, especially outside the banking sector, and access to credit remains limited apart from a network of savings and loans cooperatives.

The study tried to assess the challenges that can be faced in the establishment of stock market and the opportunities that can be gained from the establishment of stock market. The researcher distributed questioner on opportunities challenges and fundamentals of establishing stock market. Establishing stock market can be a big opportunity for the economy growth of our country. In many countries stock market serves as the backbone of the economy. If the stock market is going to be established any time sooner a lot can change in our country .foreign investors will consider investing in the country widely they will benefit us in terms of foreign currency, in growth of business and enhancing quality of the business area. It can help by being source of capital for government and private companies to expand and operate in projects which will help the privet companies to borrow and grow. It will enhance the quality of the financial system. Stock market also has high liquidity function. Where there is stock market investors can convert their investment into cash easily. In country level high liquidity in the market can foster faster capital accumulation rate.

When we come to the challenges, low domestic saving is one of the challenges. It can be caused by one of the two reasons which are poor saving culture and low per capita income. Macroeconomic instability is a major challenge on the establishment of stock market. Absence of merchant banks and investment banks is also a challenge on this process. Most of the enterprises in Ethiopia are family owned which have no interest in giving control to outside shareholders. This means shares of the family owned companies cannot be traded on the stock market the will have influence on the development of the stock market. law level of public awareness. Generally, there is lack of information on the roles, functions and operations of the stock exchange. Lack of adequate accounting and auditing system are challenges of establishing stock market in Ethiopia.

Ethiopia is among the last implementer countries of stock market this should be seen as an advantage because a lot can be taken from the experience of other countries.

5.2 Recommendation

- First and for most financial intermediaries, stock brokers, financial advisory services, investment banks and scholars on the area should be trained, licensed and certified before the launching of the Ethiopia Stock Exchange.
- It should not be fully the concern of the government. Private investors who have the potential and knowledge of stock market should participate.
- The government should not be law maker, law executioner, and owner of the stock market the owner of the stock market should be the public (private investor's broker's investment bankers) this way the stock market can be effectively established.
- The public should be educated about benefits associated with the stock market and encouraged to participate in individual and collective investment.
- The role the media plays in promoting the stock exchange market is highly recognized. Therefore, the country's media should do more in giving more coverage for business and financial matters.
- The government should encourage family owned companies to go public.
- Law and regulation of the financial system focuses on the controlling part. But is should focus on the betterment and transparency of the financial sector.
- The institutional capacity of the regulatory body (NBE) should be sufficient and strong.

- Before establishing the stock market we have to work on the bond market we have right now so that it can be a benchmark for the establishment of the stock market.
- Educational system of the country should be advanced. Students that graduate from the business school should have enough knowledge about the financial market and system.
- The complicated bureaucracy of the government should be advanced in order to establish stock market in the easy way.
- the conflict between the regional government and central government is reducing the numbers of investors in our country. Because it's becoming difficult for investors to be governed by two types of law. if the number of investors is reducing its going to affect the upcoming stock market. its serious issue should be solved by the central government.

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4. Master's degree

5. PHD

(4) Working Experience: Less than 5 years 6 to 10 years 11 to 15 years

16 to 20 years Over 20 years

Part2: Please put only one tick mark (✓) for each line in the labeled column where (1-Strongly disagree; 2Disagree; 3- Undecided/Neutral; 4 Agree; 5-Strongly agree.)

NO		SD	D	N	A	SA
	Challenges of establishing stock market					
	Low domestic saving					
1	Low domestic saving rate has impact on stock market.					
	Macroeconomic instability					
2	Where there is low stability of macroeconomic, investors will be unwilling to invest in the stock market .					
	Absence of financial intermediaries					
3	Absence of Merchant banks ,financial advisors and investment banks has effect on the successful functioning of stock market					
	Lack of accounting and auditing system					
4	The existence of a reliable financial accounting system is an important factor in the development of stock market.					
	Family owned companies					
5	The structure of companies that are family owned are an obstacle to the creation of a stock market.					
	Low level of public awareness					
6	The lack of public awareness with stock market can be barrier to the implementation of stock market.					
	Opportunities of establishing stock market					
	Foreign direct investment					
7	Establishing stock market in Ethiopia will generate an interest in the minds of foreign investors.					

	Market monitoring					
8	Stock market will play the role of market monitor to ensure that the said market is working efficiently, fairly and transparently					
	Source of capital					
9	The stock market will provide capital to entrepreneurs					
10	The stock market will enable government and industries to raise long-term capital for financing expanding and modernizing industrial or commercial firms.					
	promotes efficient financial system					
11	Stock market creates competent and vibrant financial system					
12	Stock market break the oligopoly that would be enjoyed by the bank in the absence of stock market.					
	Promotes privet sector development					
13	Existence of financial market enhances the extent that existing firms can borrow and grow.					
	Liquidity function					
14	Stock market enables security holders to easily convert their investment in security into cash.					
15	Countries with liquid market experience faster rate of capital accumulation.					
	Fundamentals of establishing stock market					
	Adequate legal and regulatory institution					
16	Strong institutions and a well-functioning legal system are critical					
	Technology system					
17	Use of state of the art technology is becoming a must to do efficient business and to operate stock market					
	Government condition					
18	The government commitment towards establishment of stock market is essential					
19	Stock market realest to the degree of stability, peace and internal					

	security of a country and how well the government is functioning and is in control.					
	Macroeconomic conditions					
20	A stable macroeconomic environment is crucial for the development of the stock market.					