CHALLENGES AND PROSPECTS OF ESTABLISHING STOCK MARKET IN ETHIOPIA

ST.MARY'S UNIVERSITY
SCHOOL OF POST GRADUATE STUDIES

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DECLARATION

I, Esayas Ephrem, the undersigned person declare that the thesis entitled “CHALLENGES AND PROSPECTS of Establishing Stock market in Ethiopia” is my original and submitted for the award of Master of Art Degree in Business Administration, St. Mary University at Addis Ababa and it hasn’t been presented for the award of any other degree. Under this study, fellowship of other similar titles of any other university or institution of all sources of material used for the study has been appropriately acknowledged and notice.

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CERTIFICATION

This is to certify that Mr. Esayas Ephrem has properly completed his research work entitled "CHALLENGES AND PROSPECTS of Establishing Stock market in Ethiopia" with our guidance through the time. In my recommendation, his task is appropriate to be submitted as a partial fulfillment requirement for the award of Degree in Master of Business Administration.

Research Advisor

Abraham G/Giorgis (Assistant Professor)

31/12/2020

Signature and Date

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ACRONYMS AND ABBREVATIONS

AABE	Accounting and Auditing Board of Ethiopia
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICT	Information and commendation technology
IMF	International Monetary Fund
IPO	Initial Public Offering
MOFEC	Ministry of Finance and Economic Commission
MOFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
PFEA	Public Finance Enterprises Agency
PPESA	Private and Public service Agency
Sd	Standard Deviation
WB	The World Bank

ABSTRACT

The study aimed to examine the challenges and prospects of establishing stock market in Ethiopia. The study used mixed research approach and data collected from both primary and secondary sources. Primary data collected through questionnaire and interview instrument and Secondary data collected from world development indicator database and Ministry of Finance. This research employed a descriptive research design. To analyze quantitative data descriptive statistics such as percentages, frequencies, mean and standard deviation were employed. Qualitative data were prepared in narrative form and quantitative and qualitative data integrated to triangulate the findings. The key findings of the study revealed that unstructured transfer of capital, smaller saving across the country, Exchange rate fluctuation, unstructured business activity and unstructured capital allocation and among the major macroeconomic challenges of establishing stock market in Ethiopia. On the other hand, unaffordability of intellectual property rights, insufficiently strong institutions to protect property rights, monopolized financial services or products and lack of financial infrastructure are the major institutional challenges. In addition, the study indicated that establishing the stock market has a great contribution for growth by making capital resource flow easy from unproductive to productive. The launching needs a number of prerequisites included established public institutional infrastructures and lessens challenges to mobilize savings and to liberalize the economy. The study suggests that the government to create fast and effective financial operations by the stock market that require firms to comply with standards set by the financial accounting standards and advanced IFRS without affecting the unified global accounting system. Therefore, the responsible bodies for the initiation and establishment of stock market in Ethiopia recommended to work intensively to fulfill these preconditions.

Key Words: Institutions, Macroeconomic, Stock Market, Ethiopia

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

For an economy to grow, money needs to shift from less to more productive activities. The stock market is one of the most important sources for companies to raise money. Stock exchange encourages investments by enabling unused money and savings to become productive by bringing the borrowers and lenders of money together at a low cost (Etienne, 2008). The origin of stock markets is at the beginning of the Industrial Revolution that began in Europe. The early associations for trading were either individual owners or partnerships. At the moment, there are a number of different stock exchanges in operation in the world through which securities can be bought or sold (Guiso & Jappelli, 2005).

Initially, trading in shares began informally on the streets of London. As the volume of shares increased with more companies floating shares (giving people opportunities to buy their shares), the need for an organized market place for the exchange of these shares escalated. As a result, these traders decided to meet at the coffeehouse, which they used as the marketplace (Valdez, 2003). Financial intermediaries (brokers, fund managers, investment advisors, investment banks, etc.) and other instruments like bonds then followed suit as an evitable consequence.

However, due to the relative underdeveloped nature of equity markets in Africa, the region has attracted a disproportionately small share of recent international private capital flows to developing countries. Most African stock markets are characterized by their small size, low levels of liquidity and fragility and often unstable political and economic environments. Therefore, returns on these markets tend to be somewhat volatile. Africa's smaller markets tend to float between 10 and 20 percent of GDP. The exchanges are small relative to their own economy. Even the older markets in Zimbabwe, Kenya, and Nigeria are typically less than one-third the size of the economy. African markets also remain highly illiquid as mentioned above, meaning that shares are rarely traded. In theory these small trading levels are reflective of local market conditions and the size of the local players. In practice, however, the scarcity of actual trading effectively prevents many institutional investors in developed countries from participating in African market (Etienne, 2008).

In the Ethiopian context, the historical development of stock market traces its roots back to the Imperial period. During this time, Ethiopia managed to develop the institutions of stock market, such as the “Addis Ababa Share Dealing Group”. However, after the demise of the Imperial regime, the stock market was abolished due to the introduction of command economy. Since then, except Commodities Market Exchange for agricultural products under the current regime, no stock market has been legally designed to trade stocks except for the fragmented and unregulated stock trading in a dealer market. Presently, the desirability of having stock market is, hotly debated. It is therefore important to study the opportunities and challenges of stock market establishment in Ethiopia.

1.2 Statement of the Problem

The idea that financial development promotes economic growth dates back to the works of various researchers such as Eichengreen and Bordo (2002), Rajan and Zingales (2003) and Reid (2010). Extensive empirical research has supported the hypothesis that well-functioning financial systems augment economic growth (e.g., Tsuru (2000), Welde Senbet (2008) and Ndikumana (2001). Stock markets lie at the heart of financial systems. The primary function of stock markets is to serve as a mechanism for transforming savings into financing for the real sector. Efficient stock markets make corporations compete on an equal basis for funds and help make investment more efficient (Rajan and Zingales, 2003).

Researches pertinent to the topic have been conducted and put forth their recommendations. According to Petros (2009), there is high share illiquidity in Ethiopia. If this illiquidity continuous, it frustrates existing shareholders and discourage the market for potential shareholders. Therefore, investors are likely not to be willing to hold long-term securities if they fear that the securities they intend to buy cannot be converted in to cash without much trouble and wait. The study by Jetu (2014) pointed out as Ethiopia lacks the institutional and legal frameworks that regulate the market for stock exchange. In view of the potential advantage and the concerns of stock market development, it was argued by previous researches Jetu (2014) and the argument continues as devising legal infrastructure that accommodates stock market in Ethiopia is a timely issue to catch up with the global trend.

Another study by Kiflework (2018) identified environmental challenges of the country such as, lack of regulatory law, technological development, lack of good governance, lack of corporate laws have an effect on the establishment of stock market in Ethiopia. Getachew (2016) also indicated as an authorized institution and legal infrastructure is not in place yet to operate stock market in Ethiopia. According to Mulunesh (2019), despite economic growth of the country, the agenda of poverty reduction, privatization effort and unexploited resources are prospects of the country to establish the stock market. Their findings have been no longer existed such as the reluctance of the government, inadequate laws and regulations, insufficient technology, already implemented IFRS. In addition, these studies ignored the possible challenges and benefits of establishing effective stock market even if the government and other stockholders have already decided to establish stock market in the country.

In general, the concern is involved in possible challenges and the benefits of establishing effective stock exchange in Ethiopia. The exceeding listed researchers have also forgotten the prospects of implementation of risk mitigation methods in establishing effective stock market in Ethiopia. Since stock market is the way of making the market open, therefore, it is important to study the establishment of stock exchange in Ethiopia to uncover the preconditions needed. The conditions in place and those that are not will be identified (Yartey, 2006).Thus, this study comprehensively attempted to analyze the preconditions needed to establish effective stock market in Ethiopia as well as the challenges and opportunities for stock market development. Furthermore, the study investigated the importance of the development of stock market for the benefit of society, customers and employees as well as the development of a nation by using mixed research approach.

1.3 Research Questions

This research attempted to address the following research questions:

- What are the possible challenges of establishing effective stock market in Ethiopia?
- What are the benefits of establishing effective stock exchange in Ethiopia?
- What are the prospects of implementation of risk mitigation methods in establishing effective stock market in Ethiopia?

1.4. General Objective

The general objective of the study was to examine the challenges and prospects of establishing stock market in Ethiopia.

Specific Objectives

The Specific objectives of this study are

- To assess the challenges of establishing effective stock market in Ethiopia
- To assess the benefits of establishing effective stock exchange in Ethiopia
- To assess the prospects of implementation of risk mitigation methods in establishing effective stock market in Ethiopia

1.5. Significance of the Study

This study will provide a clue to resolve the discussions over establishing of stock market in Ethiopia. In addition, this study attempts to provide a solution for the debates market efficiency, exciting as they are, would be important if the stock market establish in Ethiopian economic activity. Moreover, as application of various financial, market and investment theories were discussed here, investors, managers and other stockholders will obtain integrated information about stock market. Further, this study distinguished how to establish good quality institutions such as law and order, democratic accountability, bureaucratic quality as important determinants of stock market development. Thus, this study helps to reduce macroeconomic and institutional challenges and risks to enhance the viability of external finance. Besides, this study gives clues for high level of stock market development and provides evidences to enhance financial development by promoting a strong, independent and effective legal system, where the judiciary can play an important role in enforcing the constitutional protection of individual and property rights and by arbitrating.

On other hand, the findings of the study provide accurate information to the policy makers, so that they can use it as input in their policy development. The study also provides information to the government to establish stock market. The study will also show how the stock market influence Ethiopia's economy if it is established. It serves as a reference for the upcoming new researchers on related topics in doing their research. As an exploratory research, the findings of the study will initiate other researchers to perform an in-depth study on the area. The study will also help the responsible body that works on the establishment of stock exchange in Ethiopia on the preconditions.

1.6. Scope and Limitations of the Study

1.6.1. Scope of the Study

This study creates value for society, employees and customers and helps investors and stockholders and managers to understand, anticipate, and respond to important shifts in alternative financial market and commercial requirements. For that reason, this study is delimitated in three main categories such as geographical, conceptual and methodological scope.

1.6.1.1. Geographical Scope

The study was conducted in Addis Ababa with in academician, financial practitioners, and modern market needs. The study was conducted from February to May2020.

1.6.1.2. Conceptual Scope

The study is restricted daily on the financial system and stock market development and long-term investment and financial needs. This study identified the benefits, challenges and prospects on establishing of stock market in developing country. This study helps to establish organized and regulated financial markets where securities (bonds, notes, shares) are bought and sold at prices governed by the forces of demand and supply. It also helps to give clues for establishing primary markets where corporations, governments, municipalities, and other incorporated bodies can raise capital by channelling savings of the investors into productive ventures; and secondary markets where investors can sell their securities to other investors for cash. It also helps to reduce the risk of investment and maintaining liquidity in the system. It focuses on electronics stock market that can be reflected as a form of remote or virtual marketing, which is essentially the delivery of financial services via telecommunication devices.

1.6.1.3. Methodological Scope

This study is more focused on mixed research approach with descriptive research design. It uses a systematic research method for collecting data from a representative sample of individuals using two instruments; first, using a well-designed five point likert scale questionnaire that includes closed ended and/or open-ended questions and the second one is in depth interview. With regard to data sources, the study uses various publications, books, and journals articles that are related to the subject matter.

1.6.2. Limitation of the Study

This study is not fully and widely covered all financial institutions as the role of commercial banks in establishing stock market in Ethiopia to come up with more reliable result and valid conclusion. The study is limited to include only respondents from Addis Ababa and some targeted research participants in Addis Ababa. In addition, this study ignored to analysis monetary and fiscal policies including budget deficient, expenditures of the federal government budget, reserve requirements, debt to banks, and liquidation of assets and the reform of the insurance system in Ethiopia. Moreover, this study did not try to examine other factors like political, it did not study future stock exchange's marketing strategy, trading networking, technology advancement and staff trainings that have direct relationship with the activity of resource mobilizations.

1.7. Operational Definitions and Key Terms

1.7.1. Key Terms

- **Corporate governance:** Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled.
- **Companies:** Art. 304 (1) of the commercial code of Ethiopia defined a share company as a share a company whose capital is fixed in advance and divided into shares and whose liabilities are met only by the assets of the company. In this paper share companies are named as companies.
- **Capital market** is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place on the money market (Ruecker, 2011)**.**

1.7.2. Operational Definitions

- **Stock exchanges:** A stock exchange is an entity that provides services for stock brokers and traders to trade stocks, bonds, and other securities (Ruecker, 2011).
- **Macroeconomic factors** include economic development level, inflation and capital flows (Adarov and Tchaidze, 2011).

- **Institutional factors** include variables that reflect the state of regulatory and supervisory institutions, such as legal frameworks and the protection of property rights (Guiso & Jappelli, 2005).

1.8. Organization of the Study

The study is organized in to five chapters. The first chapter is about introduction part .It consists of Background of the study, statement of the problem, research questions, objective of the study, significance of the study, scope of the study, definition of terms and organization of the study . The Second chapter covers Extensive literature survey it consists of both theoretical and empirical literature review. The third chapter focus on the methodology part, the fourth chapter has data presentation, analysis and interpretation and the fifth chapter summarizes the findings, conclusion and recommendation of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURES

This part of the study deals with review of related literatures. Accordingly, utmost effort will be made to review about significant conceptual issues and definitions associated with the main theme of the study. Thus, it covers the main parts that are both the theoretical review, empirical reviews.

2.1 Theoretical Literature Review

A **stock market** is an public organization may be loose network of economic transactions, not a physical facility or discrete entity) for the trading of company stock (shares) and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately. McKinnon, R. I. (1973)

2.1.1 Stock and Stock Market Related Theories

2.1.1.1 Expectations Theory

This theory is based on the concept that people formulate expectations based on all the information that is available in the market. It holds that the best estimation for future interest rates is the current spot rate and that changes in interest rates are primarily due to unexpected information or changes in economic factors. It can be integrated with the loanable funds theory in order to better consider the available information within the economy. The limiting factors of rational expectation theory are mostly related to the difficulty in gathering information and understanding how the public uses its information to form its expectations (Caplan, 2000). This theory is selected in this study for the reason that if expectation of the people is that interest will rise many people will avoid borrowing this in return will affect bank performance due to reduced earning on interest rate, but people expect interest rate to drop people would be willing to borrow and this will improve banks performance due to increase in interest rate earning.

2.1.1.2 Portfolio Theory

The development of Portfolio Theory, based on the work of Markowitz (1959) revolutionised finance theory and was the first step in the development of pricing models. The basic idea behind Portfolio Theory is that the risk of an investment should be considered on the basis of its contribution to the overall risk of a portfolio of investments and not according to deviations in the individual investment's expected return (Guiso & Jappelli, 2005). Therefore, this theory is preferred to this study for the rationale behind its concept on the efficient diversification of investment portfolios will result in a reduction of the level of risk associated with a given expected return. Portfolio Theory is based on a number of assumptions with regard to the way capital markets behave and investors function in conditions of uncertainty. Furthermore, Portfolio Theory has significant implications for investment decision-making and selection.

2.1.1.3 The Efficient Markets Hypothesis (EMH)

The development of EMH, based primarily on the work and findings of Fama (1970), had a major impact on how the workings of the capital market were viewed. The basic suggestion of the EMH is that, since the capital market is efficient, the changes in the prices of securities are uncorrelated and the security prices fully reflect the price implications of all publicly available information in an unbiased manner (Yartey, 2005). As a consequence, this theory is selected in the study EMH asserts that stocks are always in equilibrium and it is impossible for an investor to “beat the market” and consistently earn a higher rate of return than is justified by the stock’s risk. Since the EMH is central to the understanding of stock markets, it is worthwhile describing its essential features, its underlying assumptions and some of the evidence in its favor.

2.1.1.4 Capital Asset Pricing Model (CAPM) Theory

The central principle of the CAPM is that some of the risk underlying an investment can be diversified away by holding a portfolio of investments. According to Caplan (2000), a further development was the extension of Markowitz's (1959) work by Sharpe (1964), resulting in the now well-known Capital Asset Pricing Model (CAPM). In addition, the expected return on an investment is equal to the sum of the risk-free rate of return and a risk premium derived from the investment's sensitivity to the risk of the market as a whole. The development of the CAPM had a major impact on the selection and the measurement of the performance of individual investments and portfolios of investments.

2.1.1.5 Black-Scholes (B-S) Option Pricing Model

A further important development was Black and Scholes's (1973) contribution of an option pricing model. Known as the Black-Scholes (B-S) Option Pricing Model, this model is based on the same basic principles as the CAPM. The development of the B-Smodel expanded the use of pricing models since it can also be applied with other financial instruments such as bonds, foreign currency, and etcetera (Adarov and Tchaidze, 2011).This theory is selected for this study due to the fact that it is used to price call options in efficient markets, but can also be used to determine put option prices, including the more difficult American put option prices

2.1.1.6 Arbitrage Pricing Theory (APT)

The development of the Arbitrage Pricing Theory by Ross (1976) as a rival/alternative to the CAPM, further contributed to the development of finance theory. The APT differs from the CAPM in that it does not only take the market risk factor into account, but also relies on a number of, yet undetermined, risk factors. The development of the APT has created a great deal of interest, and even controversy, in the field of asset pricing, in so far as to determine all the risk factors to be taken into account in the pricing of assets, and whether or not it is more flexible and useful than the CAPM (Yartey, 2005).

2.1.1.7 Finance Theory

It theory is continuing to develop through new ideas, techniques and research, and all the major capital market theories and pricing models are examined by academics, researchers and investment practitioners on an on-going basis. The controversy and debate surrounding these theories and models, especially with regard to the EMH, CAPM, APT and the B-S Option Pricing Model, continue unabated (Avadhani, 2002). This theory is selected for the fact that it argues that a higher capital signals positively to the market on the value of the bank. The positive signal provides private information to the bank to enhance capital as the future prospects are good.

2.1.1.8 Agency Theory

Agency theory suggests that managers (the agents), particularly those of large, publicly owned firms, may have different objectives from those of the shareholders (the principals). The shareholders can assure themselves that the managers will make shareholder wealth-maximizing decisions only if management receives appropriate incentives and only if management is monitored (Ang, Rebel and James, 2000). This theory is basically selected in this study as it is a branch of economics relating to the behaviour of principals (such as owners) and their agents (such as managers). We may think of management as the agents of the owners. Shareholders, hoping that the agents will act in the shareholders' best interests, delegate decision-making authority to them. Incentives include stock options, bonuses, and perquisites, and these must be directly related to how close management decisions come to the interests of the shareholders.

2.1.1.9 Signaling Theory

It was assumed investors have the same information about a firm's prospects as its managers—this is called symmetric information. However, managers in fact often have better information than outside investors. This is called asymmetric information, and it has an important effect on the optimal capital structure. To see why, consider two situations, one in which the company's managers know that its prospects are extremely positive (Firm P) and one in which the managers know that the future looks negative (Firm N)(Yartey, 2005).Thus, closely related to monitoring costs and agency relationships are the notion of signaling that is selected in this study. Because strict managerial contracts are difficult to enforce, a manager may use capital structure changes to convey information about the profitability and risk of the firm. The implication is that insiders (managers) know something about the firm that outsiders (security holders) do not.

2.1.1.10 Windows of Opportunity Theory

The windows of opportunity theory states that managers don't believe this and supposes instead that stock prices and interest rates are sometimes either too low or too high relative to their true fundamental values. In particular, the theory suggests that managers issue equity when they believe stock market prices are abnormally high and issue debt when they believe interest rates are abnormally low (Avadhani, 2002). In other words, they try to time the market. Notice that this differs from signaling theory because no asymmetric information is involved: These managers aren't basing their beliefs on insider information, just on a difference of opinion with the market consensus.

2.1.1.11 Summary of Various Theories

Financial management continues to change at a rapid pace. Advancements are occurring not only in the theory of financial management but also in its real-world practice. One result has been for financial management to take on a greater strategic focus, as managers struggle to create value within a corporate setting. In theory, the costs of acquiring information and making transactions create incentives for the emergence of financial markets and institutions. Theoretical models show that financial instruments, markets, and institutions may arise to mitigate the effects of information and transaction costs.

2.1.2 The Concept of Stock, Stock Market and Capital Market

Stock represents a share of ownership in a corporation (Mishkin, 2004).Such kinds of stocks could be identified as security representing equity claims on the earnings and assets of the corporation. In this regard, the term stock is used interchangeably with the term share. Stocks are generally traded in stock market. Stock market refers to capital market in which stocks of corporations are sold to investors (Yuwa, 2005). In simple terms, it is a market place where equity interests are exchanged either at par value, premium value or for less than the par value also called discount stock. Thus, stock market allows stockholders (shareholders) to transfer to another investor when they want to sell their stocks. Stock Exchange or Stock Market is also defined as 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. Market participants in stock market are individual retail investors, institutional investors such as mutual funds, banks, insurance companies and hedge funds, and also publicly traded corporations trading in their own shares. Some studies have suggested that institutional investors and corporations trading in their own shares generally receive higher risk-adjusted returns than retail investors (Andrea, Bernardo and Marianna, 2011). Stocks can be sold and bought in primary or secondary capital market. 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 underwriting (Mebrahatu, 2004).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 (Christiansen, 2009).

A capital market is a market for debt or equity securities and other financial instruments, where companies, municipalities and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place on the money market. The capital market includes the bond market for debt instruments and the stock market for equity securities. Sophisticated capital markets offer derivative financial products such as futures, options and structured products. Capital markets may be classified as primary markets and secondary markets. In primary markets, new bond or stock issues are sold to investors via the mechanism known as underwriting. In the secondary markets, existing securities are sold and bought among investors or traders, usually on a stock exchange (SE), over-the-counter (OTC), or elsewhere (Ruecker, 2011)**.** It is also vital to differentiate bond and stock. Bond is a security instrument which is used either by the government or any other corporation to raise funds in the bond market. Unlike *stock* it is an equity instrument, *bond* is a debt security evidencing that a promise has been made by a government such as Treasury Bills (T-Bills) or by corporation such as debenture to pay a specified amount of money in recognition of a loan to the business.

In general, a stock market is an open market place which provides facilities for stock brokers, investors and corporations to trade in stocks. Stock markets generally provide the means by which companies raise capital to start new business or expand the existing business by offering new stocks to the public. It also provides a trading facility for investors to sell their share ownership in corporations. Unlike the bond market, stock market provides an opportunity for companies to finance their business through equity investment (Yartey and Adjasi, 2007).

2.1.3 The Importance of Establishing Effective Stock Market

Growing literature argues that stock markets provide services that boost economic growth and contribute to the achievement of these goals. The economy of the world relies on the stock exchanges to facilitate trade in the stocks of companies by connecting people who seek money with those who can provide it (Ruecker, 2011). Accordingly, those well-functioning securities markets can enhance savings. Stock and bond 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 deposit (Mishkin, 2004). In addition, there can be mobilizing savings for investment. When people draw their savings and invest in shares, it leads to a more rational allocation of resources because funds, which could have been consumed or kept in unused deposits with banks, are mobilized and redirected to promote commerce and industry (Ruecker, 2011).

On other hand, stock markets can promote efficient financial system. Securities markets break the oligopoly that would be enjoyed by the banks in the absence of securities markets. The government does not automatically have privileged and subsidized access to funds and must compete on equal terms. 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 (Mishkin, 2004). It also creates investment opportunities for small investors. As opposed to other businesses that require a huge capital outlay, investing in shares is open to both large and small investors because a person buys the number of shares that he can afford. Therefore the stock exchange provides an extra source of income to small savers (Asrat, 2003).

Public investments vastly exceed private investments in transitional economies. Economists widely believe that privatization of state enterprises will reduce losses and create efficiency. However, transitional economies generally lack the financial infrastructure and the legal framework to engender privatization efforts. Yet, these economies often like to privatize state enterprises. One of the most notable problems associated with privatization of state enterprises is the lack of well-developed domestic equity markets. An inadequate supply of capital due to low savings, low gross national product and limited access to international capital markets has been an impediment. One of the main challenges for transitional economies is, therefore, to improve the quality of financial intermediation and resource allocation to contribute to a more rapid rate of economic growth that would lead to higher levels of savings and investments (Biekpe, 2004).

Moreover, stock market helps to raise government capital for development projects. The Government and even local authorities may decide to borrow money in order to finance huge infrastructure projects by selling another category of shares known as bonds. These bonds can be raised through the stock exchange where by members of the public buy them. It also helps redistribution of wealth. By giving many people a chance to buy shares of listed companies and therefore become part-owners of profitable enterprises, the stock market helps to reduce large income inequalities because many people get a chance to share in the profits of businesses that were set up by other people (Levine, 2003).

Further, it improves accounting and auditing standards. Securities purchasers rely in part on corporate information provided in financial reports to make their investment decisions. The development of securities markets is usually accompanied by increased reporting standards and requirements, which contribute to the efficiency of the markets and their mobilizing and allocating functions (Ruecker, 2011). A regular disclosure of adequate, reliable and timely information makes it possible to compare performance of various companies. The development of widely accepted accounting procedures checked by independent external auditors is also an important benefit derived from the development of securities markets (Asrat, 2003). Availability of good information helps corporations make better decisions and provides better statistics for economic policy makers. Good information may even help tax authorities collect taxes in a more efficient and equitable fashion. The need for disclosure of financial information is a strong incentive for the improvement of accounting and auditing standards. It also control on company management. The role of the stock exchange is also to monitor the market to ensure that it 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 and keep its malpractice in check (Biekpe, 2004).

More importantly, it provides effective tools for monetary and fiscal policy. When an economy has well-developed securities markets, it can conduct monetary and fiscal policies through these markets. The Anglo-American style economies conduct monetary policy through open-market operations. These economies affect the market interest rate and money supply by buying and selling securities in the open market. Governments in these countries can finance their deficits by issuing bonds in the open market (Levine, 2003). As a result, a government deficit does not necessarily bring about an increase in money supply and thus inflation. Economies with only a commercial banking system have to conduct their monetary policy and deficit financing through the banking system. Open market operation is not available. The only effective tools are direct credit controls, ceilings on loans and interest rates, as well as reserve requirement manipulations. Also, deficit financing is carried out by either borrowing directly from the central bank or by selling bonds to commercial banks (Asrat, 2003). Consequently, deficit financing puts pressure on the money supply and leads to inflationary pressures. As a result, financial repression is common in countries with banking-oriented financial systems. Full-scale financial sector reform (liberalization) may be impossible unless the economy has well-developed securities markets. 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 (Ruecker, 2011).

2.2. Determinants of Stock Market Development In Developing Countries

Literatures suggests that sound macroeconomic environment, well developed banking sector, transparent and accountable institutions, and shareholder protection are necessary preconditions for the efficient functioning of stock markets in Africa.

2.2.1. Macroeconomic Challenges

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 (Biekpe, 2004).

2.2.1.1. Economic Development Level

The key environmental factors for the success of securities markets include sufficient demand for and supply of securities. Financial and commodities prices that do not depart too much from scarcity values and low or predictable inflation are necessary. Demand for securities depends on the amount of capital available for investment in the hands of individuals and institutions. In very low per capita income nations and where corporate investment funds are in short supply, demand for securities cannot be expected to be high (Asrat, 2003).According to Asrat (2003), costs inherent in securities markets contained income inequalities. While securities markets provide wider investment choices for savers and also serve to spread ownership in companies, it is likely that in the initial stages of securities markets development, the benefits of securities ownership will accrue to a limited group of investors. Until a wide range of firms (in terms of size) and savings units (in terms of distribution of income and wealth) participate in the securities markets directly or indirectly (through mutual funds, pension funds, insurance companies, etc.), the development of the capital market, particularly the market for equities, is likely to increase the inequality of income and wealth distribution. A vigorous program of wealth distribution through highly progressive income taxation is one countermeasure, although it is fraught with its own problems.

2.2.1.2. Inflation

Inflation has been used as a measure of macroeconomic stability (Ruecker (2011). Macroeconomic stability has been found to exert effects on stock market development; however, there is no consensus on the nature of effects. Although there is no agreement on the relationship between macroeconomic stability and stock market development, we argue that higher levels of macroeconomic stability encourage investors to participate in the stock market largely because the investment environment is predictable. Furthermore, macroeconomic stability influence firms profitability, and so the prices of securities in the stock market is likely to increase. Investors whose investments are experiencing a capital gain are more likely to channel their savings to the stock market by increasing their investments, and so this will enhance stock market development (Yartey and Adjasi, 2007). According to Asrat (2003), some of the costs inherent in securities markets included interest Rate Fluctuations. The fluctuations in interest rates, which occur in a financially competitive environment, make planning more difficult for both borrowers and savers. The additional efforts required for information gathering and decision making in such environments, together with the need for borrowers and savers to adjust their positions more frequently over time, constitute costs brought about by a liberalized financial system.

2.2.1.3. Capital Flows

There is probably a greater realization on the part of governments that access to foreign investors, be it through banking flows, portfolio flows, or foreign direct investment flows can be of substantial economic benefit in today's emerging world. It will enable resource transfer, and other exchanges of knowledge whereby different countries are given access to new skills and technologies that can increase the productivity of the workforce in the target country (Reid, 2010). For example, financial globalization that is investing in another country in the form of foreign direct investment (FDI), portfolio investment in other emerging countries for profit rather than as a means to encourage development of financial markets in the receiving countries. Nevertheless, the flood of capital from developed countries into North and South America and parts of Asia did enhance growth and the development of financial centres. On the contrary, sudden stops in capital flows also had severe effects in sparking and compounding banking and financial crises (Eichengreen and Bordo, 2002).

2.2.2. Benefits of Establishing Effective Stock Market

2.2.2.1. Society Benefit

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 (Yartey and Adjasi, 2007). As a consequence, efficient enterprise management is rewarded by access to investment funds. Securities prices serve as a means by which investors express their confidence in enterprise prospects and management. 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 (Asrat, 2003).

2.2.2.2. Consumers Benefit

Stock price maximization requires efficient, low-cost businesses that produce high-quality goods and services at the lowest possible cost. This means that companies must develop products and services that consumers want and need, which leads to new technology and new products. Also, companies that maximize their stock price must generate growth in sales by creating value for customers in the form of efficient and courteous service, adequate stocks of merchandise, and well-located business establishments. People sometimes argue that firms, in their efforts to raise profits and stock prices, increase product prices and gouge the public. In a reasonably competitive economy, which we have, prices are constrained by competition and consumer resistance. If a firm raises its prices beyond reasonable levels, it will simply lose its market share (Ehrhardt and Brigham, 2009). Rajan and Zingales (2003) also found that trade openness benefits financial development positively. The major focus was placed on the rules of demand and supply which ultimately have influenced a country's openness to trade and hence, abolishing controls that may hinder movement of capital flows. The study further emphasized the importance of government support for financial development, which may be in the form of standards on property rights, accounting and disclosure standards that encourage transparency, legal systems that enforce contracts, and a regulatory infrastructure that protects consumers, promotes competition, and controls unreasonable risk-taking.

2.2.2.3. Employees Benefit

There are situations where a stock increases when a company announces plans to lay off employees, but viewed over time this is the exception rather than the rule. In general, companies that successfully increase stock prices also grow and add more employees, thus benefiting society. Note too that many governments across the world, including U.S. federal and state governments, are privatizing some of their state-owned activities by selling these operations to investors. Perhaps not surprisingly, the sales and cash flows of recently privatized companies generally improve. Moreover, studies show that newly privatized companies tend to grow and thus require more employees when they are managed with the goal of stock price maximization (Ehrhardt and Brigham, 2009).

2.2.3. Prospects of Establishing Effective Stock Market

2.2.3.1. Demand/Supply

Stock market prospects include 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 (Teklay, 2011). By definition stock market is 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. 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. 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 (Tessema, 2003). According to Asrat (2003), costs inherent in securities markets included market Cycles. During the early stages of securities markets development, the supply of stocks and bonds is limited, manipulation is relatively easy, investors are unsophisticated, underwriters and brokers are inexperienced, and securities legislation often has loopholes. As a result, economic cycles are more difficult to predict. Thus, the job of a financial analyst would be very difficult during the early years of development.

2.2.3.2. Online /Traditional Trading

Online stock trading service was introduced in 1994, with initial apathy across the globe. In 2000, online stock trading accounted for about 30% of the total stock trading transactions executed all over the world(Lee-K & Chung, 2000). The sustainability of online trading service is contingent on the attraction and retention of online trader service. As Pavlou (2003) distinguished information technology adoption and usage model has found wide application in the field of electronic finance, which is an integration of technology adoption with finance concepts. Specifically, technology adoption model has been employed in studying the adoption of online financial trading.

2.2.4. Institutional factors

Institutional quality is important for stock market development because efficient and accountable institutions tend broaden appeal and confidence in equity investment. Equity investment thus becomes gradually more attractive as political risk is resolved over time. Therefore, the development of good quality institutions can affect the attractiveness of equity investment and lead to stock market development. Yartey and Adjasi (2007) finds good quality institutions such as law and order, democratic accountability, bureaucratic quality as important determinants of stock market development in Africa because they reduce political risk and enhance the viability of external finance. Biekpe (2004) provides evidence that higher levels of political risk are related to higher degrees of market segmentation and consequently low level of stock market development.

2.2.4.1. Supervisory Capacity

Regulation and supervision of the financial system play a great role in determining both its stability and the extent of services provided. Regulation and supervision are typically aimed at the protection of investors from the potentially opportunistic behavior of insiders. Investor protection helps solve agency problems and information asymmetry arising from inside information. This helps in making optimal decisions, increasing access to external finance and resulting in productive investment and eventually higher firm growth (IMF, 2007).Demutualization can be defined as a change in the legal status, structure and governance of an exchange from a non-profit, protected interest one to profit oriented The process of demutualization involves a change in ownership structure and a change in legal and organization form.

With regards to the ownership structure, members' seats are monetized and values assigned per seat. Members then either keep or sell shares. Ownership restrictions are placed on individuals and groups to prevent potential take over's by other exchanges. The legal and organizational change normally entails the exchange becoming a typical profit making company with limited liabilities and abiding by company laws. According to Asrat (2003), costs inherent in securities markets included intermediation and regulation. The specialized services of financial intermediaries in securities markets are costly, yet indispensable. The strategic position that financial intermediaries hold in the market system in terms of access to information and control over transactions can lead to profiteering behavior that decreases the benefits accruing from the mobilizing and allocating functions of the securities markets system. The reporting requirements also represent costs to participating firms. In addition, firms have incentives to falsify such reports, which result in distorted investment decisions on the part of securities purchasers that may lead to decreased government tax revenues. Such expenses related to the organization and function of regulatory agencies as securities commissions, stock exchanges and administrative organs represent monitoring costs associated with the control of securities markets abuses(Levine, 2003).

2.2.4.2. Protection of Property Rights

The involvement of institutional investors in African exchanges must be pursued vigorously. Institutional investors often are at the forefront in promoting efficient market practices and financial innovation. They typically favor greater transparency and market integrity in both primary and secondary markets, seek lower transaction cost, and encourage efficient trading and settlement facilities. Pension Funds, insurance houses and other institutional investors can therefore act as a countervailing force to commercial and investment banks as well as other market intermediaries, forcing them to be more competitive and efficient. Indeed African exchanges stand to gain from increasing the involvement of institutional investor's on stock exchanges (IMF, 2007).

2.2.4.3. Automation – Security and Information Quality

According to the study of IMF (2007), African stock markets are small, illiquid, with infrastructural bottlenecks and weak regulatory institutions. Despite these problems, stock markets in Africa have helped in the financing of the growth of large corporations but there is little evidence of broader economic benefits. In order to make the stock market more beneficial to African countries, a number of schemes have been suggested these are 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**.** 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 by passing the use of brokers (Mohammed, 2010).

2.2.5. History of Stock Exchange in Ethiopia

According to Mohammed (2010), Ethiopia's brief history of exchange shows that 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. The group started functioning with share dealings of 15 listed companies and four government bonds, and the number of listed companies reached 17 by 1966. It had its own rules and regulations. However, the development of a stock exchange was nipped in the bud because of the post-1974 socialist economic policy. Even, Ethiopia does not have a stock exchange under the current regime also.

2.2.5.1. Company Law and Corporate Governance in Ethiopia

Hamilton (2007) conducted a review on the existing Ethiopian commercial law. The existing commercial law of Ethiopia is rooted from the 1960's commercial code. He noted that Although Ethiopia's company law set forth primarily in its Commercial Code enacted in 1960 and in the 1997 Commercial Registration and Business Licensing Proclamation has proven basically adequate for conditions to date, the Code needs to be updated to reflect current commercial realities and the demands of a global economy. According to him, company law is crucial in market economies; it sets the legal environment for the creation and continuing operation of privately owned businesses. At the same time, as Hamilton (2007) pointed out, the current law contains provisions that are contrary to international best practices and facilitate insider minority control and hinder transparency in governance. Such provisions can seriously discourage new investment. Negash (2008) studied the overall corporate governance of Ethiopia. He used the corporate governance thematic area of the African Peer Review Mechanism (APRM) instruments to analyze the corporate governance situations of Ethiopia. He concluded that the overall standard of corporate governance is disappointing. More specifically, the Commercial Code of 1960 does not provide adequate legislative response to complex governance issues of the day, and the new draft corporate law has not yet been finalized; investor and creditor protection laws are inadequate, and there is no organized share market and valuation and price discovery are problematic; Additionally, he noted that one key institution that is missing in Ethiopia is a stock market. This void is a serious deficiency, and makes corporate governance reforms more difficult than they already are. Allowing sound companies to list in foreign stock exchanges should also be considered.

2.2.5.2. Profile of Ethiopian companies

Concerning the profile of Ethiopian companies, Hamilton (2007) clarified that the overwhelming majorities of Ethiopian companies are family or otherwise closely owned, and although some are relatively substantial businesses, most are small. Accordingly, the overwhelming majority of companies are Private Limited Companies. There are very few widely held companies. As per him, the bulk of Ethiopia's largest companies are owned or controlled by State bodies or political parties. Hamilton pointed out that such companies account for a larger part of the economy than privately owned companies, which can add a political tone to doing business. State-owned companies are not organized under the company law and thus not subject to its rules and protective provisions.

2.2.5.3. Separation of Ownership and Control in Ethiopian Share Companies

As Gebremeskel (2010) asserted ownership and control are often concurring attributes in the ordinary situation of property ownership. In the context of publicly held companies, a phenomenon occurs whereby the persons who own the company are precluded from controlling it. The reason for this is that as the number of shareholders rises, control is delegated to managers, and shareholders are limited to ineffective control via shareholder general meetings. He posits that the separation between ownership and control is growing in Ethiopia, and submitted some empirical evidence in support of this claim. The share company is one of the forms of business organizations recognized under the Ethiopian Commercial Code. It is established through the issuance of shares to an unlimited number of members as provided for by Articles 304-509 of the Commercial Code. Publicly held share companies give rise to a host of complex corporate governance issues.

The Commercial Code of Ethiopia has been facilitating the formation of share companies since its enactment in 1960.However; the formation of Share Companies was suspended during the Military Regime and was resumed only during its final years when it issued a policy of mixed economy and mainly after the collapse of the regime in 1991. Most of the companies formed at the beginning were private limited companies. The last years (i.e., 2008 - 2011) in Ethiopia have seen an unprecedented growth in the number of companies under formation through initial public offer of shares (IPOs).

2.2.5.4. Level of Minority Right Protection

Gebremeskel (2010) studied the level of minority right protection in Ethiopia by looking at the 1960s‟ commercial code of Ethiopia and is presented as follows. The concept of minority shareholder protection is relative and can only be explained in relative terms. If we look at the Commercial Code of Ethiopia, two of these rights (under number 5 and 6) are provided clearly. Voting by proxy is provided in Articles 398(1) and 402 but no voting by mail is allowed. He concluded that the corporate climate in Ethiopia is changing with the emergence of newer companies with several thousand shareholders who have no control over the company. In such cases, control over the company is left in the hands of a few managers who in the worst case scenario may in turn be controlled by block holders. He emphasized that in order to expedite exit rights there is an urgent need to introduce stock markets. In the absence of organized stock markets there can be no meaningful right of exit. Moreover, there is adequate shareholding constituency in Ethiopia to support a viable stock market. It is to be noted that only 6000 shareholders had created a relatively functional stock market during Emperor Haile Selassies' reign. This is almost half of the number of shareholders in Buna Bank.

2.3. Empirical literature Review

2.3.1. Global Perspective

Research paper conducted by Etienne (2008), investigates the challenges and prospects of establishing stock exchange in emerging Economies. This study explains about the role and benefits of stock exchange market in the development of an economy and states about the possible challenges of establishing stock exchange in Rwanda. The result of the study shows, though the stock market is necessary to the economic growth of Rwanda, its implementation will face many challenges that need to be addressed such as low saving rate, complex tax regime, a small economy and the structure of companies that are family owned and the absence of financial intermediaries, financial advisory services and investment banks.

Creane and Sab (2003) contended that a modern and efficient financial system mobilizes savings, promotes investment to finance feasible business opportunities, monitors the performance of managers, enables the trading, hedging and diversification of risk, and facilitates the exchange of goods and services. These functions ultimately result in a more efficient allocation of resources, a more rapid accumulation of human and physical capital, and fast technological progress, which in turn provide economic growth. Tsuru (2000) as well obviously explained the relationship between finance and growth by arguing financial development can promote economic growth through positive impact on capital productivity or efficiency of financial systems in converting financial resources into real investments'.Levine (2003) discussed 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. Stock market liquidity had been a catalyst for long-run growth in developing countries over the past two decades. Then again, a liquid equity market allowed savers to sell their shares easily, thereby permitting firms to raise equity capital on favourable terms. By facilitating longer-term, more profitable investments, a liquid market improves the allocation of capital and enhances prospects for long-term economic growth.

2.3.2. African Evidences

The study conducted by IMF (2007) examines the economic importance of stock markets in Africa. The study discusses policy options for promoting the development of the stock market in Africa and it applies an econometric investigation of the impact of stock markets on growth in selected African countries and the results of the paper Show that the stock markets have contributed to the financing of the growth of large corporations in certain African countries. However, African stock exchanges now face the challenge of integration and need better technical and institutional development to address the problem of low liquidity. Another research paper conducted by Ajit (2008) has provided a comprehensive review of the role of the stock markets in economic development. It has surveyed analyses and evidence from both developed and developing countries in order to assess how best, if at all, can stock markets contribute to economic growth. According to the study, in relation to low-income developing countries which do not yet have established stock markets or have only rudimentary ones. It is suggested that these countries will be better off by encouraging the development of banks rather than expend their human and material resources on establishing stock markets.

Empirical economic studies by Ndikumana (2001) proposed that deeper, broader, and better functioning financial markets can encourage economic growth. To enhance the current level of economic growth and encourage both domestic and foreign investment in the continent, Africa needs to rapidly expand, develop and modernize its financial markets to develop its economic growth like other developed countries. Yarety (2006) discussed that sound macroeconomic environment; well-developed banking sector, transparent, 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

Bohnstedt, Hannig and Odendall (2000) identified those factors that need to be improved to enable an efficient market and investigated the potentials and challenges of the Ugandan Stock exchange market and in Uganda. An enabling environment which provides macroeconomic stability, prudential financial sector regulation, active government support, an improved tax regime and tax incentives, installing clearing and settlement system and strengthening the accounting profession were identified as important measures. Josiah (2012) studied the elements of stock market development of Nairobi Stock Exchange (NSE) by using secondary data from 2005-2009 and found that institutional quality represented by law and order and bureaucratic quality, democratic accountability and corruption indices as important determinants of stock market development because they enhance the viability of external finance. On the other hand, the regression analysis between stock market development and macroeconomic stability- in terms of inflation and private capital flows showed no significant relationship.

2.3.3. Ethiopian Studies

Studies conducted in Ethiopia such as by Ruecker (2011) elaborated on the importance and the rationale behind the need for the establishment of a capital market in Ethiopia, and the result favored the formation of a capital market citing several advantages for the development of the country. Finally the research concludes as there is lack of willingness or commitment by the government of Ethiopia to establish stock exchange. But they failed to see the mechanisms to encourage Stock Exchange in Ethiopia. Jetu (2014) investigate the legal aspect of stock market development in Ethiopia. According to this study, in the context of Ethiopia, the absence of institutional, legal and policy framework for stock market activity, may adversely affect liquidity there by adversely impacting economic development. There is lack of commitment on the part of the government to establish prudent regulatory infrastructure there by hampering Ethiopia's stock market development. This indeed impedes the development of stock market and dwarfs down its role in the Ethiopian economy unless prudent regulation is put in place. Studies conducted on the challenges of stock exchange and related topics in Ethiopia are very limited. Below are the short Summary of some studies conducted on stock market and related issues in developing countries as well as in Ethiopia.

Mulunesh (2019) also assessed the prospects and challenges of establishing stock market in Ethiopia by utilizing descriptive analysis. The result of this study 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. The largest portion of the literatures agrees with the benefit of establishing stock market but as it is not a unanimous motion. A great deal of literatures challenge the benefit of stock exchange by mentioning other things like the trade of between liquidity and profitability; the shortsightedness of investors.

In addition, Solomon (2011) recognized some of the likely challenges in establishing stock market in Ethiopia as: companies being too young to be judged for their profitability; companies' reluctance to go public and restrict their ownership; owner managers; financial inexperience; lack of accounting/auditing professional expertise; investment regime which support individual ownership than portfolio investment; non-existence of investment banks; low income and saving capacity of individuals; non-conducive political and macro-economic environment; NBE's lack of supervisory knowhow and discouraging tax regime. Weldesenbet (2008) acknowledged macro-economic and political stability with respect to rates of inflation, the levels of domestic saving and investment, quality of institutions such as law and order, democratic accountability, the rate of changes in government policies that could affect the development of stock market. On the other hand, Teklehaimanot (2014) 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. Alemneh (2015) stated 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

2.4. Research Gap

Several studies conducted in Ethiopia such as by Ruecker (2011) particularized on the importance and the rationale behind the need for the establishment of a capital market in Ethiopia, and concluded as there is lack of willingness or commitment by the government of Ethiopia to establish stock exchange. In addition, Jetu (2014) investigated the legal aspect of stock market development in Ethiopia. Mulunesh (2019) study 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. However, there is lack of a study that concentrated on development of the institutional environment. A great deal of studies focused on the challenge and the benefit of stock exchange by mentioning other things like the trade of between liquidity and profitability; the shortsightedness of investors. However,
As Yartey and Adjasi (2007) expressed that institutional quality are strongly associated with growth in stock market capitalization. The results recommend that the establishment of quality institutions can be an important factor in the development of stock markets. This is because the development of the institutional environment is directly reflected in macroeconomic conditions and, similarly, a favorable macroeconomic environment facilitates the development of institutions. As a result, the stated 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). Unlike most of the studies discussed and analyzed previously the study has covered the importance the development of stock market environment for the benefit of society, customers and employees as well as the development of a nation. In addition the study was done during the time when the government has shown willingness to establish stock market. Increasing public knowledge about the functioning of the stock market could promote the development of the stock market in developing countries. Knowledge about stock market activity can be improved through regular and intensive education programs. Educating the public about the role of the stock market can help increase the investor based and improve the liquidity of the

stock market (Yartey, 2005).The infancy of the market economy structure is reflected in the fact that Ethiopia should harvest the financial and resource mobilization in the all types of market including stock market that are being in the process of formation.

2.5. Conceptual Framework

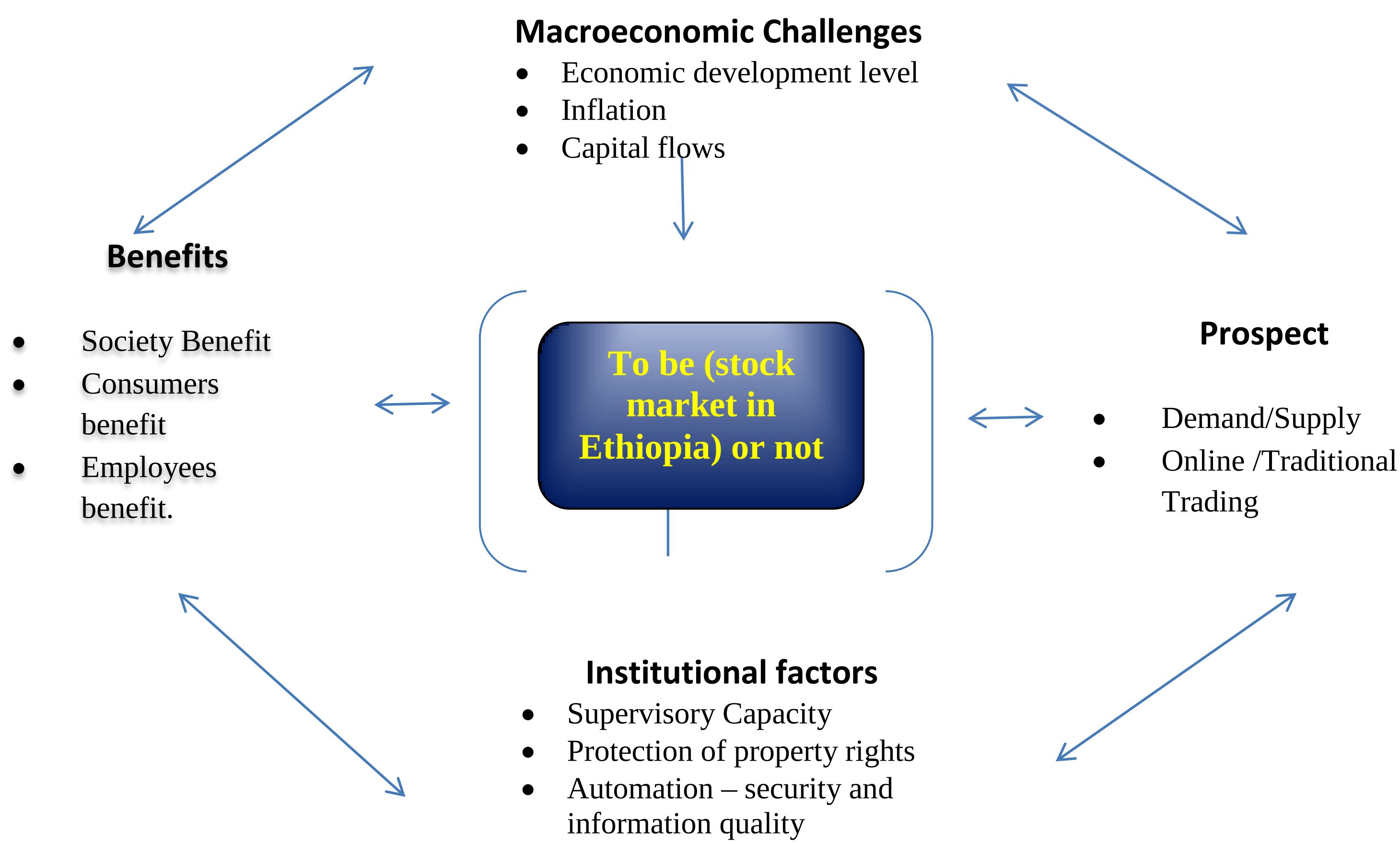


Figure 2.1: Conceptual Framework

Source: adapted from (Adarov and Tchaidze, 2011)

The conceptual framework includes ''macroeconomic factors" and "institutional factors". Macroeconomic factors include economic development level, inflation and capital flows while institutional factors include variables that reflect supervisory capacity, protection of property rights and automation in terms of security and information quality. It is worth mentioning that these two sets of variables are interrelated. Prospect included demand and supply side issues and societal, customers and employee benefit were included. Stock markets also provide an alternative channel for savings mobilization and better resource allocation. They enable savings mobilization for financing ―immense works. More efficiently mobilized savings cause capital accumulation, which firms tap to finance large projects via equity issues. This undoubtedly, spurs economic growth. That being the case, then capital market normally requires some availability of an appropriate environment for its ability to operate and flourish. Hence this part provides for the determinants of capital market Performance, necessary factors for capital market (Adarov and Tchaidze, 2011). 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. Institutional quality is important for stock market development because the efficient and accountable institutions tend to broaden appeal and confidence in equity investment (Eichengreen and Bordo, 2002). Equity investment thus becomes gradually more attractive as political risk is resolved over time. The development of good quality institutions can affect the attractiveness of equity investment and lead to stock market development. Moreover, when the institutions succeed to tackle the challenges of the securities market, normally enables the achievements of the various prospects of the market thus making it move forward a step forward in expansion thus signifying growth of the market (Reid, 2010). On the other hand, when the institutions fail completely to tackle the challenges it means nothing of the prospects will be achieved but rather to remain a dream. This in turn signals a declining of the market of which if no serious measures are taken to interfere the situation the market would disappear. But, when the institutions at least can do anything to find and meet the solutions for any challenges of the market, it means that the capital market would persist constantly for some time thus meaning a stunted status of development (Adarov and Tchaidze, 2011).

CHAPTER THREE
RESEARCH METHODOLOGY

This chapter describes the overall methodology of the research. It explains about, research design, research approach, sampling techniques, and instruments, methods of data collection and method of data analysis as well as ethical consideration during the study.

3.1 Description of Study Area

The study are of this study was in Addis Ababa; Ethiopia's sprawling capital which is the country's money-making and international and local commercial hub. The city is served by Addis Ababa Bole International Airport, where a new terminal opened in 2003. The old Lideta Airport in the western; Old Airport district is used mostly by small craft and military planes and helicopters. Addis Ababa originally had a railway connection with Djibouti City, with a picturesque French style railway station, but this route has been abandoned. The new Addis Ababa-Djibouti Railway started operation in September 2016, running parallel to the route of the original railway line. Addis Ababa opened its light rail system to the public on 20 September 2015. The system is the first of its kind in sub-Saharan Africa (Dawit, 2018).

3.2 Research Design

Research design is design is framework; or it is considered as shape of the study in which decisions regarding what, where, when how much, by what means concerning inquiry of research study and it constitutes roadmap for data collection, measurement and analysis of a research design (Kothari, 2004).

Since the objective of this study is to assess the challenges and prospects of establishing stock market in Ethiopia, it employed descriptive type of research. The study enabled to describe characteristics of stock market as institutional development, its challenges, prospects and benefits explained the conditions of the present by using questionnaires. In addition, the researcher employed the facts or raw data already available to analyze and make a critical evaluation of the data. Accordingly, this study provided a complete picture of stock market in Ethiopia and explains the financial marketing situation of the target market that is the essential task of companies, stockholders and financial manager under modern finance marketing in Ethiopia. In addition, it described various aspects about financial market challenges in Ethiopia with its perceived investors and company's decision behavior. It basically described market behavior and other factors studied in financial marketing and local and international investors' behavior. Overall, the study employed descriptive research design.

3.3 Research Approach

Research can be categorized as qualitative and quantitative or mixed research approach. Qualitative research is more subjective in nature than quantitative research and involves examining and reflecting on the less tangible aspects of a research subject, e.g. values, attitudes, perceptions. Whereas, the emphasis of quantitative research is on collecting and analyzing numerical data; it concentrates on measuring the scale, range, frequency etc. of phenomena. In addition, mixed method integrates quantitative and qualitative data collection and analysis in a single study or a program of enquiry (Creswell, 2009).

This study concentrated on measuring the scale, range, and frequency of phenomena. The study was highly detailed and structured and results can be easily collected. On other hand, this study depends on careful definition of the meaning of stock market, its potential challenges, benefits and prospect to implement stock market in Ethiopia. The stock market may be challenged by macroeconomic and institutional factors and future prospects and societal, customer and employees benefits were major area of investigating. Overall, the study employed both methods and it can be said that it is a mixed research approach.

3.4 Type and Sources of Data

The study used both primary and secondary sources of data. In the case of primary data, Questionnaire and interview were employed. Interview has made with officials and practitioners of the major stakeholders in legislating and implementing financial policies: Ministry of Finance and Economic Development (MoFED), Ministry of Trade (MoT), Ministry of Industry (MoI), NBE (in its role as a central bank), Banks (as intermediaries, issuers and investors), and Accounting and Audit Practitioners of the year 2020.Data through questionnaire has been collected from academicians and economists, Shareholders and managers and from audit firms. This study used World Bank economic, social and institutional data from 1990 to 2019 of basic indicators and detailed indicators from 2000 to 2019 from World Development Indicators database.

3.5 The population of the Study

3.5.1 Target Population

According to Sidhu (2003), population in research refers to the aggregate or totality of objects or individuals regarding which inferences are to be made in a sampling study. In their view, Bordens and Abbott (2011) sees population as all possible individuals making up a group of interest in a study. In this study, population refers to policy makers, the government and investors. The researcher has studied the target population to generalize the results of the study. Therefore, the total target population of the study was 725 individuals composed of local shareholders and managers which estimated as unknown size and 155 managers of accredited auditing firms as member of accounting and auditing board of Ethiopia (established under proclamation No. 847/2014), 235 academicians who are university instructors and member of Ethiopian economic associations (Chamber of commerce, Ethiopian Economic Association and accounting and auditing board of Ethiopia, 2020).

Table 3.1: Sample Size Determinations

No	Attendants	Total Population	Proportion =257/725	Sample size
1	Shareholders and managers	385	0.3544	136
2	Academicians and Economists	185	0.3544	66
3	Audit Firms	155	0.3544	55
	Total	**725**		**257**

Source: Survey Result, 2020

The study used proportional sample size calculation was applied the sample size to the respondents target area. Yamane (1967) suggested simplified formula for calculation of sample size from a population which is an alternative to Cochran’s formula. The formula to be used to calculate the sample size of the study is the statistical formula given by Yamane (1967) formula. Sample size for ±5% precision levels Where Confidence Level is 95% and P=.5. For 725 size of population, the sample Size (n) for precision (e) of 5% was 257. The formula is presented below:

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{725}{1 + 725(0.05)^2}$$

$$= 257$$

Where n = number of sample size and N = Total number of study population e= level of confidence to have in the data or degree of freedom which is 95% apply for this study with 5% error. Therefore, sample size of the study was 257 respondents of shareholders and managers136, academicians and economists66 and audit Firms 55 in Addis Ababa.

For qualitative data a non-probability sampling technique was identified fifteen participants from senior management team and employees using purposive sampling. Interviewees were fifteen as of Bertaux (1981) who stated the minimum sample size for interview is fifteen. These participants are senior staff that have strategic and leadership experience to actively provide valuable information on the practice of internet marketing and technology banking services within their respective offices.

3.5.2 Sampling frame

Sampling frame is a complete list of the study population. For this study, the sample frame of shareholders and managers were taken from Chamber of commerce, Ethiopian Economic association list used for academicians and economists and list of accredited auditing firms as member of accounting and auditing board of Ethiopia was used for audit firms.

3.5.3 Sampling Technique

In this study, the researcher used both probability and non-probability sampling techniques. This study used non-probability sampling specifically purposive sampling technique for selection of local shareholders and managers to distribute questionnaire which to be full filled in a self-administration manner. A nonprobability sample that conforms to certain criteria is called purposive sampling. This included a researcher selected sample members to conform to basic criterion like business experience, interested in stock market and who have experienced on board management. The overall rationale was that the researcher expected the selected local shareholders and managers to be more favorably disposed toward establishing a new stock market than the public. However, random sampling was used for academicians and economists and audit firms. In this design, each member of the population has an equal chance of being included in a sample. Audit firms, academicians and economists were selected based on reasons included a population list (sampling frame) was easily found; the researcher interest to use all the information about a population (their academic and research experience and knowledge), thus resulting in a design that may be beneficial for the study; and it was not expensive to implement in both time and money.

3.6 Instruments of Data Collection

For collection of primary data the researcher used two tools for data collection, interview and questionnaire.

3.6.1 Questionnaire

Questionnaires were prepared and distribute to targeted respondents listed above. They were organized by close-ended questions rated on a five-point Likert scales ranging from '1' "Strongly Disagree" to '5' "Strongly Agree" and it also included open questions. Rating scales, such as Likert scales, are very common in customer satisfaction studies, psychometrics, opinion surveys, population studies, and numerous other fields. Often five ordered response levels are used, although many psychometricians advocate using seven or nine levels; a 5- or 7- point scale may produce slightly higher mean scores relative to the highest possible attainable score, compared to those produced from a 10-point scale, and this difference was statistically significant. In terms of the other data characteristics, there was very little difference among the scale formats in terms of variation about the mean, skewness or kurtosis. In addition, open-ended questions were questions that allow someone to give a free-form answer. These tools use in order to increase the validity of the data and minimize dropping of information (Bordens & Abbott, 2011).

3.6.2 Interview

Interview guide was used for issues that require further elaboration and clarifications concerning stock market benefits, prospects and challenges with respect officials and practitioners of the major stake holders in legislating and implementing financial policies: Ministry of Finance and Economic Development (MoFED), Ministry of Trade (MoT), Ministry of Industry (MOI), NBE (in its role as a central bank), Banks (as intermediaries, issuers and investors), Investors (private and institutional, e.g. insurance companies), Accounting and Audit Practitioners of the year.

Interview sessions were scheduled with the mentioned experts, mangers, and professions via face to face and telephone due to Covid 19. Guest, Bunce and Johnson (2006) cited Bertaux (1981) and they advised that the minimum sample size for interview is fifteen. Accordingly, the interview sample size of this study was fifteen as per the smallest acceptable sample size (adapted from GUEST et al., 2006).

3.7 Instruments Validity and Reliability

3.7.1 Instrument Validity

Content validity of a measuring instrument was used to see if the extent to which it provides adequate coverage of the investigative questions guiding the study. In this study, content validity was determined by consulting the expertise of the supervisor and two financial marketing experts. These experts and the research advisor looked at every question in the questionnaire and do their own analysis to ascertain that the questions answer research objectives of the area understudy. Recommendations (to continue with the instrument with some correction) from the experts were taken into consideration in order to improve the instruments. The questionnaire was prepared from various studies mentioned above.

3.7.2 Instrument Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials.

Table 3.2 Reliability Test Results

Dimensions	Cronbach's alpha	No. if Items
Macroeconomics Challenges	.955	14
Institutional Challenges	.946	12
Benefits	.936	12
Prospects	.903	9
Overall	.951	47

Source: Survey result, 2020

The purpose of deriving a scale score by having multiple items is to obtain a more reliable measure of the construct than is possible from a single item. Therefore, Cronbach's alpha gives the proportion of the total variation of the scale scores that is not attributable to random error. Raju (2009) indicates that more than .75 test results in this regard can be considered as excellent. There variables of this study were more than 0.75 and the data collection instrument is reliable.

3.8 Data Analysis Methods

Both quantitative and Qualitative data were employed in this study. The data collected through survey questionnaire was analyzed using descriptive statistics that included percentage, mean and standard deviation. Descriptive statistics were used to summarizing data as central tendency (or groups' "middle values") like mean and variation (or summary of differences within groups) like standard deviation. For that reason, the percentages show the frequency distribution of the variables. While, standard deviation shows how diverse are the perceptions of respondents for a given questions. In this regard, deviation means that the data are wide spread, which implies respondents give variety of opinion while, low standard deviation implies respondent's close opinion whether positively or negatively.

In addition, data gathered through interview were transcribed, classified and categorized. The categorized data was enroll under thematic areas and were prepared in narrative form and quantitative and qualitative data integrated to triangulate the finding. The secondary data gathering was performed to validate the respondents' opinion and the previously mentioned detailed interview discussions. The study used data from database of World Bank as World Development Indicators, various web sites such as IMF, World Bank and Ministry of Finance Federal Republic of Ethiopian were the source of content assessments.

3.9 Ethical Consideration

This study maintained standard research ethics and practices that included basic ethical codes of conduct throughout the research process. The data was collected based on the willingness of participants. Before actual data collection based on interview guide, respondents were informed about the objectives of the study. Covering letter was attached to the interview guide to ensure the participant's anonymity and confidentiality that information obtained from them disclosed to the third party. Moreover, the study provides anonymity that means the information from the respondents was kept confidential and not biased for any other personal interest. The interview also was presented in terms of data coding methods like respondent one two and three structures.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This Chapter analyzed the opportunities and challenges of establishing stock market in Ethiopia. Based on the gathered data the importance of establishing stock market in Ethiopia, Challenges of establishing Stock market in Ethiopia, Opportunities of establishing stock market in Ethiopia and The necessary prerequisite to establish Stock market in Ethiopia are discussed.

4.1 Response Rate

The respondent's response rate of the interview is 100 percent that is the researcher got saturated information from all samples. The data from questionnaire has collected from the management of share companies and their respective managers (65), academicians (45), accounting and auditing firms (29).

Table4.1.Response Rate

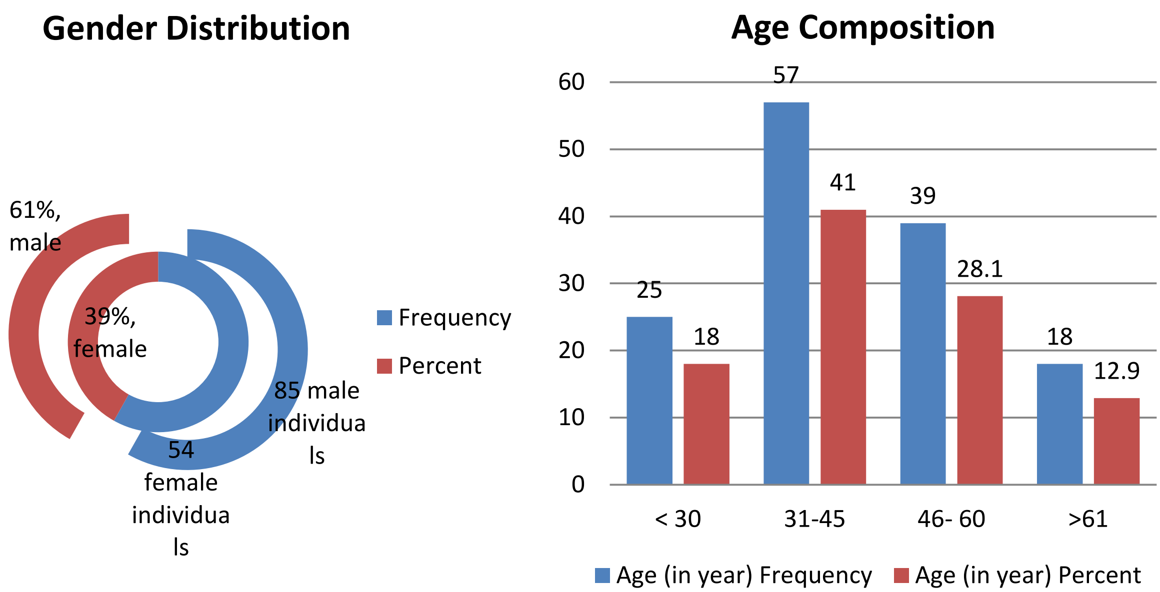
No	Attendants	Sample Size	Response received	Response rate
1	Shareholders and managers	136	65	48%
2	Academicians and Economists	66	45	68%
3	Audit Firms	55	29	53%
	Total	**257**	**139**	**54%**

Source: Survey Result, 2020

The above table, 65 individuals were Shareholders and managers returned the given questionnaire on time and the response rate is 45%. 45 academicians and economists also entirely returned the given questionnaire on time. Only 29 respondents were participated in this study from audit firms. A total of 257questionnaires were distributed and made 54% (139) of them were filled and returned. The interview sessions were made with all interviewees (15). Consequently, it can be said that the response rate was rated as good and it was allowed due to Covid 19 struck and its consequence.

4.1 About the Respondents

In this section the researcher tries to include age, sex, and educational level of the respondents. First, gender distribution and age composition of respondents were presented on graph and explained in detailed.



Source: *Survey Result, 2020*

Figure 4.1 - Respondents' Profile

As shown in the above graph, out of 139 the total of respondents of this study, 39% of the respondents are females and 61% of the respondents were male. It shows the distribution of gender participants in the study is relatively equal even if the majority of the respondents are male. The second graph shows age composition of the respondents. On other hand, the bar graph shows the age group of the respondents. It shows that the majority of respondents sampled lie within the age group of above 31 -45 (41%) and 28 5 of them aged between 31to 45 years and 13 % of them are old aged (more than61 years).It indicates that most of the respondents are in active and at the age of maturity where they can feel more responsible to properly play the roles expected of them with the sense of accountability.

Table 4.2. Respondents' Profile

Educational Status			**Marital Status**		
Category	Frequency	Percent	Category	Frequency	Percent
Diploma	26	18.7	Single	50	36.0
First Degree	39	28.1	Married	52	37.4
Masters	56	40.3	Divorced	17	12.2
PhD	18	12.9	Widowed	20	14.4
Total	139	100.0	Total	139	100.0

Source: Survey Result, 2020

Most of the respondents 37% are married and single 36 %. In view of this, the majority respondents are married showing that they have been exercising the role of accountability and responsibility and in better social relations they are taking part. The educational profile of respondents indicate that 18% of the respondents sampled lie within the educational category of diploma; 28% of the respondents have bachelor degree and most of the remaining respondents (52%) have master or higher degree. From the educational profile of respondents, it can be seen that majority of the respondents are higher educational background with a capable filling self-administrated questionnaire and able to understand financial market, stock market and market exchange system. They can easily related legal and economic aspects of financial market and its procedures and policies in any related financial and banking operations to get financial transactions services to their personal and organizational need and want.

4.2 Response Analysis

Targeted respondents were asked to express their opinion about prospects, benefits and challenges in establishing of stock exchange in Ethiopia. This response analysis presents ratings of respondents' level of agreement for each dimension: Mulunesh (2019) indicates more than 4.51 as excellent, 3.51- 4.50 good, 2.51 – 3.50 satisfactory and below 2.50 poor.

4.2.1 Macroeconomic Challenges

Table 4.3Macroeconomic Challenges

	Strongly Disagree %	Disagree %	Neutral %	Agree %	Strongly Agree %	Mean	Sd
Exchange rate fluctuation will be a challenge of the stock market in terms of profits and trade.	10.1%	10.8%	7.2%	38.8%	33.1%	3.74	1.298
There will be a high Exchange Rate Risk in Ethiopia on implementing the stock market.	12.9%	13.7%	8.6%	32.4%	32.4%	3.58	1.399
Inflation rates will be a challenge future production costs at home (in Ethiopia).	8.6%	17.3%	10.8 %	30.2%	33.1%	3.62	1.332
Relative Inflation will be a challenge of the stock market.	13.7%	17.3%	8.6%	35.3%	25.2%	3.41	1.387
Inflation also leads to a higher cost of money in Ethiopia that will be a challenge for the stock market.	12.9%	9.4%	7.9%	41.7%	28.1%	3.63	1.331
Lack of open market operations in the country is a challenge of the stock market.	11.5%	15.1%	10.1 %	35.3%	28.1%	3.53	1.348
Undeveloped Ethiopian economy will be a challenge of the stock market in Ethiopia.	11.5%	17.3%	6.5%	34.5%	30.2%	3.55	1.379
Slow Ethiopian economic growth will be a challenge of stock market in Ethiopia	7.2%	20.1%	7.2%	36.7%	28.8%	3.60	1.289
Low domestic saving will be a challenge of stock market in Ethiopia.	10.8%	15.8%	7.9%	32.4%	33.1%	3.61	1.370
Unstructured business activity will be a challenge of stock market in Ethiopia.	7.9%	15.8%	5.8%	41.0%	29.5%	3.68	1.269
Unstructured capital allocation process will be a challenge of stock market in Ethiopia.	8.6%	11.5%	7.2%	49.6%	23.0%	3.67	1.200
Capital flows across the globe will be a challenge of stock market in Ethiopia.	10.8%	13.7%	5.8%	38.8%	30.9%	3.65	1.334
Smaller saving across the country will be a challenge of stock market in Ethiopia.	7.2%	15.1%	4.3%	42.4%	30.9%	3.75	1.246
Unstructured transfers of capita will be a challenge of stock market in Ethiopia.	7.2%	12.2%	7.9%	41.0%	31.7%	3.78	1.222
					Grand Mean	3.63	

Source: Survey Result, 2020

The above table shows that almost 60.50% of the respondents have at least agreed indicating that relative inflation will be a challenge to implement effective stock market. It is the lowest mean across all the listed items (3.41). Most of the respondents around 65% have at least agreed showing that lack of open market operations in the country, undeveloped Ethiopian economy; high exchange rate risk and slow Ethiopian economic growth may be a challenge to implement effective stock market in Ethiopia. The grand mean 3.63 was rated a good. The highest mean ranges from 3.65 to 3.78 which indicate that the higher challenges will be capital flows across the globe, unstructured capital allocation process, unstructured business activity, exchange rate fluctuation, smaller saving across the country and unstructured transfers of capita.

The global financial crisis will ultimately become risk to be shared to the country. There is a risk of banking crisis associated with financial liberalization. According to Demirguc-Kunt and Detragiache (2001), financial liberalization is strongly and positively correlated with the probability of a subsequent banking crisis. This is especially true in a country like Ethiopia where the institutional environment is weak. Banking crisis occur as a result of weak supervision after liberalization. Ethiopian economy should advance in order to benefit from stock market. If the stock market doesn’t bring the benefits, the improper timing will bring bad image on the public which entails resistance when the country demands stock market in proper time.

Basically, Mulunesh (2019) sought based on 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. Whereas Kiflework (2018) sought after the prediction of finance sector that is dominated by the commercial banks (private and public) whose focus is on mobilizing short-term liabilities and extending short term loans. Asrat (2003) assured that 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. Reucker (2011) inspected the internal and external environments and puts the threats in the establishment of stock markets in Ethiopia. These are, high level of poverty, volatile macroeconomic and political environments; lack of awareness and willingness among Ethiopian policymakers; oligopoly position of Ethiopian banks in the financial system,

4.2.2 Institutional Challenges

Table 4.4 Institutional Challenges

	Strongly Disagree %	Disagree %	Neutral %	Agree %	Strongly Agree %	Mean	sd
Monopolized financial services or products will be a challenge of the stock market in Ethiopia.	6.5%	15.1%	5.8%	41.7%	30.9%	3.76	1.227
Lack of awareness about financial laws will be a challenge of the stock market in Ethiopia.	9.4%	18.0%	5.0%	42.4%	25.2%	3.56	1.297
Lack of a clear goals, policy and frameworks for financial sector will be a challenge of the stock market	18.0%	20.1%	5.0%	35.3%	21.6%	3.22	1.450
Lack of legal support for financial physical assets will be a challenge of the stock market in Ethiopia.	14.4%	20.1%	6.5%	30.9%	28.1%	3.38	1.442
High internet price will be a challenge of the stock market in Ethiopia.	17.3%	18.0%	7.9%	26.6%	30.2%	3.35	1.497
Sluggish ICT facilities development will be a challenge of the stock market.	11.5%	21.6%	5.0%	33.8%	28.1%	3.45	1.395
Lack of financial information network in Ethiopia will be a challenge of the stock market in Ethiopia.	9.4%	14.4%	5.0%	50.4%	20.9%	3.59	1.232
Weak internet connection will be a challenge of the stock market in Ethiopia.	10.8%	15.1%	5.0%	46.0%	23.0%	3.55	1.292
Uncovers all intellectual property will be a challenge of the stock market in Ethiopia.	10.8%	13.7%	5.0%	50.4%	20.1%	3.55	1.258
Lack of enforcement of intellectual property rights capacity will be a challenge of the stock market in Ethiopia.	11.5%	16.5%	5.0%	48.9%	18.0%	3.45	1.281
Insufficiently strong the legal institution to protect property rights will be a challenge of stock market	7.9%	12.9%	7.9%	51.1%	20.1%	3.63	1.175
Unaffordability of intellectual property prices in Addis Ababa will be a challenge of stock market	8.6%	12.2%	9.4%	39.6%	30.2%	3.71	1.259
					Grand Mean	3.52	

Source: Survey Result, 2020

The above table portrays that the lowest challenges in effectively implementing stock market in the country will be lack of a clear goals, policy and frameworks for financial sector (3.22 mean and 57 % of them preferred to as lowest challenge). Others included high internet price (3.35), lack of legal support for financial physical assets (3.38), sluggish ICT facilities development (3.45), weak internet connection (3.55) and lack of enforcement of intellectual property rights capacity (3.45). This may be associated with the country will improve her capacity in regard to internet, information system infrastructures facilities and low enforcement. More than 70 % of the respondents have at least agreed indicating uncovers all intellectual property—patents, trademarks, trade secrets, copyright (3.55), lack of awareness about financial laws (3.56), lack of financial information network (3.59), insufficiently strong the legal institution to protect property (3.63), unaffordability of intellectual property prices (3.71) and monopolized financial services or products (the highest mean, 3.76) to effectively having stock market in Ethiopia. This shows that the possible challenges will include uncovers all intellectual property, lack of awareness about financial laws and financial information network, insufficiently strong the legal institution, unaffordability of intellectual property prices and monopolized financial services or products.

Global competition, management capability and understanding of the operation of the market, legal set up and the development of ICT infrastructure are all challenges in the statuesque. There is lack of trust on the regulating body and the system as a whole that may entail reduction of investors participating in the purchase of shares (Mulunesh, (2019). Consequently, there should be a comprehensive legal framework, strong corporate governance, strong accounting, auditing and legal professionals. Moreover, there should be an unconditionally protected property right in Ethiopia so that foreign investors participate. The nationalization of foreigners' properties during previous regime may cause suspicion from the foreigners' side

Therefore the responsible bodies for the initiation and establishment of stock exchange in Ethiopia should work intensely to fulfill these preconditions. The economic players are the once that should initiate the establishment of stock market. The government's involvement is restricted to facilitating the establishment and regulation of stock market. The government cannot say or try to convince the investors to invest (buy shares) in a particular company. The risk of investment is on the investors' hand.

However, the government should facilitate, with the necessary policies and regulating bodies, the establishment of stock exchange. The National Bank of Ethiopia, of course together with other ministries like Ministry of Justice, Ministry of Finance and Economic Development so on is the one who should champion the facilitation of establishing stock exchange in Ethiopia.

The launching needs a number of prerequisites which are discussed previously. There one can say the Ethiopian government currently doesn’t intend to establish stock exchange at least in the short run. In the long run, it is inevitable the country is globalized, when the country joins WTO, starting a stock exchange may not be an option, it rather be a necessity. Lessons have also been learnt from other countries that as the development takes place so does the financial markets.

Most of the interviewees replied that it is not the right time to establish stock market in the country. Ethiopia should not establish stock exchange at current state/situations. An effective/successful stock market is the one which is liquid and has the ability to finance entrepreneurs’ dreams. There are different preconditions that should be addressed before indulging into idea of establishing stock exchange.

For the time being financial market is not liberalized in Ethiopia. Banks and Insurances are not allowed for foreign investors. Neither is the foreign exchange and interest rate liberalization. There are always some minimum or maximum ceilings set for banks. Stock exchange is directly related to the activities of banks and insurance too. Until domestic market is self-sufficient to stand up any foreign competition that may come from abroad, financial market is not liberalized in Ethiopia. Stock exchange is part and parcel of the financial market. You can’t liberalize some part of the market and leave the other. Once liberalized then everything is controlled by market demand and supply so that the government loose controls on it. In short liberalization of financial market and other preconditions, such as inefficiency of key public infrastructures, low investor base and so on will hinder the establishment and the effectiveness of stock market.

4.2.3 Benefits on Establishing Stock Exchange

Respondents were asked to indicate their opinion on benefits of stock market in Ethiopia that included stock ownership, large segment of society consisting of the wealthiest individuals, indirect stake in the stock market, benefits of society, creating low-cost businesses and others. Results are organized and summarized in the below table.

Table 4.5 Benefits of Establishing Stock Market

	Strongly Disagree %	Disagree %	Neutral %	Agree %	Strongly Agree %	Mean	sd
Stock ownership will be concentrated in the hands of a relatively large segment of society	12.2%	12.2%	2.9%	38.1%	34.5%	3.71	1.375
Large segment of society consisting of the wealthiest individuals can be created	10.1%	10.8%	2.9%	41.0%	35.3%	3.81	1.301
Most individuals will have an indirect stake in the stock market	10.8%	10.1%	2.9%	46.8%	29.5%	3.74	1.282
Most members of society will have an important stake in the stock market, either directly or indirectly	11.5%	8.6%	2.9%	43.2%	33.8%	3.79	1.310
Low-cost businesses that produce high-quality goods and services at the lowest possible cost will be created when the stock market starts in Ethiopia	10.1%	14.4%	0.0%	43.9%	31.7%	3.73	1.318
Companies will develop products and services that consumers want and need, which leads to new technology and new products	6.5%	11.5%	5.8%	42.4%	33.8%	3.86	1.195
There will be reasonably competitive economy in Ethiopia	6.5%	11.5%	2.9%	45.3%	33.8%	3.88	1.186
Prices are constrained by competition and consumer resistance in Ethiopia	14.4%	25.9%	2.9%	31.7%	25.2%	3.27	1.449
More employees will be created when the stock market starts in Ethiopia.	22.3%	20.1%	2.9%	30.2%	24.5%	3.14	1.540
Newly privatized companies tend to grow and thus require more employees	13.7%	23.0%	2.9%	30.9%	29.5%	3.40	1.458
Admired companies that have ability to attract, develop, and retain talented people will be crated	16.5%	18.7%	5.8%	25.9%	33.1%	3.40	1.512
Employees will have an opportunity to work for successful companies	10.1%	12.9%	7.2%	39.6%	30.2%	3.67	1.304
					Grand Mean	3.62	

Source: Survey Result, 2020

The above table indicates the future benefits of establishing stock market in Ethiopia. The lowest benefits listed by the majority of respondents included less employees will be created when the stock market starts in Ethiopia (3.14 mean and almost half of the preferred to the category of disagree). Others included prices are constrained by competition and consumer resistance in Ethiopia (3.27), newly privatized companies tend to grow and thus require more employees (3.4), admired companies that have ability to attract, develop, and retain talented people will be crated (3.4) and employees will have an opportunity to work for successful companies (3.67). All of these have been selected as getting the lowest benefits when stock market establish in Ethiopia. On other hand, almost more than 75 % of the respondents have at least agreed indicating stock ownership will be concentrated in the hands of a relatively large segment of society (3.71), low-cost businesses that produce high-quality goods and services at the lowest possible cost will be created (3.73), most individuals will have an indirect stake in the stock market (3.74), most members of society will have an important stake in the stock market, either directly or indirectly (3.79), large segment of society consisting of the wealthiest individuals can be created (3.81), companies will develop products and services that consumers want and need, which leads to new technology and new products (3.86) and there will be reasonably competitive economy in Ethiopia (largest mean, 3.88). Every one of the interviewees agreed on the contribution of stock market on a nations/Ethiopian economy but there are preconditions that must be fulfilled first. Their opinions on the contribution of stock market on the development of a country put forth as stock exchange increases easy capital resource flow from unproductive to very productive and profitable companies and hence increases competition, efficiency and productivity, and ultimately growth in the country.

Foreign investment may increase because of the existence of stock market. Stock exchanges Increases confidence for investors so that they can invest their money and resources when profitable, and exit their resources during loss. As investment from one asset to the other, entrance and exit will be easier it is ideal to understand for an economic entity to make wise decision in their resources. Stock exchange in particular facilitates the transfer of saving to efficient investment. Idle money, for example, held with the informal sector, and households will be utilized effectively for investment.

Investment financing will be easier. Thus, as for financial market it is easier to understand the operation of the stock exchange for academic purpose too. In general, much increased transfer of saving to investment, increases in foreign direct investment, understanding of stock exchange, thus increases competition among various service and product provider companies. It will benefit the country to integrate more and to compete more on a global market. Savers derived by the invisible hand (to increase their own benefit, return and welfare) will invest much more. Even saving will be encouraged in the country.

4.2.4 Prospects on Establishing Stock Exchange

Table 4.6 Prospects on establishing stock exchange

	Strongly Disagree %	Disagree %	Neutral %	Agree %	Strongly Agree %	Mean	sd
Less interest rate of bank savers imply the demand for stock market.	12.9%	10.8%	8.6%	32.4%	35.3%	3.66	1.391
Increased asset holdings practice in Ethiopia implies the demand for stock market.	10.8%	12.9%	12.2%	28.8%	35.3%	3.65	1.361
Mismatch between saving low interest rate and high interest rate for loan implies the demand for stock market.	10.8%	10.8%	11.5%	32.4%	34.5%	3.69	1.334
Privatization that is being increased in the country indicators for good supply for stock market.	12.2%	7.9%	10.8%	36.0%	33.1%	3.70	1.333
Overall countries economic growth implies for good supply for stock market.	11.5%	8.6%	9.4%	36.7%	33.8%	3.73	1.323
Need for properly regulate the existing share companies implies for good supply for stock market.	9.4%	12.9%	9.4%	38.1%	30.2%	3.67	1.288
Electronic commerce, especially online stock trading service can be easily implemented in Ethiopia.	8.6%	14.4%	7.2%	35.3%	34.5%	3.73	1.307
Online stock trading will be one of the major causes of inconsistency in the growth of stock trading service in Ethiopia.	12.2%	13.7%	7.9%	33.1%	33.1%	3.61	1.386
Integration of technology adoption with finance concepts may be simple in current situation of Ethiopia.	11.5%	13.7%	6.5%	35.3%	33.1%	3.65	1.367
					Grand	3.68	

Source: Survey Result, 2020

We know that descriptive statistics such as mean and standard deviation were used to present the various characteristics for data sets. In this study, standard deviation was used to measure of the dispersion of a collection of numbers. It indicates how widely spread the values in a dataset are with respect to their mean. Most of the standard deviation results shows the a little bit extensively spread the values in a dataset are with respect to their mean. The mean results show the highest and lowest vale of the responses on that the study found from 3.61 to 3.73 for the responses of prospects on establishing stock exchange. It was rated as good based on the above criteria of 3.51- 4.50 good.

This study found that online stock trading will not be one of the major causes of inconsistency in the growth of stock trading service in Ethiopia (lowest mean, 3.61). This may be associated with Ethiopian Commodity Exchange practices which have been working for more than ten years. More than 65 % of the respondents have at least agreed indicating the future prospects of stock market in Ethiopia. There will be increased asset holdings practice in Ethiopia (3.65), integration of technology adoption with finance concepts (3.65),less interest rate of bank savers (3.66), need for properly regulate the existing share companies (3.67) and less mismatch between saving low interest rate and high interest rate for loan (3.69). There will be highly increased privatization (3.7), having overall countries economic growth (3.73) and electronic commerce, especially online stock trading service can easily implement in Ethiopia (3.73)

Even though there are a number of challenges and constraints to establish stock exchange in Ethiopia at current situation. There are different potential opportunities that might help for the establishment of stock exchange in the future together with the fulfillment of the preconditions (necessary conditions). Such potential opportunities included the Emergence of Governments interest to establish Stock exchange by 2020.Even though it is impossible to establish stock exchange by 2020, the government plans without the fulfillment of important preconditions. It is one step ahead to have governments interest because previously the lack of the government's interest and commitment was one big barrier. It included the existence of large population and growing economy. Ethiopia has large population and has registered an increasing economy and the existence of state owned and public share Companies that can be listed to Stock market.

4.2.5 Grand Mean Analysis

Table 4.7Grand Mean Analysis

	Minimum	Maximum	Grand Mean	Std. Deviation
Macroeconomic Challenges	3.41	3.78	3.63	1.045
Institutional Challenges	3.22	3.76	3.52	1.047
Benefits on establishing stock exchange	3.14	3.88	3.62	1.040
Prospects on establishing stock exchange	3.61	3.73	3.68	1.008

Survey Result, 2020

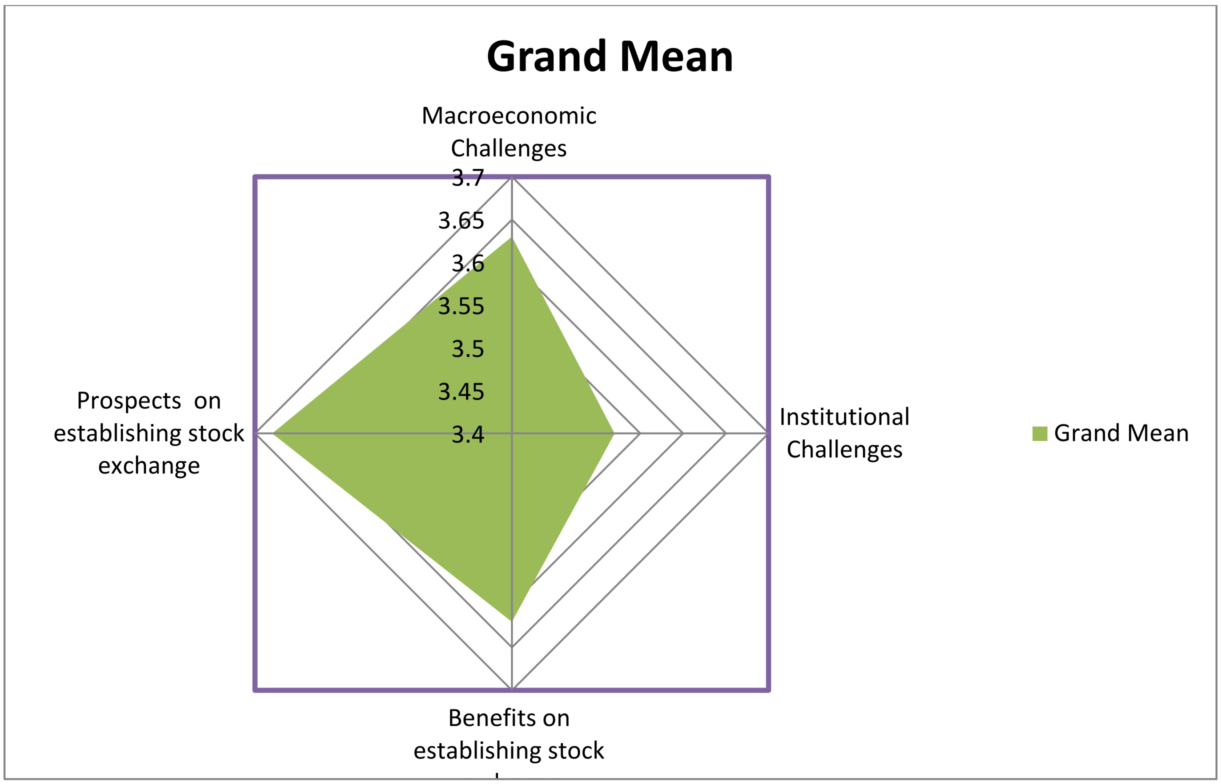
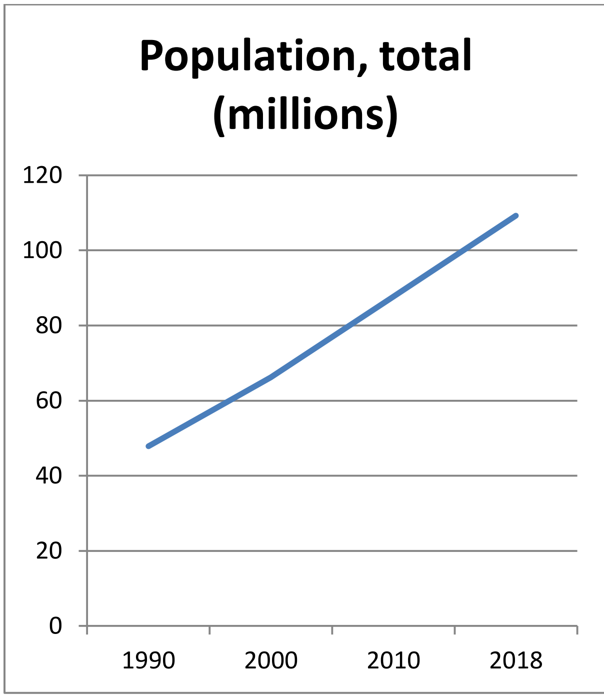


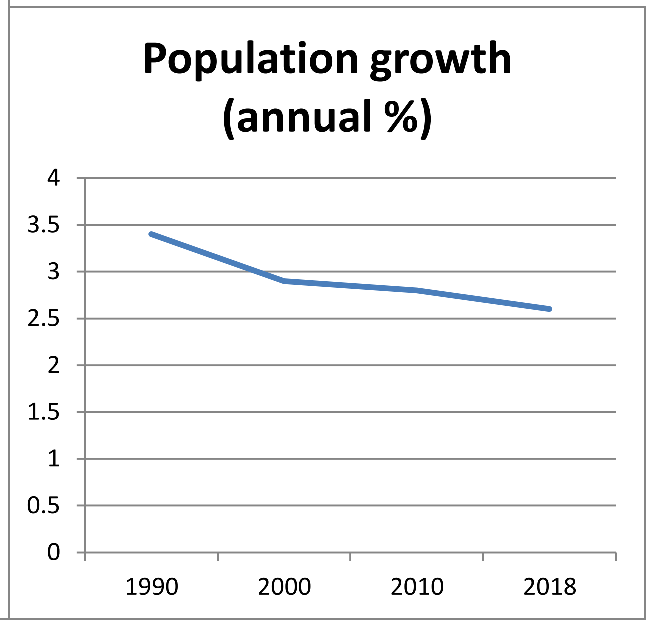
Figure 4.2 Grand Mean Analysis

The above table shows the grand and composite mean calculation of the responses result. Accordingly, institutional factor has the lowest mean of all but has a positive implication as this study used a negative response questions. In addition, a prospect on establishing stock exchange has the highest mean. Even if 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. This study shows that establishing and creating enabling institutional stock market environment may be less difficult in Ethiopia. Interviewees results show that enforcing regulatory issues and institutional factors may be less influencing the efficient functioning of stock markets. This is because it is easy to implement reliable information and financial data using cutting-edge technology across the country. For example, it may not be difficult to obtain well audited companies that may increase investor participation. In addition, regulations that enhance investor confidence may effortlessly be obtained and realized easily that require enhancing investment and trading in stock markets.

However, most respondents viewed that establishing stock exchange may be effective due to matching demand and supply side conditions and effortlessly adoption of electronic trading due to advance in information technology. This is because that Ethiopia has significant untapped resources and is considered as one of the largest potential and customers markets in Africa. Ethiopia has experienced to a market oriented economic system and has stimulated economic liberalization. In addition, the privatization efforts have been participated to solve the supply problems such as the existence of several profitable companies, the existence of institutions like the country's pension fund, insurance companies, credit unions, etc. Mulunesh (2019) included the demand for securities and improvements of the incentive packages in the successive investment proclamations. In the same way, the current scenario in share buying is a testimony of the existence of demand and supply sufficient to begin the long journey and macroeconomic situation were included in Teklay (2011) listed prospects. Reucker (2011) identified effective activities of poverty eradication program, positive macro-economic development, consistently increasing economic growth and human development, ongoing and future privatizations. Overall, this study listed as less interest rate of bank, increased asset holdings practice, privatization, overall country's economic and need for properly regulate the existing share companies implies for good supply for stock market. In addition, this study added electronic commerce, online stock trading service and integration of technology adoption with finance concepts may be simple in current situation of Ethiopia.

4.3 Secondary Data Analysis





	1990	2000	2010	2018
Population, total (millions)	47.89	66.22	87.64	109.22
Population growth (annual %)	3.4	2.9	2.8	2.6

Source: World Development Indicators database, 2020

Figure 4.3Population total and population growth

The above data shows although the rate of population growth has been on a declining trend over the last three decades (3.4% per annum in the 1990s, 2.9% up until the early 2000s and 2.6% from the mid-2010s up to 2018), Ethiopia's population growth is still considered to be high given its size and demographic profile (WB, 2018). This shows that this high population is a source of the labor market in Ethiopia. It is the rapid growth of labor supply and the labor force is growing much more rapidly than the population as a whole because of the young dominated demographic profile and Ethiopia's population depicts a classic pyramid with a higher proportion of young people at the bottom and narrow band of the elderly at the top. Similarly, Ethiopia's population is predominantly young with about 45% of the population being below 15 years of age. The proportion of working age population (15-64 years) was estimated at about 52%.

Table 4.8 Secondary Data Analysis

	1990	2000	2010	2018
Poverty headcount ratio at national poverty lines (% of population)	..	44.2	29.6	23.5
GNI per capita, PPP (current international $)	410	480	1,020	2,140
People				
Income share held by lowest 20%	..	9.1	8	7.3
Life expectancy at birth, total (years)	47	52	62	66
School enrollment, primary (% gross)	35.3	54.7	91.7	101
School enrollment, secondary (% gross)	14	14	35	35
Environment				
Urban population growth (annual %)	5.4	4.2	5.2	4.8
Electric power consumption (kWh per capita)	23	23	48	..
Economy				
GDP (current US$) (billions)	12.18	8.24	29.93	84.27
GDP growth (annual %)	2.7	6.1	12.6	6.8
Inflation, GDP deflator (annual %)	3.3	9.5	1.4	12.4
Agriculture, forestry, and fishing, value added (% of GDP)	49	45	41	31
Industry (including construction), value added (% of GDP)	9	11	9	27
Gross capital formation (% of GDP)	0	0	0	35
States and markets				
Time required to start a business (days)	..	47	20	32
Domestic credit provided by financial sector (% of GDP)	39.2	48.6	..	..
Tax revenue (% of GDP)	8.6	8.1	8.2	7.5
Mobile cellular subscriptions (per 100 people)	0	0	7.8	37.2
Merchandise trade (% of GDP)	11	21	37	21
Net barter terms of trade index (2000 = 100)	121	100	136	129
External debt stocks, total (DOD, current US$) (millions)	8,645	5,516	7,286	27,793
Total debt service (% of exports of goods, services and primary income)	39	13.7	3.9	21.5
Net migration (thousands)	1,458	-150	400	150
Personal remittances, received (current US$) (millions)	5	53	436	436
Foreign direct investment, net inflows (BoP, current US$) (millions)	0	135	288	3,360
Net official development assistance received (current US$) (millions)	1,009.30	687.8	3,455.20	4,930.00

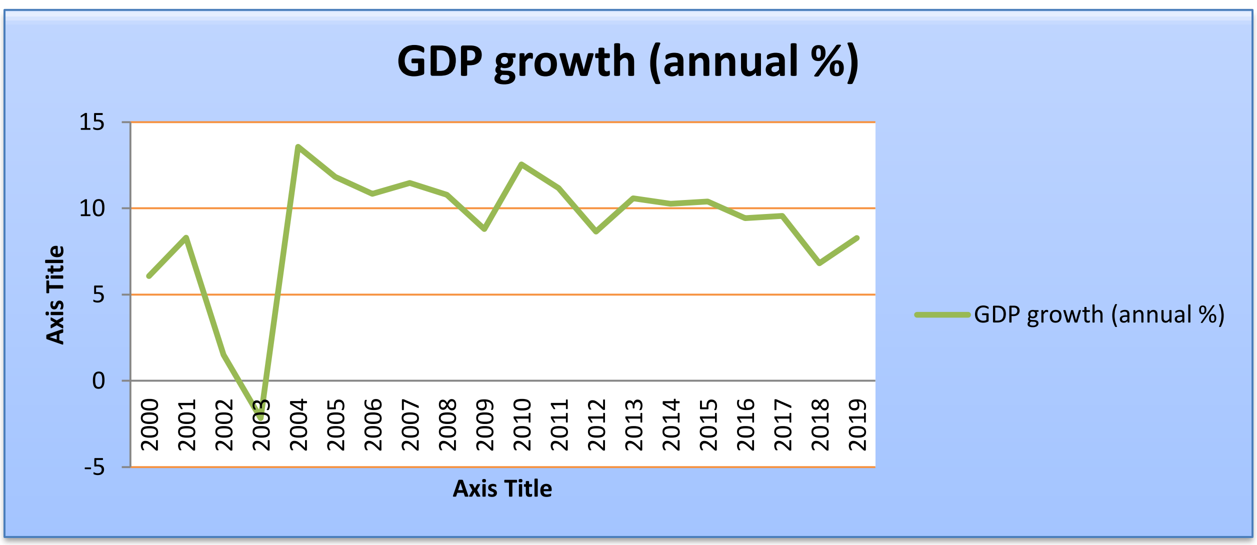
Source: World Development Indicators database, 2020

Table 4.9Selected Indicators

Year	GDP growth (annual %)	Inflation, GDP deflator: linked series (annual %)	Export volume index (2000 = 100)	Unemployment, total (% of total labor force)	Population growth (annual %)	ICT goods imports (% total goods imports)	Trademark applications, direct resident	Adjusted savings: gross savings (% of GNI)
2000	6.07	6.80	100.00	3.49	2.88	4.88	346	12.4
2001	8.30	-5.76	104.48	3.28	2.88	4.19	283	11.5
2002	1.51	-3.62	107.57	3.13	2.87	5.34	355	11.7
2003	-2.16	12.77	100.61	2.94	2.85	5.51	227	15.3
2004	13.57	3.91	120.29	2.72	2.83	8.89	321	17.4
2005	11.82	9.88	139.92	2.50	2.80	6.96	211	18.5
2006	10.83	11.55	150.37	2.37	2.77	4.23	227	19.5
2007	11.46	17.22	161.75	2.27	2.75	6.22	426	23.2
2008	10.79	30.31	172.51	2.21	2.74	6.78	-	22.8
2009	8.80	24.15	182.28	2.34	2.76	7.58	-	24.2
2010	12.55	1.44	231.10	2.34	2.78	8.38	-	24.7
2011	11.18	20.06	231.47	2.30	2.81	3.83	-	32.6
2012	8.65	33.54	245.23	2.28	2.83	3.45	930	31.0
2013	10.58	4.90	279.82	2.25	2.83	3.33	1201	28.4
2014	10.26	10.98	295.42	2.22	2.80	4.56	1274	31.5
2015	10.39	10.84	306.77	2.19	2.76	6.30	865	29.6
2016	9.43	10.40	291.64	2.17	2.71	6.15	1073	31.1
2017	9.56	6.68	312.85	2.12	2.12	2.66	1083	30.8
2018	6.82	12.38	286.81	2.08	2.62	-	542	33.3
2019	8.28	13.18	251.15	2.08	2.58	-	534	34.6

Source: World Development Indicators database, 2020

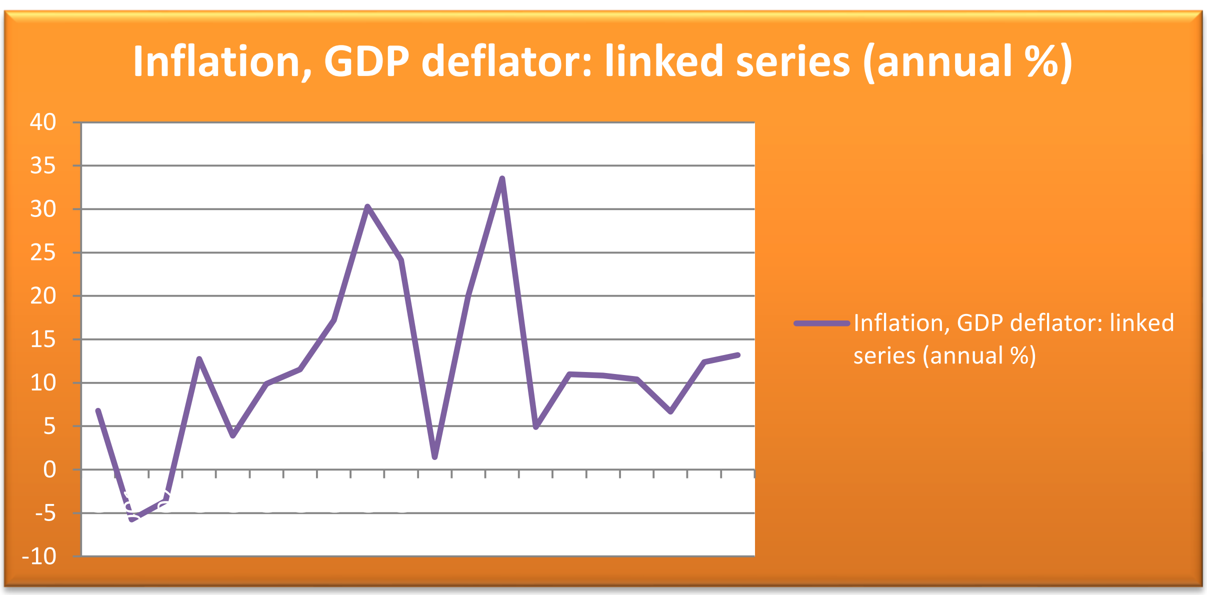
The above tables show the secondary data collected from world development indicator which contains people, economic, environment and trade indicators. This data confirmed that the country's economy had registered remarkable growth in the fiscal year ended 2010/18. Tax revenue (% of GDP) reached 7.5 and mobile cellular subscriptions (per 100 people) extended to 37.2. The trade has been increased much more than ever and reached 21 % for merchandise trade (% of GDP), 129net barter terms of trade index (2000 = 100), and 27,793external debt stocks, total (DOD, current US$) (millions). In addition, total debt service (% of exports of goods, services and primary income) scored as 21.5 and personal remittances, received (current US$) (millions) has been increased to 436 and foreign direct investment, net inflows (BoP, current US$) (millions) has been improved to 3,360 and net official development assistance received (current US$) (millions) scored as 4,930.00. Real GDP had expanded by 10.3% of which service sector constitutes 51.7%, agriculture sector 21.9%, industrial sector 26.4% had contributed to GDP growth. Nominal GDP per capita grow up to USD 631.5 and similarly real per capita GDP growth by 7.5 % and reached to USD 377.1.



Source: World Development Indicators database, 2020

Figure 4.4GDP growth (annual %)

The above tables and figure display GDP growth (annual %) was around from 2.7 in 1990 and it has been reached or increased to 6.82 % in 2018 and 8.28 in 2019. The figure shows that average annual real GDP growth of 6.2 percent for 2000 falls below the zero (-2.00) percent growth recorded in 2003, followed by 10.31 percent growth from 2004 through 2019 for 16 years. This shows that there is a stable macroeconomic environment in the country. It is really a crucial for the development of the stock market in Ethiopia. Real GDP of the country had reached to Br.626.6 billion in the fiscal year ended. Furthermore, IMF (2014) also verified that Ethiopian economy continues to grow fast in 2013/14 on the heels of very strong reeled growth in 2012/13 and projects the economic growth in the 8.0–8.5%range in 2013/14 and2014/15. Inflation had also remained in the single digits throughout the year and was 8.5 % in June 2014. Finally, respondent ascertained that the government is committed to maintain stable fiscal and monetary policies for sustainable development. Taking secondary sources of data on the macroeconomic condition of the country, Ethiopia is one of the fastest developing countries in the world with yearly average GDP growth of 10.31%between 2004 and 2019, where the country has been enjoying sustained economic growth in the past years. Comparing the average yearly GDP growth of Rwanda, Kenya and Uganda for the same period of 8%, 4% and 6%, respectively (World Development Indicators database, 2020), Ethiopia's yearly economic growth is the highest in the Sub Sahara African countries. On the economic aspect of the country, interviewees stated that macroeconomic condition will help to effectively implement stock market. With respect to the level of domestic saving, most of them have taken it as a factor that it will help the development of effective stock exchange market in the country. This depends on the fact that Ethiopia has been one of the fastest growing economies in Africa in recent years.



Source: World Development Indicators database, 2020

Figure 4.5Inflation, GDP deflator: linked series (annual %)

The above tale shows that inflation, GDP deflator that is linked series (annual %). However, economic growth performance and considerable development gains from 2004 to 2019 came under threat during 2008 and2010, with the emergence of twin macroeconomic challenges of high inflation and a difficult balance of payments situation. The problem was exacerbated by the high fuel and food prices in the global market. Inflation is considered as one of the determinants of the economy, most interviewees indicated inflation as one aspect to be considered to affect the liquidity and efficient operation of stock exchange market. This is supported by the data obtained from the above figure and tables, which indicates inflation rate of the country in 2012 as 33.54%, decreasing in the subsequent years of 2013 and 2014 to 7.9% and 7.4% and 12.38 % in 2018 and 13.18 in 2019. Although the rate has been showing a decreasing trend in the current times, it is an issue to be dealt with properly by the Government of Ethiopia.

Though, the Ethiopian economy has navigated the global economic crisis much better than most developing countries. Exports, remittances and foreign investments, after falling modestly in 2008 and 2009, have recovered and exceed their pre-crisis level. With the rise in exports, earnings and relative slowdown of imports, the foreign exchange reserves have increased. The current account deficit (excluding official transfers) has been improved and net official development assistance received (current US$) (millions) which stood at 1,009.30 in 1990 improved to 4,930.00 in 2018.

While Ethiopia’s economy is expected to continue to grow at a healthy pace, its macro situation will remain under stress in the foreseeable future. The economy is likely to slow down in the coming years, though the growth rate will remain respectable from a global perspective. And other factors like Covid 19 and associated world trade recession.

The Ethiopian government’s concern that financial liberalization may lead to a banking crisis that may culminate into an economic crisis is misplaced. There exists empirical evidence that when regulatory and supervisory tools are upgraded and supervision becomes increasingly vigorous, the probability of a banking crisis significantly diminishes. Global experience suggests that greater competition among domestic and foreign banks can bring greater benefits in the form of improving efficiency. Fundamental market oriented measures are therefore needed to further strengthen the financial sector in order to accelerate Ethiopia’s economic growth.

4.4 Prerequisites to Establish Stock Exchange

Efficiency in the operation of existing domestic banks and insurance and other financial markets Government policy, particularly to economic construction, is a very dominant and important to the improvement of infrastructure. All economic sectors such as trading, industry, service, agriculture must be out of the government hand. Individuals, in any one of the economic sectors, have an ultimate contribution to the economic development. Small scale firms must be established and encouraged since those firms are the backbone of the economy.

The protection of property right unconditionally, by Ethiopian government. These will encourage foreign investors to invest directly and in portfolios in Ethiopia. It included capacity of accounting, auditing and legal professionals, economic strength of domestic investors, and existence of capable regulatory and legal framework and existence of attractive government policy for foreign investors including allowing foreign banks to participate in Ethiopia

Opening banking sector for foreign banks may have a potential for positive impact on the efficiency of the Ethiopian banking sector. It also increases the soundness of local banking as Goldberg (2007) states; the entry of foreign banks in emerging markets that are healthier than domestic banks implicitly allows the introduction of stronger regulation, the soundness of local banking sector. Moreover, the entry of foreign banks to Ethiopia will have a positive impact on economic growth. Demirguc-Kunt, Levin and Min (1998) and Matoo, Rathindran and Subramanian (2006) have found positive correlation between financial sector openness and economic growth.

4.5 Discussion

Jetu (2014) found that introducing stock market amidst the proliferation of companies in Ethiopia can thus benefit the economy. It is natural to expect that both companies under formation and investors in existing companies sell and transfer their shares to third parties giving rise to the availability of tradable shares in the market. Etienne (2008) confirmed that stock exchanges have played a great role in the investment process in developed countries. Although the stock exchange market is necessary to the economic growth, 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. Ajit (2008) confirmed that the stock exchange selects companies whose securities are to be traded by preparing an official list which contains their names for the purpose. The stock exchange requires an enterprise to meet certain conditions in order to qualify for listing on the stock exchange.

This study like Jetu (2014) and (2008) realized that enforcing regulatory issues and institutional factors may be less influencing the efficient functioning of stock markets. It found that establishing stock exchange in Ethiopia operative due to the fact that matching demand and supply conditions. Similarly, Christiansen (2009) recognized that accurate advanced information technology can help to adapt effective electronic trading. Moreover, the findings indicated that relative inflation and lack of open market operations may not negatively affect the stock market. In addition, lack of clear goals for financial sector and high internet price do not negatively affect the stock market in Ethiopia.

However, smaller saving across the country and unaffordability of intellectual property prices in Addis Ababa negatively affects the stock market in Ethiopia. Beside, unstructured transfers of capita and monopolized financial services or products negatively affect the stock market in Ethiopia. Alemneh (2015) elucidated the benefits of stock exchange markets in the development of an economy, and states possible challenges of establishing a stock exchange. Thus, most agreed that the legal aspects of stock market development are necessary and should be confined. In view of the potential advantage and the concerns raised by stock market development, stock market will inspire investments by supporting idle money and savings to become productive by bringing the borrowers and lenders of money together at a low cost (Ajit, 2008). In addition, Guiso & Jappelli (2005) found that the need of awareness and stock market participation. This is because the stock market will provide easy access to long term financing and allow the government and industry to raise long-term capital for financing new projects, and expanding and modernizing industrial or commercial companies. The stock market will furthermore attract investors to extend their shares by investing them in the new stock exchange.

Regarding macroeconomic factors, Rajan and Zingales (2003) found that the more developed a country is, the more deeply entrenched will be its stock market. Bekaert and Harvey (2000) and Edison and Warnock (2003) also found that financial openness and liberalization increase stock market activity and GDP growth, domestic investment and financial intermediary sector development are determinative in stock market development. They also brought evidences that highlight the direct impact of a reduction in trading cost on turnover and the much more important indirect effects of a reduction in trading cost on the cost of equity. On other hand, Mishkin (2001) discusses that financial liberalization promotes transparency and accountability, which reduces adverse selection and moral hazard. Consequently, it tends to reduce the cost of borrowing in stock markets, which eventually increases their liquidity and size. Yartey and Adjasi (2007) established to financial intermediary sector development tended to increase stock market development in Sub-Sharan Africa, controlling for macroeconomic stability, economic development and the quality of legal and political institutions. In addition, they have confirmed that stock market development has a nonlinear relationship with banking sector development. In addition, they confirmed that stock market development is initially supported by banking sector development through trade intermediation.

CHAPTER FIVE
SUMMARY OF MAJOR FINDINGS CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Major Finding

The study aimed to decide whether Ethiopia have need of establishing stock exchange or not. Using descriptive research design, the study revealed that establishing and creating enabling institutional stock market environment may be less challenging in Ethiopia. Enforcing regulatory issues and institutional factors may be less influencing the efficient functioning of stock markets. The majority of the respondents agreed that establishing stock exchange in Ethiopia operative due to the fact that matching demand and supply conditions. It is realistic advanced information technology can help to adapt effective electronic trading in Ethiopia. Moreover, the findings indicated that relative inflation and lack of open market operations may not negatively affect the stock market. In addition, lack of clear goals for financial sector and high internet price do not negatively affect the stock market in Ethiopia. However, smaller saving across the country and unaffordability of intellectual property prices in Addis Ababa negatively affects the stock market in Ethiopia. Beside, unstructured transfers of capita and monopolized financial services or products negatively affect the stock market in Ethiopia.

As result, these studies agreed that there are public companies in Ethiopia such as financial institutions with a large number of shareholders that need alternative avenues to diversify their investment portfolios. There also promising investment opportunities that require significant capital and wider public participation but limited capacity of the banks in the country to finance big and risky projects and the bank's dependence on collateral lending indicate the need for setting up stock market in Ethiopia. However, limited investor base in the country due to low saving rate which in turn resulted from low per capita income of the society, people illiquidity due to investment in illiquid immovable assets such as land and buildings and restricted foreign portfolio investments mainly due to foreign exchange control and existence of large and profitable enterprises under government ownership are seen as impediments for setting up a liquid stock market.

On the other hand, there are no private contractual saving institutions such as large life insurance companies that can mobilize long-term liquid assets. In addition, lack of confidence and awareness in the working of stock market, potential unwillingness for most private companies for information disclosure due to fear investigation by tax office, fear of control dilution and the desire to keep business secret may limit the number of companies to be listed in stock market. Above all, weak accounting and audit framework, weak legal and corporate governance systems and non-readiness of the Ethiopian government to embrace the benefits of stock market development and to fully liberalize the economy are seen as additional significant setbacks to establish a stock market.

5.2 Conclusions

Even though establishing the stock market has a great contribution for the ultimately growth in the country by making capital resource flow easy from unproductive to very productive and profitable companies and there are different potential opportunities for the establishment of stock market. The launching needs a number of prerequisites included enhancing public institutional infrastructures, lessen macroeconomic and institution development challenges and mobilizing savings and opening and relaxing the economy. This is due to the fact that it is an alternative means for securing capital helping governments and private sectors to mobilize capital to finance a wide range of infrastructure thereby satisfying social needs as well as economic growth and jobs. Stock markets are supposed as a tool for the promotion of the financial sector and the development of private savings, thereby supporting then on-monetary funding of the economy and the fight against inflation. Developing countries like Ethiopia will be benefited by establishing stock exchange market stock markets through promotion of savings by providing an alternative financial vehicle for individuals to meet their risk preferences and liquidity needs, thereby increasing the saving in the market. Stock markets also promote growth at a listed company level, as the firm can mobilize capital at a lower cost of capital as risk is shared widely in the market place; that leads to value creation.

5.3 Recommendations

Although the country at its present stage of development should not set up a stock market, it may need at least the services of a stock market in the long run. This is because in countries where there are well-developed financial systems, there are strong empirical evidences that show correlation between development of a stock market and economic growth. To create a liquid stock market in the long run; however, Ethiopia should consider implementing the following:

- Improving accounting, auditing and legal infrastructures which include: revision of the country's commercial code, restructuring of the country's accounting and audit, developing a corporate governance code.
- To consider setting up appropriate institutions for effective implementing of the key provisions of the above legislations together with developing the above key infrastructures. Although adopting laws is much easier, developing a capacity of implementation is very difficult.
- A large number of publicly owned institutions will be potential listings upon setting up a stock market. Hence, the government is advised to encourage by increasing the existing ways of setting up such companies through various incentives: such as abolishing the existing capital gains tax for transfer of shares among the public, reducing the rate of corporate tax.
- Before establishing a stock market, educating the public about the costs and benefits of a stock market should be a priority. A national program of public education on the working of the stock market system including revision of existing finance syllabuses of the country's business schools may be made as part of the stock market development program.
- To encourage private companies for listing, government should develop appropriate incentive schemes. As the companies to be listed in the stock exchanges will be more transparent than other companies, giving an incentive to such companies will ultimately benefit the government through increased tax revenues.
- In addition to key institutional infrastructures, the government is advised to dedicate to create and maintain a stable macro-economic management system. This alleviates the threat of high inflation and unpredictability of the economy among others.
- To attract foreign portfolio and foreign direct investments, the government is advised to work on relaxing or liberalizing the capital account.

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APPENDIX

Appendix 1 – Questionnaire

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

Study on Establishing Stock Market in Ethiopia

(Questionnaire Filled by Company Managers, Academicians and Experts)

Dear Respondent,

My name is Esayas Ephrem, a post graduate student in the department of Business Administration, at St. Marry University. I am currently gathering data for my thesis entitled ***"Prospects and Challenges of Establishing Stock Market in Ethiopia"***. As part of my study, I will ask you about some issues related to the subject of my study. I will use the information for the fulfillment of the thesis requirement only.

Please not that your name will not be mentioned and any information provided by you will be kept confidential. Thank you in advance for your kind cooperation and dedicating your time.

Thank you very much and best regards,

Esayas Ephrem

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Section I   Demographic information

Direction - Demographic or personal information, ***please insert (x) in the box for your appropriate answer***

Gender:	Male	☐	Female	☐				
Age	Less than 35	☐	26-45	☐	46-65	☐	Above 66	☐
Education Level	Diploma	☐	First Degree	☐	Masters	☐	PhD	☐
Marital Status	Single	☐	Married	☐	Divorced	☐	Widow	☐

Direction –Please find the following definitions for further understating of the study area.

Definitions

- ***Relative inflation*** rates or the rates of inflation in foreign countries compared with that in the home country).
- ***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).
- ***Inflation*** is a rise in the general level of prices of goods and services in an economy over a period of time
- **Macroeconomic factors** include economic development level, inflation and capital flows
- **Institutional factors** include variables that reflect the state of regulatory and supervisory institutions, such as legal frameworks and the protection of property rights

Question 1 – How do you perceive and rate the following listed possible challenges and opportunities in Stock Market in Ethiopia?

Direction– Please put "X" mark with the answer you choose. Please note that 1 represents for "Strongly Disagree"; 2 for "Disagree"; 3 for "Neutral"; 4 for "Agree" and 5 for "Strongly Agree".

Note:*MC stands for Macroeconomic Challenges and EMC for* *Economic development level, IMC= Inflation and CFMC =Capital flows*

	Measure	1	2	3	4	5
IMC1	Exchange rate fluctuation will be a challenge of the stock market in terms of profits and trade.					
IMC2	There is high Exchange Rate Risk in Ethiopia that will be a challenge of the stock market.					
IMC3	Inflation rates will be a challenge for future production costs at home (in Ethiopia).					
IMC4	Relative Inflation will be a challenge of the stock market.					
IMC5	Inflation also leads to a higher cost of money in Ethiopia that will be a challenge of the stock market.					
EMC1	Lack of open market operations in the country will be a challenge of the stock market.					
EMC2	Undeveloped Ethiopian economy will be a challenge of the stock market in Ethiopia.					
EMC3	Slow Ethiopian economic growth will be a challenge of stock market in Ethiopia					
EMC4	Low domestic saving will be a challenge of stock market in Ethiopia.					
EMC5	Unstructured business activity will be a challenge of stock market in Ethiopia.					
CFMC1	Unstructured capital allocation process will be a challenge of stock market in Ethiopia.					
CFMC2	Capital flows across the globe will be a challenge of stock market in Ethiopia.					
CFMC3	Smaller saving across the country will be a challenge of stock market in Ethiopia.					
CFMC4	Unstructured transfers of capital will be a challenge of stock market in Ethiopia.					

Question 2 – How do you perceive and rate the following listed possible challenges in Stock Marketin Ethiopia?

Direction– Please put "X" mark with the answer you choose. Please note that 1 represents for "Strongly Disagree"; 2 for "Disagree"; 3 for "Neutral"; 4 for "Agree" and 5 for "Strongly Agree".

Note:*IC stands for Institutional Challenges and SIC=* *Supervisory Capacity, PIC=Protection of property rights and AIC=Automation – security and information quality*

	Measure	1	2	3	4	5
SIC1	Monopolized financial services or products will be a challenge of the stock market in Ethiopia.					
SIC2	Lack of awareness about financial laws will be a challenge of the stock market in Ethiopia.					
SIC3	Lack of a clear goals, policy and frameworks for financial sector will be a challnege of the stock market in Ethiopia.					
SIC4	Lack of legal support for financial physical assets negatively affects the stock market in Ethiopia.					
PIC1	High internet price will be a challenge of the stock market in Ethiopia.					
PIC2	Sluggish ICT facilities development will be a challenge of the stock market in Ethiopia.					
PIC3	Lack of financial information network in Ethiopia will be a challenge of the stock market in Ethiopia.					
PIC4	Weak internet connection will be a challenge of the stock market in Ethiopia.					
AIC1	Uncovers all intellectual property—patents, trademarks, trade secrets, Copyright will be a challenge of the stock market in Ethiopia.					
AIC2	Lack of enforcement of intellectual property rights capacity negatively affects the stock market in Ethiopia.					
AIC3	Insufficiently strong the legal institution to protect property rights will be a challenge of the stock market in Ethiopia.					
AIC4	Unaffordability of intellectual property prices in Addis Ababa will be a challenge of the stock market in Ethiopia.					

Question 3 – How do you perceive and rate the following listed possible opportunities in implementing Stock Market in Ethiopia? Please put “X” mark with the answer you choose.

Direction –Please note that 1 represents for “Strongly Disagree”; 2 for “Disagree”; 3 for “Neutral”; 4 for “Agree” and 5 for “Strongly Agree”.

Note: *OB stands for benefits thus, SOB= Society Benefit , COB = Consumers benefit and EOB= Employees benefit.*

	Measure	1	2	3	4	5
SOB1	Stock ownership will be concentrated in the hands of a relatively large segment of society when the stock market starts in Ethiopia					
SOB2	Large segment of society consisting of the wealthiest individuals can be created when the stock market starts in Ethiopia					
SOB3	Most individuals will have an indirect stake in the stock market when the stock market starts in Ethiopia					
SOB4	Most members of society will have an important stake in the stock market, either directly or indirectly when the stock market starts in Ethiopia					
COB1	Low-cost businesses that produce high-quality goods and services at the lowest possible cost will be created when the stock market starts in Ethiopia					
COB2	Companies will develop products and services that consumers want and need, which leads to new technology and new products when the stock market starts in Ethiopia					
COB3	There will be reasonably competitive economy in Ethiopia when the stock market starts in Ethiopia					
COB4	Prices are constrained by competition and consumer resistance in Ethiopia when the stock market starts in Ethiopia					
EOB1	More employees will be created when the stock market starts in Ethiopia.					
EOB2	Newly privatized companies tend to grow and thus require more employees When the stock market starts in Ethiopia.					
EOB3	Admired companies that have ability to attract, develop, and retain talented people will be crated when the stock market starts in Ethiopia.					
EOB4	Employees will have an opportunity to work for successful companies when the stock market starts in Ethiopia.					

Question 4 – How do you perceive and rate the following listed prospects inimplementing Stock Market in Ethiopia?

Direction–Please put "X" mark with the answer you choose. Please note that 1 represents for "Strongly Disagree"; 2 for "Disagree"; 3 for "Neutral"; 4 for "Agree" and 5 for "Strongly Agree".

Note:*PR stands for benefits thus, DSPR= Demand and Supply Prospects* *and PRESM = Electronic Stock Market*

	Measure	1	2	3	4	5
DSPR1	Less interest rate of bank savers imply the demand for stock market.					
DSPR2	The Increased asset holdings practice in Ethiopia implies the demand for stock market.					
DSPR3	Mismatch between saving low interest rate and high interest rate for loan implies the demand for stock market.					
DSPR4	Privatization that is being increased in the country indicators for good supply for stock market.					
DSPR5	Overall country's economic growth implies for good supply for stock market.					
DSPR6	Need for properly regulate the existing share companies implies for good supply for stock market.					
PRESM1	Electronic commerce, especially online stock trading service can easily implement in Ethiopia.					
PRESM2	Online stock trading will be one of the major causes of consistency in the growth of stock trading service in Ethiopia.					
PRESM3	Integration of technology adoption with finance concepts may be simple in current situation of Ethiopia.					

Question 5 Are there any opportunities to establish stock market in Ethiopia? If so, please explain these opportunities.

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Question 6Concerning what advantages could stock exchanges provide to shareholders, companies and the country's economy, please list your opinion

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Thank you!

Appendix 2 – Interview Checklist

I am Esayas Ephrem, a postgraduate student of St. Mary University. I am conducting an academic research regarding prospects and challenges in establishing stock market in Ethiopia.

Can I proceed? Thank you!

1. What are the major determinants of establishing stock market in developing countries like Ethiopia?

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2. What is forecast and expectation about establishing stock market in Ethiopia?

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3. What are the major challenges in establishing stock market in Ethiopia? Benefits in terms of society, customers and employees beyond the establishing stock market in Ethiopia

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………. Thank you for your cooperation and time in advance!!!